Polski Koncern Naftowy ORLEN
Spółka Akcyjna

Unconsolidated financial statements 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

Yearly report R 2008
(year)

(in accordance with § 82 section 1 point 3 of the Minister of Finance Regulation of 19 February 2009 – Journal of Laws 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 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
(abbreviated name of the issuer)

CHEMICAL (che)
(industrial sector in line with classification of Warsaw Stock Exchange)

09-411
(zip code)

PŁOCK
(location)

CHEMIKÓW
(street)

7
(number)

48 24 365 28 95
(telephone)

48 24 365 40 40
(fax)

media@orlen.pl
(e-mail)

774-00-01-454
(NIP)

610188201
(REGON)

www.orlen.pl
(www)

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 unconsolidated financial statement				
I. Total sales revenues	57 226 844	42 703 668	16 201 932	12 090 164
II. Profit/(Loss) from operations	636 354	2 093 194	180 163	592 620
III. Profit/(Loss) before tax	(2 063 057)	3 257 469	(584 088)	922 247
IV. Net profit/(Loss)	(1 570 947)	2 759 859	(444 763)	781 365
V. Net cash provided by operating activities	1 292 773	847 144	366 007	239 841
VI. Net cash used in investing activities	(1 993 857)	(1 423 667)	(564 496)	(403 065)
VII. Net cash provided by financing activities	975 898	435 476	276 294	123 291
VIII. Net change in cash and cash equivalents	274 814	(141 047)	77 805	(39 933)
IX. Basic and diluted earnings per ordinary share (in PLN/EUR)	(3,67)	6,45	(1,04)	1,83
	as of 31 December 2008	as of 31 December 2007	as of 31 December 2008	as of 31 December 2007
XI. Non-current assets	20 427 025	19 958 199	4 895 749	4 783 386
XII. Current assets	11 572 579	12 011 508	2 773 602	2 878 801
XIII. Total assets	31 999 604	31 969 707	7 669 352	7 662 187
XIV. Long-term liabilities	1 216 318	7 289 067	291 515	1 746 972
XV. Short-term liabilities	15 401 410	6 847 058	3 691 259	1 641 036
XVI. Equity	15 381 876	17 833 582	3 686 578	4 274 178
XVII. Share capital	1 057 635	1 057 635	253 484	253 484
XVII. Number of issued ordinary shares	427 709 061	427 709 061	427 709 061	427 709 061
XVIII. Book value and diluted book value per share (in PLN/EUR)	35,96	41,70	8,62	9,99

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.

POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA
UNCONSOLIDATED 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	9 477 906	8 472 139
Goodwill	7.2	85 333	58 592
Long-term financial assets	7.3	32 304	32 796
Shares in related entities	7.3	10 340 725	11 252 587
Deferred tax assets	14	389 190	-
Perpetual usufruct of land		86 446	78 659
Non-current loans and receivables	7.5	15 121	63 426
Total non-current assets		**20 427 025**	**19 958 199**
Current assets			
Inventory	7.6	6 330 282	6 753 486
Trade and other receivables	7.7	4 162 737	4 746 410
Income tax receivable		254 418	76 575
Short-term financial assets	7.8	305 134	205 259
Short-term prepayments	7.9	65 976	57 486
Cash and cash equivalents	7.10	442 938	166 142
Non-current assets clasiffied as held for sale		11 094	6 150
Total current assets		**11 572 579**	**12 011 508**
Total assets		**31 999 604**	**31 969 707**
LIABILITIES AND SHAREHOLDER'S EQUITY			
Equity			
Share capital	7.16	534 636	534 636
Share capital revaluation adjustment	7.16	522 999	522 999
Share capital		**1 057 635**	**1 057 635**
Nominal share premium		1 058 450	1 058 450
Share premium revaluation adjustment	7.16	168 803	168 803
Share premium		**1 227 253**	**1 227 253**
Hedging reserve		(100 287)	87 584
Retained earnings	7.16	13 197 275	15 461 110
Total equity		**15 381 876**	**17 833 582**
Long-term liabilities			
Interest-bearing loans and borrowings	7.11	767 723	6 500 200
Provisions	7.12	405 619	453 971
Deferred tax liabilities	14	-	295 350
Other long-term liabilities	7.13	42 976	39 546
Total long-term liabilities		**1 216 318**	**7 289 067**
Short-term liabilities			
Trade and other liabilities	7.14	4 964 979	5 788 892
Provisions	7.12	639 879	596 254
Interest-bearing loans and borrowings	7.11	9 462 675	440 262
Deferred income		1 656	985
Other financial liabilities	7.15	332 221	20 665
Total short-term liabilities		**15 401 410**	**6 847 058**
Total liabilities and shareholder's equity		**31 999 604**	**31 969 707**

POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA
UNCONSOLIDATED INCOME STATEMENT
(all amounts in PLN thousand)
(Translation of a document originally issued in Polish)

	Note	for the year ended 31 December 2008	for the year ended 31 December 2007
Sales revenues			
Sales of finished goods		43 653 495	35 782 667
Excise tax and other charges		(13 110 236)	(11 133 630)
Revenues from sale of finished goods, net	10	30 543 259	24 649 037
Sales of merchandise and raw materials		27 803 762	19 675 131
Excise tax and other charges		(1 120 177)	(1 620 500)
Revenues from sale of merchandise and raw materials, net		26 683 585	18 054 631
Total sales revenues		**57 226 844**	**42 703 668**
Cost of finished goods sold		(28 025 456)	(20 812 723)
Cost of merchandise and raw materials sold		(26 150 903)	(17 327 593)
Cost of finished goods, merchandise and raw materials sold	11	(54 176 359)	(38 140 316)
Gross profit on sales		**3 050 485**	**4 563 352**
Distribution expenses		(1 714 385)	(1 686 709)
General and administrative expenses		(634 259)	(691 039)
Other operating revenues	12	359 612	192 224
Other operating expenses	12	(425 099)	(284 634)
Profit from operations		**636 354**	**2 093 194**
Financial revenues	13	1 255 679	1 543 086
Financial expenses	13	(3 955 090)	(378 811)
Net financial revenues and expenses		**(2 699 411)**	**1 164 275**
Profit/(Loss) before tax		**(2 063 057)**	**3 257 469**
Income tax expense	14	492 110	(497 610)
Net profit/(loss)		**(1 570 947)**	**2 759 859**
Basic and diluted earnings per share (in PLN)		(3,67)	6,45

POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA
UNCONSOLIDATED STATEMENT OF CASH FLOWS
(all amounts in PLN thousand)
(Translation of a document originally issued in Polish)

	Note	for the year ended 31 December 2008	for the year ended 31 December 2007
Cash flows - operating activities			
Net profit/(loss)		**(1 570 947)**	**2 759 859**
Adjustments for:			
Depreciation		947 919	898 116
Loss/(Profit) from exchange rate differences, net		1 254 016	(427 599)
Interests and dividends, net		(348 769)	(418 463)
(Profit) / Loss on investing activities		1 624 188	42 411
Decrease/(Increase) in receivables	7.18	661 382	(939 326)
Decrease/(Increase) in inventories		423 204	(2 237 750)
(Decrease)/Increase in liabilities	7.18	(863 055)	1 182 854
(Decrease) in provisions	7.18	(4 727)	(45 367)
Income tax expense		(492 110)	497 610
Income tax paid		(370 273)	(451 640)
Other adjustments		31 945	(13 561)
Net cash provided by operating activities		**1 292 773**	**847 144**
Cash flow - investing activities			
Acquisition of property, plant and equipment and intangible assets		(2 074 800)	(1 609 725)
Proceeds from the sale of property, plant and equipment		60 160	28 130
Proceeds from the sale of short-term securities		25 000	-
Proceeds from the sale/liquidation of related entities		73 926	25 545
Acquisition of shares		(724 858)	(498 702)
Acquisition of short-term securities		(10 000)	(25 000)
Interest and dividends received		715 384	712 059
Loans granted to related entities		(2 064)	(47 000)
Proceeds from repayment of loans granted to related entities		5 424	1 443
Proceeds from the acquisition of liabilities of the UNIPETROL Group		-	36 951
Additional payments to subsidiaries' equity		(57 963)	(26 500)
Proceeds from additional payments to subsidiaries' equity		10 600	-
Other		(14 666)	(20 868)
Net cash used in investing activities		**(1 993 857)**	**(1 423 667)**
Cash flow - financing activities			
Proceeds from long and short-term borrowings and loans		7 061 154	5 730 871
Debt securitities issued		3 804 651	1 325 175
Repayment of long and short-term borrowings and loans		(4 677 258)	(6 080 651)
Repurchase of debt securities		(4 152 023)	(223 913)
Dividends paid		(692 888)	-
Interest paid		(366 800)	(315 888)
Payments due to finance lease liabilities		(938)	(118)
Net cash provided by financing activities		**975 898**	**435 476**
Net change in cash and cash equivalents		**274 814**	**(141 047)**
Effect of exchange rate changes		1 982	(126)
Cash and cash equivalents, beginning of the period		**166 142**	**307 315**
Cash and cash equivalents, end of the period	7.10	**442 938**	**166 142**

(all amounts in PLN thousand)

	Share capital and share premium	Hedging reserve	Retained earnings	Total equity
1 January 2008	**2 284 888**	**87 584**	**15 461 110**	**17 833 582**
Profit/(Loss) in cash flow hedge accounting due to valuation of instruments (incl. deferred tax)	-	(100 287)	-	(100 287)
Transfer of cash flow hedge accounting due to valuation of instruments from equity to current period profit/(loss) due to settlement (incl. deferred tax)	-	(87 584)	-	(87 584)
Net revenues/(expenses) recognized directly in equity	**-**	**(187 871)**	**-**	**(187 871)**
Net (loss)	-	**-**	**(1 570 947)**	**(1 570 947)**
Total revenues/(expenses) for the period	**-**	**(187 871)**	**(1 570 947)**	**(1 758 818)**
Dividends	-	-	(692 888)	(692 888)
31 December 2008	**2 284 888**	**(100 287)**	**13 197 275**	**15 381 876**

	Share capital and share premium	Hedging reserve	Retained earnings	Total equity
1 January 2007	**2 284 888**	**23 447**	**12 701 251**	**15 009 586**
Profit/(Loss) in cash flow hedge accounting due to valuation of instruments (incl. deferred tax)	-	87 582	-	87 582
Transfer of cash flow hedge accounting due to valuation of instruments from equity to current period profit/(loss) due to settlement (incl. deferred tax)	-	(23 445)	-	(23 445)
Net revenues/(expenses) recognized directly in equity	**-**	**64 137**	**-**	**64 137**
Net profit	**-**	**-**	**2 759 859**	**2 759 859**
Total revenues/(expenses) for the period	**-**	**64 137**	**2 759 859**	**2 823 996**
31 December 2007	**2 284 888**	**87 584**	**15 461 110**	**17 833 582**

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

1. Principle activity of the Company, composition of the Management Board and the Supervisory Board of the Company

Polski Koncern Naftowy ORLEN S.A. seated in Płock, 7 Chemików Street ("Company", "PKN ORLEN", "Issuer") 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 Company was registered as Mazowieckie Zakłady Rafineryjne i Petrochemiczne "Petrochemia Płock" S.A. in the District Court in Płock. Effective 20 May 1999, the Company changed its business name to Polski Koncern Naftowy Spółka Akcyjna.

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

According to the Articles of Association dated 22 November 2006, the Company'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 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.

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

Information on ING OFE shares comes from 20 February 2009.

The composition of the Management Board

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 the Company 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 PKN ORLEN 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 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 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, Refinery
Marek Serafin - Member of the Management Board, 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 the 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 the 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 the independent Member of the Supervisory Board of PKN ORLEN;
- Mr. Marek Karabuła to the position of the 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 the Independent Member of the Supervisory Board of PKN ORLEN;
- Mr. Piotr Jan Wielowieyski to the position of the 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 accounting principles in force and that they reflect true and fair view on financial position and financial result of PKN ORLEN and that the Management Board Report on the Company's Operations presents true overview of development, achievement and business situation of PKN ORLEN, including basic risks and exposures.

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

In compliance with principles of corporate governance as 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 fulfillment of tasks by the auditor. On 23 August 2007 the Supervisory Board prolonged the agreement with KPMG Audyt Sp. z o.o. as a qualified auditor to audit and review unconsolidated and consolidated financial statements of PKN ORLEN and key entities belonging to PKN ORLEN Group for the years 2008-2009.

3. Principles of presentation

Information on principles adopted for preparation of financial statements for 2008

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.

The financial statements have been prepared in accordance with accounting principles contained in the International Financial Reporting Standards adopted by the European Union and in the scope required under the Minister of Finance Regulation of 19 February 2009 on current and periodic information provided by issuers of securities (Official Journal no. 33, item 259). The financial statements cover the period from 1 January to 31 December 2008 and the comparative period from 1 January to 31 December 2007.

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

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

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

4. Functional currency and presentation currency of financial statements

Functional currency of the Company and presentation currency of the foregoing financial statements is PLN.

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 management) as well as construction in progress (assets that are in the course of construction or development necessary for them to be capable of operating in the manner intended by management).

Property plant and equipment are initially 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 Company 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 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 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 Company 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. Such 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 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 (cash-generating units). The Company 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 Company 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 Company 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 Company's owned assets.

If the Company conveyed to another entity the right to use an asset under the finance lease, the present value of the minimum lease payments and unguaranteed residual value is 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 Company 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 Company 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 Company'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 held for sale

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

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 Company recognizes a gain, but not in excess of the cumulative impairment loss that has been recognized.

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

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

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

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 Company. In such a case the Company 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 Company classifies financial assets into the following four categories:
- financial assets at fair value through profit or loss;
- held-to-maturity investments;
- loans and receivables;
- available-for-sale financial assets.

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

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 Company 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 Company has the positive intention and ability to hold to maturity.

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

Fair value of financial assets is determined in 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 Company 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 interest calculated using the effective interest method are recognized in the income statement.

Amortized cost measurement of financial assets

The Company measures loans and receivables, including trade receivables, as well as held-to-maturity investments at amortized cost using the effective interest method. The Company 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 Company uses simplifications, are measured initially and after initial recognition (including the balance sheet date) at the amounts due.

Impairment of financial assets

The Company 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 Company 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 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 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 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 Company measures financial liabilities at fair value through profit or loss (including particularly derivatives which are not designated as hedging instruments) at fair value. Regardless of characteristics and purpose of a purchase transaction, the Company classifies initially selected financial liabilities as financial liabilities at fair value through profit or loss, when doing so results in more relevant information. The fair value of 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 Company (issuer) to make specified payments to reimburse the holder for the loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument, not classified as financial liabilities at fair value through profit or loss are measured at the higher of:
- the amount determined in accordance with principles relating to valuation of provisions,
- the amount initially recognized less, when appropriate, cumulative amortization.

Embedded derivatives

If the Company is a party of a hybrid (combined) instrument that includes an embedded derivative, the embedded derivative is separated from the host contract and accounted for as a derivative in accordance with principles defined for investments at fair value through profit or loss if all of the following conditions are met:
- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract,
- a separate instrument with the same realization terms as the embedded derivative would meet the definition of a derivative, and
- the hybrid 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 Company assesses the need to separate an embedded derivative from the host contract and to present it as a derivative, when it becomes a party of a hybrid instrument for the first time. Reassessment is made only in case, when subsequent changes are introduced to the hybrid contract that substantially modify cash flows required by the contract.

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

Hedge accounting

Derivatives designated as hedging instruments whose fair value or cash flows are expected to offset changes in the fair value or cash flows of a hedged item are accounted for in accordance with fair value or cash flow hedge accounting, if all of the following conditions are met:
- at the inception of the hedge there is formal designation and documentation of the hedging relationship and the Company's risk management objective and strategy for undertaking the hedge,
- the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship,
- for cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect 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 remeasuring 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 Company 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 Company's documented hedging strategy),
- the hedge no longer meets the criteria for hedge accounting, or
- the Company revokes the designation.

Cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a 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 Company 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 Company 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 Company discontinues prospectively cash flow hedge accounting if:
- the hedging instrument expires, is sold, terminated or exercised - in this case, the cumulative gain or loss on the hedging instrument 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 Company 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 Company 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 Company's cash management

Valuation and expenditure 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 presented 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 by the Company 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 Company 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 Company 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 for (if recognition criteria mentioned above are met):
- environmental risk,
- restructuring,
- legal proceedings.

Provisions are not recognized for future operating losses.

Environmental provision

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

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 Company'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 Company 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 to 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 Company.

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 Company 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 Company 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 Company 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 Company 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 Company as a whole.

Operating segments

The Company 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.

A secondary reporting format is geographical segments that are associated with activity conducted in different geographical areas.

The operations of the Company are divided into two 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 other operations of the Company include mainly support functions.

Segment revenue is revenue reported in the Company's income statement that is directly attributable to a segment and the relevant portion of the Company'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 Company.

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 Company. Segment revenues/expenses do 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 Company 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 costs 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 Company 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 Company 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 Company is PLN.

At each balance sheet date:
- foreign currency monetary items including units of currency held by the Company 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 historical 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, prior periods' errors

The Company 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 Company'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 Company 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 Company's cash management.

Dividends received are presented in cash flows from investing activities.

Dividends paid are presented in cash flows from financing activities.

Interest 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.

Impact of new Standards and Interpretations on the Company'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 these 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 Company 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.

(all amounts in PLN thousand)

During the first quarter of 2009 the estimated borrowing costs capitalized on property, plant and equipment amounted to PLN 12 million.

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

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

a) Significant changes implemented in comparison to data published in the condensed financial statements as at 26 February 2009, 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	Adjustments	Data disclosed in the unconsolidated financial statements for 2008
Assets, including:	**33 338 965**	**(1 339 361)**	**31 999 604**
Property, plant and equipment	9 480 414	(2 508)	**9 447 906**
Shares in related entities	11 986 421	(1 645 696)	**10 340 725**
Deferred tax assets	77 457	311 773	**389 190**
Inventory	6 334 158	(3 876)	**6 330 282**
Income tax receivable	253 432	986	**254 418**
Liabilities and shareholder's equity, including:	**33 338 965**	**(1 339 361)**	**31 999 604**
Retained earnings	14 526 663	(1 329 388)	**13 197 275**
Trade and other liabilities	4 976 723	(11 744)	**4 964 979**
Short-term provisions	638 108	1 771	**639 879**
Income statement, including:			
Gross profit on sales	3 047 592	2 893	**3 050 485**
Profit from operations	632 764	3 590	**636 354**
Loss before tax	(420 950)	(1 642 107)	**(2 063 057)**
Income tax expense	179 391	312 719	**492 110**
Net loss:	**(241 559)**	**(1 329 388)**	**(1 570 947)**

The most significant changes implemented to the financial statements of the Company are creation and reversal of impairment allowance concerning financial non-current assets in the total amount of PLN (1,645,696) thousand, including creation of impairment allowance for shares in AB Mazeikiu Nafta of PLN (1,729,780) thousand and reversal of impairment allowances concerning shares in other related entities of PLN 84,084 thousand (note 7.4).
Other 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.

b) Presentation changes

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,
- discontinuance of presentation of accruals concerning employee benefits (holiday pay accrual and remuneration accrual) as well as environmental liabilities and special funds as short-term liabilities classified as financial instruments,
- presentation of a separate line „dividends received" in note „net gains/(losses) due to financial instruments recognized in financial revenues and expenses by categories".

According to the Management Board the above-mentioned changes will ensure better presentation of the effects of the Company's activities.

c) 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 1,322,167 thousand as at 31 December 2007 (PLN 1,260,534 thousand as at 31 December 2008).

(all amounts in PLN thousand)

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 265,199 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.

7. Selected explanatory notes

7.1. Property, plant and equipment

	31 December 2008	31 December 2007
Land	263 231	252 881
Buildings and constructions	4 989 834	4 841 989
Machinery and equipment	2 299 100	2 431 398
Vehicles and other	192 576	213 344
Construction in progress	1 733 165	732 527
Total	**9 477 906**	**8 472 139**

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	252 881	6 991 515	6 098 997	456 850	771 817	14 572 060
Acquisition	10	2 468	1 022	5 988	2 048 940	2 058 428
Reclassification	15 232	541 998	386 066	29 738	(1 032 862)	(59 828)
Decrease	(1 710)	(90 251)	(134 453)	(16 112)	(16 246)	(258 772)
31 December 2008	**266 413**	**7 445 730**	**6 351 632**	**476 464**	**1 771 649**	**16 311 888**
Accumulated depreciation and impairment allowances						
1 January 2008	-	2 149 526	3 667 599	243 506	39 290	6 099 921
Depreciation	-	356 347	514 440	52 849	-	923 636
Other increases	-	44	875	12	-	931
Impairment allowances	3 182	12 377	678	429	(806)	15 860
creation of allowances	3 182	50 921	3 711	747	7 034	65 595
reversal of allowances	-	(38 544)	(3 033)	(318)	(7 840)	(49 735)
Depreciation decrease due to liquidation and sale of property, plant and equipment and other decreases	-	(62 398)	(131 060)	(12 908)	-	(206 366)
31 December 2008	**3 182**	**2 455 896**	**4 052 532**	**283 888**	**38 484**	**6 833 982**
Gross book value						
1 January 2007	239 516	6 453 240	5 808 588	447 538	423 078	13 371 960
Acquisition	-	20 494	574	39 988	1 382 477	1 443 533
Reclassification	16 856	584 198	351 373	36 103	(1 024 417)	(35 887)
Decrease	(3 491)	(66 417)	(61 538)	(66 779)	(9 321)	(207 546)
31 December 2007	**252 881**	**6 991 515**	**6 098 997**	**456 850**	**771 817**	**14 572 060**
Accumulated depreciation and impairment allowances						
1 January 2007	-	1 858 762	3 243 983	229 882	38 217	5 370 844
Depreciation	-	342 876	480 740	55 708	-	879 324
Other increases	-	532	28	11 201	-	11 761
Impairment allowances	-	(13 029)	(1 820)	(44)	1 073	(13 820)
creation of allowances	-	11 856	3 436	52	1 145	16 489
reversal of allowances	-	(24 885)	(5 256)	(96)	(72)	(30 309)
Depreciation decrease due to liquidation and sale of property, plant and equipment and other decreases	-	(39 615)	(55 332)	(53 241)	-	(148 188)
31 December 2007	**-**	**2 149 526**	**3 667 599**	**243 506**	**39 290**	**6 099 921**
Net book value						
1 January 2008	**252 881**	**4 841 989**	**2 431 398**	**213 344**	**732 527**	**8 472 139**
31 December 2008	**263 231**	**4 989 834**	**2 299 100**	**192 576**	**1 733 165**	**9 477 906**
1 January 2007	**239 516**	**4 594 478**	**2 564 605**	**217 656**	**384 861**	**8 001 116**
31 December 2007	**252 881**	**4 841 989**	**2 431 398**	**213 344**	**732 527**	**8 472 139**

Impairment allowances for property, plant and equipment as at 31 December 2008 and 31 December 2007 amounted to PLN 144,120 thousand and PLN 128,260 thousand, respectively.

In 2008 the Company reviewed economic useful lives of property, plant and equipment applied afore. Should the rates from the previous year be applied, depreciation expense would be higher by PLN 4,263 thousand. The gross book value of all fully depreciated property, plant and equipment still in use as at 31 December 2008 amounted to PLN 1,561,634 thousand and as at 31 December 2007 to PLN 1,357,124 thousand.

(all amounts in PLN 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. The impairment allowances relate primarily to liquid fuels warehouse bases and petrol stations.

As at 31 December 2008 and 31 December 2007 no property, plant and equipment were used as a pledge for the Company's liabilities.

7.2. Intangible assets

	31 December 2008	31 December 2007
Acquired patents, trade marks and licenses	83 342	55 757
Other	1 991	2 835
Total	**85 333**	**58 592**

The changes of intangible assets were as follows:

	Acquired patents, trade marks and licenses	Other	Total
Gross book value			
1 January 2008	232 482	12 018	244 500
Acquisition	197	8 496	8 693
Other increases	13	-	13
Reclassification	50 944	-	50 944
Decrease	(3 678)	(6 218)	(9 896)
31 December 2008	**279 958**	**14 296**	**294 254**
Accumulated depreciation and impairment allowances			
1 January 2008	176 725	9 183	185 908
Depreciation	23 223	-	23 223
Other increases	13	9 342	9 355
Impairment allowances	(1)	(2)	(3)
reversal of allowances	(1)	(2)	(3)
Depreciation decrease due to liquidation and sale of intangible assets and other decreases	(3 344)	(6 218)	(9 562)
31 December 2008	**196 616**	**12 305**	**208 921**
Gross book value			
1 January 2007	201 466	8 983	210 449
Acquisition	184	8 292	8 476
Reclassification	32 243	-	32 243
Decrease	(1 411)	(5 257)	(6 668)
31 December 2007	**232 482**	**12 018**	**244 500**
Accumulated depreciation and impairment allowances			
1 January 2007	159 255	8 388	167 643
Depreciation	17 828	-	17 828
Other increases	-	6 052	6 052
Depreciation decrease due to liquidation and sale of intangible assets and other decreases	(358)	(5 257)	(5 615)
31 December 2007	**176 725**	**9 183**	**185 908**
Net book value			
1 January 2008	**55 757**	**2 835**	**58 592**
31 December 2008	**83 342**	**1 991**	**85 333**
1 January 2007	**42 211**	**595**	**42 806**
31 December 2007	**55 757**	**2 835**	**58 592**

(all amounts in PLN thousand)

Impairment allowances for intangible assets as at 31 December 2008 and 31 December 2007 amounted to PLN 44 thousand and PLN 47 thousand, respectively.

In 2008 the Company 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 166,146 thousand and as at 31 December 2007 to PLN 145,292 thousand.

As at 31 December 2008 and 31 December 2007 no intangible assets were used as a pledge for the Company's liabilities.

CO_2 emission rights

As at 31 December 2008 the Company 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 units, took place based on the Council of Ministers Regulation in the form of National Allocation Plan.

Information on granted emission rights	Quantity (Mg)
Emission rights aquired by the Company in 2008 for the 5-year accounting period	32 895 735
Verified quantity of emission rights used in 2008	(6 085 595)
CO_2 emission rights as at 31 December 2008	26 810 140

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 882,567 thousand as at 31 December 2008 and of PLN 927,112 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 Company as the owner of particular concessions granted by proper bodies of the public administration possesses concessions for the following activities:

- manufacturing of electrical energy;
- trade in electrical energy;
- transportation and distribution of electrical energy;
- manufacturing of heating energy;
- transportation and distribution of heating energy;
- trade in heating energy;
- trade in liquid fuels;
- manufacturing of liquid fuels;
- storage of liquid fuels;
- trade in gas fuels;
- trade in natural gas with foreign countries;
- exploration and recognition of crude oil and natural gas.

Concession for trade, transportation, distribution and manufacturing of electrical energy as well as concession for manufacturing, transportation and distribution of heating energy were granted for the period of 18 years (till 31 December 2025). Concessions for trade, manufacturing and storage of liquid fuels were granted for 17 years (till 31 December 2025). Concessions for trade in heating energy were granted for 10 years (till 15 April 2013). Concessions for trade in gas fuels and natural gas with foreign countries were also granted for 10 years (till June 2013). Concessions for exploration and recognition of crude oil and natural gas were granted for 5 years (till 30 October 2012).

(all amounts in PLN thousand)

7.3. Long-term financial assets, shares in related entities

a) Shares in related entities

	Seat	31 December 2008	31 December 2007	Company's share in capital/ voting rights as at 31 December 2008	Company's share in capital/ voting rights as at 31 December 2007	Principal activity
Subsidiaries and jointly controlled entities						
AB Mozeikiu Nafta („Mazeikiu")	Lithuania - Juodeikiai	5 511 965	7 241 745	90.02%	90.02%	processing of crude oil
UNIPETROL a.s.	Czech Republic - Praha	1 812 882	1 812 882	62.99%	62.99%	assets management of Capital Group of Unipetrol
Basell ORLEN Polyolefins Sp. z o.o.	Poland – Płock	453 699	453 699	50%	50%	production, distribution and sale of polyolefins
ORLEN Deutschland AG	Germany - Elmshorn	503 803	428 803	100%	100%	assets management and retail fuel sale
Anwil S.A.	Poland - Włocławek	176 200	176 200	84.79%	84.79%	manufacturing of nitric fertilizers, polyvinyl chloride
ORLEN Eko Sp. z o.o.	Poland - Płock	94 500	77 100	100%	100%	waste management, processing of non-metal waste
Rafineria Trzebinia S.A.	Poland - Trzebinia	74 503	74 503	77.15%	77.15%	processing of paraffin, production and trade in fuels and oil
Rafineria Nafty Jedlicze S.A.	Poland - Jedlicze	64 000	64 000	75%	75%	processing of paraffin, production and trade in oil-derivates
ORLEN Oil Sp. z o.o.	Poland - Kraków	57 144	57 144	51.69%	51.69%	sale of chemical, refinery and petrochemical products
ORLEN Asfalt Sp. z o.o.	Poland - Płock	50 000	50 000	82.46%	82.46%	manufacturing and processing of crude oil refining products
ORLEN PetroCentrum Sp. z o.o. (on 31 October .2008 business combination of Orlen PetroCentrum Sp.z.o.o. with three below mentioned entities took place)	Poland – Płock	83 631	21 000	100%	100%	liquid fuels trade
ORLEN PetroZachód Sp. z o.o.	Poland – Poznań	-	26 802	-	100%	liquid fuels trade
ORLEN PetroProfit Sp. z o.o.	Poland – Niemce	-	19 286	-	100%	liquid fuels trade
ORLEN Morena Sp. z o.o.	Poland – Gdańsk	-	11 254	-	100%	fuel trade
ORLEN Transport S.A. (founded on 2 January 2008 out of six below mentioned transportation entities)	Poland – Płock	58 946	-	100%	-	transportation services
ORLEN Transport Płock Sp. z o.o.	Poland – Płock	-	25 783	-	97.55%	transportation services
ORLEN Transport Nowa Sól Sp. z o.o.	Poland – Nowa Sól	-	9 766	-	99.19%	transportation services
ORLEN Transport Słupsk Sp. z o.o.	Poland – Słupsk	-	7 600	-	97.06%	transportation services
ORLEN Transport Olsztyn Sp. z o.o.	Poland – Olsztyn	-	5 500	-	94.89%	transportation services
ORLEN Transport Kędzierzyn-Koźle Sp. z o.o.	Poland – Kędzierzyn-Koźle	-	5 000	-	94.29%	transportation services
ORLEN Transport Szczecin Sp. z o.o.	Poland - Szczecin	-	3 200	-	99.56%	transportation services
Other		232 171	244 428			
Associates						
Polkomtel S.A.	Poland - Warsaw	1 162 884	436 495	24.39%	19.61%	rendering mobile telecommunication services
Other		397	397			
Total		**10 340 725**	**11 252 587**			

(all amounts in PLN thousand)

b) Long-term financial assets

	Seat	31 December 2008	31 December 2007	Company's share in capital / voting rights as at 31 December 2008	Company's share in capital / voting rights as at 31 December 2007	Principal activity
Assets available-for-sale						
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
Other		1 278	1 770			
Total		**32 304**	**32 796**			

Impairment allowances of shares in related entities as at 31 December 2008 and 31 December 2007 amounted to PLN 1,749,111 thousand and PLN 115,682 thousand, respectively.

Impairment allowances of long-term financial assets as at 31 December 2008 and 31 December 2007 amounted to PLN 74,092 thousand and PLN 61,333 thousand, respectively.

(all amounts in PLN thousand)

7.4. 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 company'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 were aggregated into Cash Generating Units (CGUs). CGUs are defined as the smallest identifiable groups of assets generating cash inflows, that are largely independent from cash inflows from other assets. In case of financial non-current assets the impairment test was conducted in reference to shares in particular entities. 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 Company'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 Company's control. The change of these variables and assumptions might influence the Company's financial position, including the results of the impairment tests of non-current assets, and consequently might lead to changes in financial position and performance of the Company.

Information about creations and reversals of allowances by categories is included in property, plant and equipment movement table (note 7.1), intangible assets movement table (note 7.2) and notes concerning non-current financial assets (notes 7.3 and 13).

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

Mazeikiu Refinery shares
The most significant impairment allowance was created in reference to shares of Mazeikiu Refinery and amounted to PLN (1,729,780) thousand.

The pre-tax discount rate of Mazeikiu Refinery is 11.16%. 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 non-current assets
Total value of creation and reversals impairment allowances concerning non-current assets of other CGUs amounted to PLN 61,842 thousand including PLN 83,592 concerning financial non-current assets and PLN (21,750) thousand concerning property, plant and equipment and intangible assets.

7.5. Non-current loans and receivables

	31 December 2008	31 December 2007
Loans granted	-	47 000
Receivables from additional payments to subsidiaries' equity	14 721	15 858
Other	400	568
Total	**15 121**	**63 426**

7.6. Inventory

	31 December 2008	31 December 2007
Raw materials	3 802 896	4 102 712
Work in progress	398 522	498 529
Finished goods	1 931 946	1 906 997
Merchandise	196 918	245 248
Total	**6 330 282**	**6 753 486**

As at 31 December 2008 and 31 December 2007 impairment allowances of inventories amounted to PLN 245,551 thousand and PLN 5,817 thousand, respectively.

The decrease in the value of inventory is the effect of the valuation of inventory as at the balance sheet date due to the decrease of crude oil and refinery products prices.

As at 31 December 2008 and 31 December 2007 no inventories of the Company were used as a pledge for its liabilities.

Entrepreneurs operating on the Polish fuel market were obliged by the end of 2008 to create 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 fuels or production of fuels, excluding LPG.

(all amounts in PLN thousand)

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

The gross value of mandatory reserves held by the Company as at 31 December 2008 and 31 December 2007 amounted to PLN 4,958,207 thousand and PLN 4,391,455 thousand, respectively.

7.7. Trade and other receivables

	31 December 2008	31 December 2007
Trade receivables	3 358 176	4 042 665
Prepayments for property, plant and equipment	469 550	398 910
Excise tax and fuel charge receivables	189 690	185 353
Taxation, duty and social security receivables	112 212	98 231
Prepayments for delieveries	10 916	4 791
Receivables due to sale of property, plant and equipment	3 218	197
Other receivables	18 975	16 263
Total trade and other receivables, net	4 162 737	4 746 410
Receivables allowances	288 125	272 990
Total trade and other receivables, gross	**4 450 862**	**5 019 400**

Trade and other receivables include PLN 726,267 thousand of amounts denominated in foreign currencies as at 31 December 2008 and PLN 1,215,124 thousand as at 31 December 2007.

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

7.8. Short-term financial assets

	31 December 2008	31 December 2007
Financial instruments at fair value through profit and loss	112 304	80 833
Derivatives recognized in financial assets designated as hegding instruments - hedge accounting	132 550	82 335
Purchased bonds	10 073	25 004
Available for sale	-	11 626
Loans and receivables	50 207	5 461
Total	**305 134**	**205 259**

7.9. Short-term prepayments

	31 December 2008	31 December 2007
Operating lease payments	14 521	15 608
Property insurance	38 149	27 299
Research work	6 217	6 638
Commissions and financial fees	5 591	7 826
Other	1 498	115
Total	**65 976**	**57 486**

7.10. Cash and cash equivalents

	31 December 2008	31 December 2007
Cash on hand and in bank	411 811	142 151
Cash in transit	31 127	23 991
Total	**442 938**	**166 142**

Cash and cash equivalents denominated in foreign currencies amounted to PLN 165,876 thousand as at 31 December 2008 and PLN 6,409 thousand as at 31 December 2007.

7.11. Interest-bearing loans and borrowings

		31 December 2008	31 December 2007
Bank loans	(a)	9 438 735	86 916
Debt securitities	(b)	23 940	353 346
Total short-term		**9 462 675**	**440 262**

		31 December 2008	31 December 2007
Bank loans	(a)	-	5 736 034
Debt securitities	(b)	767 723	764 166
Total long-term		**767 723**	**6 500 200**

The value of interest-bearing loans and borrowings drawn by the Company and debt securities issued increased as at 31 December 2008 by PLN 3,289,936 thousand net.
The change in indebtedness level resulted primarily from:
- increase in foreign currency loans translated to PLN in the amount of PLN 4,736,685 thousand,
- increase in bank loans denominated in PLN in the amount of PLN 2,360,956 thousand,
- increase in the indebtedness concerning debt securities issued in EUR translated to PLN in the amount of PLN 2,013,227 thousand,
- increase in the indebtedness concerning debt securities issued in PLN in the amount of PLN 1,791,424 thousand,
- increase in indebtedness due to valuation, foreign exchange differences and interest concerning bank loans in the amount of PLN 1,231,888 thousand,
- increase in indebtedness concerning debt securities valuation in the amount of PLN 65,347 thousand,
- decrease in foreign currency bank loans translated into PLN in the amount of PLN 2,653,707 thousand,
- decrease in bank loans and borrowings denominated in PLN in the amount of PLN 2 060 037 thousand,
- decrease in indebtedness from debt securities redemption issued in EUR translated to PLN in the amount of PLN 2,013,277 thousand,
- decrease in indebtedness concerning debt securities redemption in the amount of PLN 2,118,822 thousand,
- decrease in indebtedness concerning debt securities interest payment in the amount of PLN 63,798 thousand.

a) Bank loans by currency (translated into PLN thousand)

	31 December 2008	31 December 2007
PLN	385 197	84 277
EUR	5 892 566	5 738 673
USD	3 160 972	
Total	**9 438 735**	**5 822 950**

Bank loans by interest rate

	31 December 2008	31 December 2007
WIBOR	**385 197**	**84 277**
fixed interest rate	**-**	**-**
floating interest rate	385 197	84 277
EURIBOR	**5 892 566**	**5 738 673**
fixed interest rate	-	-
floating interest rate	5 892 566	5 738 673
LIBOR	**3 160 972**	**-**
fixed interest rate	-	-
floating interest rate	3 160 972	-
Total	**9 438 735**	**5 822 950**

PKN ORLEN bases its financing on floating interest rate. Depending on the currency of financing these are one to six-month WIBOR, LIBOR or EURIBOR increased by margin. The margin reflects the risk connected to financing of the Company and depends on net debt to EBITDA ratio. As at 31 December 2008 the margin does not exceed 1.00 percentage point.

As at 31 December 2008 and as at 31 December 2007 bank loans were not pledged on the Company's assets.

(all amounts in PLN thousand)

b) Debt securities

	Short-term fixed rate bonds	Long-term floating rate bonds
Nominal value	24 000	750 000
Book value	23 940	767 723
Expiration date	2009-01-29	2012-02-27
Type of surety	no surety	no surety

	31 December 2008	31 December 2007
PLN	791 663	1 117 512
Total	**791 663**	**1 117 512**

As at 31 December 2008 the liabilities related to debt securities issued by the Company amounted to PLN 791,663 thousand.

In the foregoing financial statements bank loans of PLN 9,051,266 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 level of net debt to EBITDA ratio, which was exceeded as at 31 December 2008.

The level of net debt to EBITDA ratio was exceeded mainly as a consequence of accounting effects of valuation of inventory resulting from decrease in 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 Standard IAS 1 a breach of provisions of bank loan agreements which may cause that an entity does not have an unconditional right to defer their settlement for at least twelve months results in necessity to classify liabilities connected with such bank loan agreements as short-term. As at the date of preparation of these financial statements none of bank loan agreements containing provisions specifying the required level of net debt became payable on demand.

As at the date of preparation of the foregoing financial statements 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 finished. The consent to a temporary extension of the maximum debt ratio and to continuation of cooperation within previously set bank loan limits and maturity dates had been received, which will cause classification of the respective bank loan liabilities as long-term in the financial statements for the second quarter 2009. As a consequence, as at the date of preparation of these financial statements PKN ORLEN had access to unused resources from the agreements mentioned above.

In the period covered by the foregoing financial statements there were no cases of violation of loans and borrowings repayments in respect of both principal and interest.

7.12. Provisions

Long-term provisions

	31 December 2008	31 December 2007
Environmental provision	234 304	275 000
Jubilee and retirement benefits provision	118 249	104 932
Business risk provision	3 800	3 800
Shield programs provision	49 266	58 022
Other	-	12 217
Total	**405 619**	**453 971**

Short-term provisions

	31 December 2008	31 December 2007
Environmental provision	38 600	46 388
Jubilee and retirement benefits provision	21 668	13 783
Business risk provision	517 614	421 449
Shield programs provision	25 669	52 348
Other	36 328	62 286
Total	**639 879**	**596 254**

The Company has legal obligation to clean contaminated land in the area of production plant in Płock, petrol stations and warehouse bases. Independent external experts conducted an assessment of the contaminated objects and

(all amounts in PLN thousand)

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.
The potential future changes in regulations and common practice regarding environmental protection may influence the value of this provision in the future periods.

In 2008 the Company changed the assumptions for calculation of jubilee and retirement benefits provision. 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 251 thousand.

The Voluntary Leave Program (VLP) was launched in PKN ORLEN to support the restructuring process conducted in the Company. 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.

The changes in provisions in particular periods were as follows:

Change in long-term provisions

	Environmental provision	Jubilee and retirement benefits provision	Business risk provision	Shield programs provision	Other	Total
1 January 2008	275 000	104 932	3 800	58 022	12 217	453 971
Provision made during the period	-	16 111	556	-	14	16 681
Provision used during the period	(325)	-	-	-	-	(325)
Provision reversed during the period	(40 371)	(2 794)	(556)	(8 756)	(12 231)	(64 708)
31 December 2008	**234 304**	**118 249**	**3 800**	**49 266**	**-**	**405 619**

	Environmental provision	Jubilee and retirement benefits provision	Business risk provision	Shield programs provision	Other	Total
1 January 2007	252 177	101 992	3 800	99 428	18 340	475 737
Provision made during the period	23 763	16 323	-	-	228	40 314
Provision used during the period	(47)	-	-	-	-	(47)
Provision reversed during the period	(893)	(13 383)	-	(41 406)	(6 351)	(62 033)
31 December 2007	**275 000**	**104 932**	**3 800**	**58 022**	**12 217**	**453 971**

(all amounts in PLN thousand)

Change in short-term provisions

	Environmental provision	Jubilee and retirement benefits provision	Business risk provision	Shield programs provision	Other	Total
1 January 2008	46 388	13 783	421 449	52 348	62 286	596 254
Provision made during the period	21 973	17 296	155 885	10 157	18 881	224 192
Provision used during the period	(29 761)	(9 411)	(58 356)	(36 836)	(19 962)	(154 326)
Provision reversed during the period	-	-	(1 364)	-	(24 877)	(26 241)
31 December 2008	**38 600**	**21 668**	**517 614**	**25 669**	**36 328**	**639 879**

	Environmental provision	Jubilee and retirement benefits provision	Business risk provision	Shield programs provision	Other	Total
1 January 2007	91 400	14 241	415 380	24 492	59 299	604 812
Provision made during the period	-	8 967	22 594	42 752	25 965	100 278
Provision used during the period	(21 249)	(9 425)	-	(8 696)	(21 548)	(60 918)
Provision reversed during the period	(23 763)	-	(16 525)	(6 200)	(1 430)	(47 918)
31 December 2007	**46 388**	**13 783**	**421 449**	**52 348**	**62 286**	**596 254**

7.13. Other long-term liabilities

	31 December 2008	31 December 2007
Long-term lease payables	42 138	39 546
Other	838	-
Total	**42 976**	**39 546**

7.14. Trade and other liabilities

	31 December 2008	31 December 2007
Trade liabilities	2 910 587	4 105 822
Excise tax and fuel charge liabilities	831 954	754 409
Other taxation, duty and social security liabilities	486 062	238 203
Liabilities due to acquisition of property, plant and equipment	543 863	483 645
Loyalty program VITAY	36 980	35 000
Holiday pay accrual	14 682	14 286
Other liabilities	140 851	157 527
Total	**4 964 979**	**5 788 892**

Trade and other liabilities denominated in foreign currencies amounted to PLN 1,986,597 thousand as at 31 December 2008 and PLN 3,242,320 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.

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. As a result of changes regarding the substance of gifts, separate provisions are created for fuel and non-fuel gifts.

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

(all amounts in PLN thousand)

7.15. Other financial liabilities

	31 December 2008	31 December 2007
Short-term financial liabilities at fair value through profit and loss	69 574	17 850
Short-term financial liabilities due to derivatives designated as hegding instruments	262 647	2 815
Total	**332 221**	**20 665**

7.16 Shareholder's equity

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 at 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 2008 and 2007 there was no additional issue of shares.
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 balance of the hedging reserve results from valuation of derivatives meeting the criteria for cash flow hedge accounting.

The shareholder 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%**

Retained earnings	31 December 2008	31 December 2007
Reserve capital	13 884 482	11 817 511
Privatization Fund created with the privatization of Petrochemia Plock S.A.	53 476	53 476
Revaluation reserve from revaluation of property, plant and equipment in 1995	830 264	830 264
Net profit/(loss)	(1 570 947)	2 759 859
Total	**13 197 275**	**15 461 110**

The share capital and share premium as at 31 December 1996, in accordance with IAS 29.24 and 29.25, were revalued on a basis of monthly general price indices by PLN 691,802 thousand (PLN 522,999 thousand revaluation of share capital and PLN 168,803 thousand revaluation of share premium) and presented as share capital revaluation adjustment and share premium revaluation adjustment in the balance sheet.

Earnings and diluted earnings per share for the years ended 31 December 2008 and 31 December 2007 (amounts in PLN)

		2008	2007
Net profit/ (loss) for the year (in PLN)	(A)	(1 570 947 088,55)	2 759 858 667,10
Weighted average number of ordinary shares	(B)	427 709 061	427 709 061
Earnings per ordinary share (in PLN)	(A/B)	(3,67)	6,45
Weighted average number of expected ordinary shares	(C)	427 709 061	427 709 061
Diluted earnings per ordinary share (in PLN)	(A/C)	(3,67)	6,45

(all amounts in PLN thousand)

As at 31 December 2008 and 31 December 2007 there was no dilutive effect caused by transactions, that could influence the above calculation.

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

7.17. Suggested cover of the Company's loss 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 level of dividend in comparison 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 the dividend payment (taking into account result from operations, capital investments and projected changes in the level of indebtedness in the following period) starting from the level of 50% of FCFE (set as the minimum in the Dividend Policy).

Taking into consideration the Company's results for 2008 and high level of the Company's 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 Resolution of the Ordinary General Shareholders' Meeting of PKN ORLEN, profit for 2007 was distributed as follows

Dividend (1.62 PLN per 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.

Book value and diluted book value per share as at 31 December 2008 and 31 December 2007

		2008	2007
Book value (in PLN)	(A)	15 381 875 480,62	17 833 581 487,24
Number of shares	(B)	427 709 061	427 709 061
Book value per share (in PLN)	(A/B)	35,96	41,70
Expected number of shares	(C)	427 709 061	427 709 061
Diluted book value per share (in PLN)	(A/C)	35,96	41,70

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

(all amounts in PLN thousand)

7.18. Explanation of differences between changes in the selected 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	**631 978**	**(1 287 233)**
Change in investment receivables resulting from:	73 345	349 461
- liabilities of the Unipetrol Group	-	(36 951)
- prepayments for property, plant and equipment	70 640	341 254
- receivables due to sale of property, plant and equipment	2 705	(1 842)
- receivables from loans granted	-	47 000
Reclassification of non-current loans to current loans	(47 000)	-
Other	3 059	(1 554)
Change in receivables in the statement of cash flows	**661 382**	**(939 326)**

	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	**(820 483)**	**1 320 851**
Change in investment liabilities resulting from:	(39 901)	(121 380)
- acquisition of property, plant and equipment and intangible assets	(60 218)	(146 440)
- additional payments to subsidiaries' equity	28 600	26 500
- other	(8 283)	(1 439)
Change in financial liabilities resulting from:	(2 671)	(18 718)
- financial lease	(2 671)	(18 718)
Other	-	2 101
Change in liabilities in the statement of cash flows	**(863 055)**	**1 182 854**

	for the year ended 31 December 2008	for the year ended 31 December 2007
Balance sheet change in provisions	(4 727)	(30 324)
Change in deffered tax liabilities recognized in equity	-	(15 043)
Change in provisions in the statement of cash flows	**(4 727)**	**(45 367)**

(all amounts in PLN thousand)

8. Segment data

Revenues, expenses and financial result by business segments

	Refining Segment		Petrochemical 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	
	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	52 814 411	37 648 377	3 966 776	4 526 874	373 220	442 539			57 154 407	42 617 790
Transactions with other segments	11 689 234	6 207 623	3 077 868	3 183 235	1 038 872	932 046	(15 805 974)	(10 322 904)	-	-
Settlement of hedging transactions	17 225	37 587	55 212	48 291					72 437	85 878
Total sales revenues	64 520 870	43 893 587	7 099 856	7 758 400	1 412 092	1 374 585	(15 805 974)	(10 322 904)	57 226 844	42 703 668
Total operating expenses	(63 720 136)	(41 734 777)	(6 782 106)	(7 203 336)	(1 242 225)	(1 271 516)	15 805 974	10 322 904	(55 938 493)	(39 886 725)
Other operating revenues	106 984	124 560	11 038	12 173	132 563	15 638			250 585	152 371
Other operating expenses	(229 163)	(179 429)	(15 647)	(23 469)	(44 285)	(22 980)			(289 095)	(225 878)
Segment result	**678 555**	**2 103 941**	**313 141**	**543 768**	**258 145**	**95 727**	**-**	**-**	**1 249 841**	**2 743 436**
Unallocated revenues of the Company									109 027	39 853
Unallocated expenses of the Company									(722 514)	(690 095)
Profit from operations									**636 354**	**2 093 194**
Financial revenues									1 255 679	1 543 086
Financial expenses									(3 955 090)	(378 811)
Profit/(Loss) before tax									(2 063 057)	3 257 469
Income tax expense									492 110	(497 610)
Net profit/(loss)									**(1 570 947)**	**2 759 859**

(all amounts in PLN thousand)

Assets and liabilities by business segments:

	Refining Segment		Petrochemical Segment		Other operations		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
Segment assets	14 842 018	15 401 095	2 813 772	2 229 262	2 083 611	2 246 465	19 739 401	19 876 822
Unallocated assets, incl.:							12 260 203	12 092 885
clasiffied as held for sale							11 094	6 150
Total assets							**31 999 604**	**31 969 707**
Segment liabilities	4 247 778	5 225 978	461 519	410 328	312 372	329 697	5 021 669	5 966 003
Unallocated liabilities							11 596 059	8 170 122
Total liabilities							**16 617 728**	**14 136 125**

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

	Refining Segment		Petrochemical Segment		Other operations		Total	
	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
Cost incurred to acquire property, plant and equipment and intangible assets	957 034	989 160	860 488	152 129	189 823	185 594	2 007 345	1 326 883
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							**2 063 646**	**1 414 882**
Segment depreciation	549 750	502 578	216 694	223 424	133 741	134 028	900 185	860 030
Depreciation of unallocated assets							47 734	38 086
Total depreciation							**947 919**	**898 116**
Non-cash expenses other than depreciation	371 684	124 943	26 697	23 337	31 076	15 283	429 457	163 563

(all amounts in PLN thousand)

Creation and reversal of impairment allowances by business segments

	Refining Segment		Petrochemical Segment		Other operations		Total	
	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
Creation of impairment allowances of non-current assets	(57 073)	(9 119)	(3 287)	(1 446)	(5 238)	(6 305)	(65 598)	(16 870)
Creation of impairment allowances of current assets	(284 055)	(100 865)	(21 695)	(15 662)	(14 883)	(2 237)	(320 633)	(118 764)
Unallocated value of created impairment allowances of non-current assets							(1 731 042)	(7 127)
Unallocated value of created impairment allowances of current assets							(25 566)	(3 015)
Total creation of impairment allowances of assets							**(2 142 839)**	**(145 776)**
Reversal of impairment allowances of non-current assets	10 332	8 398	185	46	33 424	7 123	43 941	15 567
Reversal of impairment allowances of current assets	42 894	65 039	1 357	10 504	11 101	2 540	55 352	78 083
Unallocated value of reversed impairment allowances of non-current assets							84 761	5 384
Unallocated value of reversed impairment allowances of current assets							28 904	10 610
Total reversal of impairment allowances of assets							**212 958**	**109 644**

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

- impairment allowances of shares in related entities;
- receivables allowances;
- inventories allowances;
- property, plant and equipment impairment allowances.

Creation and reversal of allowances were performed in conjunction with revaluation of inventories, occurrence or extinction of indications in respect of overdue receivables, uncollectible receivables or receivables in court as well as potential impairment of property, plant and equipment and non-current financial assets.
Allowances created in the refining segment concerned primarily decrease in value of inventories and impairment of petrol stations and warehouse bases. 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		Other operations		Unallocated		Total	
	for year ended		for year ended		for year ended		for year ended		for 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
Segment result	678 556	2 103 941	313 141	543 768	258 144	95 727	(2 820 788)	16 423	(1 570 947)	2 759 859
Adjustments	538 857	(818 327)	210 922	1 245 894	316 581	(863 162)	1 797 360	(1 477 120)	2 863 720	(1 912 716)
Net cash provided by/(used in) operating activities	1 217 414	1 285 614	524 064	1 789 662	574 725	(767 435)	(1 023 430)	(1 460 697)	1 292 773	847 144
Net cash provided by/(used in) investing activities	(916 435)	(1 416 437)	(1 049 415)	(100 498)	(58 326)	151 790	30 319	(58 522)	(1 993 857)	(1 423 667)
Cash inflows from investing activities	33 475	176 753	23 102	260 867	97 606	326 973	737 747	41 215	891 930	805 808
Cash outflows from investing activities	(949 910)	(1 593 190)	(1 072 518)	(361 365)	(155 932)	(175 183)	(707 428)	(99 737)	(2 885 788)	(2 229 475)
Net cash provided by financing activities	-	-	-	-	-	-	**975 898**	**435 476**	**975 898**	**435 476**
Net change in cash and cash equivalents	300 263	(130 823)	(524 636)	1 689 164	516 400	(615 645)	(17 213)	(1 083 743)	274 814	(141 047)
Effect of exchange rate changes							1 982	(126)	1 982	(126)
Cash and cash equivalents, beginning of the period							166 142	307 315	166 142	307 315
Cash and cash equivalents, end of the period							442 938	166 142	442 938	166 142

(all amounts in PLN thousand)

Geographical segments

The below table presents the Company's sale revenues by geographical segments for year ended 31 December 2008 and 31 December 2007.

	Operating revenues by geographical area for the year ended	
	31 December 2008	31 December 2007
Poland, including:	35 121 019	28 680 659
-revenues from operating actvities	34 870 434	28 528 288
-other operating revenues	250 585	152 371
Germany, including:	546 694	522 886
-revenues from operating actvities	546 694	522 886
-other operating revenues	-	-
Czech Republic, including:	6 885 761	6 015 929
-revenues from operating actvities	6 885 761	6 015 929
-other operating revenues	-	-
Baltic states (Lithuania, Latvia and Estonia), including:	14 153 407	6 301 169
-revenues from operating actvities	14 153 407	6 301 169
-other operating revenues	-	-
Other countries	770 548	1 335 396
Unallocated revenues of the Company	109 027	39 853
Total operating revenues by geographical area	57 586 456	42 895 892

As at 31 December 2008 and 31 December 2007 all assets of the Company were located in Poland.

(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)	112 304	80 833
Derivatives recognized in financial assests designated as hedging instruments - hedge accounting	132 550	82 335
Financial assets available for sale	32 304	44 422
Loans and receivables, incl:	3 466 686	4 157 807
Non-current receivables	15 121	16 426
Purchased bonds	10 073	25 004
Loans granted	50 207	52 461
Current receivables classified as financial instruments	3 391 285	4 063 916
Cash and cash equivalents	442 938	166 142
Total financial assets by categories	**4 186 782**	**4 531 539**
Financial liabilities at fair value through profit or loss (held for trading)	69 574	17 850
Liabilities due to derivatives designated as hedging instruments - hedge accounting	262 647	2 815
Other liabilities, incl.:	13 735 827	11 577 621
Short-term liabilities classified as financial instruments	3 504 591	4 637 159
Liabilities due to loans, borrowings and debt securities issued	10 230 398	6 940 462
Other	838	-
Total financial liabilities by categories	**14 068 048**	**11 598 286**
Finance lease liabilities	**43 104**	**40 404**

Financial instruments by classes

	31 December 2008	31 December 2007
Financial assets		
Stocks and shares in Companies	32 304	44 422
Purchased bonds	10 073	25 004
Current receivables classified as financial instruments	3 391 285	4 063 916
Loans granted	50 207	52 461
Assets from valuation of derivatives	244 854	163 168
Cash and cash equivalents	442 938	166 142
Non-current receivables	15 121	16 426
Total	**4 186 782**	**4 531 539**
Financial liabilities		
Debt securities issued	791 663	1 117 512
Loans and borrowings	9 438 735	5 822 950
Financial instruments	3 504 591	4 637 159
Liabilities from valuation of derivatives	332 221	20 665
Finance lease liabilities	43 104	40 404
Other	838	-
Total	**14 111 152**	**11 638 690**

b) Disclosures concerning balance sheet items

Reclassification of assets

In 2008 and 2007 the Company 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 Company 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

The Company did not hold any financial assets pledged as collateral for liabilities. There is no risk of such a situation in the foreseeable future.

Collaterals of financial or non-financial assets hold by the Company

The Company 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 Company hedges its cash flows from operating revenues due to sale of petrochemical and refinery products as well as operating expenses due to purchases of crude oil against changes in exchange rates (EUR/PLN for sale and USD/PLN for purchases and sale). The Company hedges cash flows connected with realization of investment projects against changes in exchange rates (EUR/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 Company hedges cash flows from interest payments connected with issuance of bonds denominated in PLN 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	-	4 577
2009 – 2012	(13 862)	-
Total	(256 407)	79 520

– 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 year (currency investment exposure)	105 494	-
2010 year (currency investment exposure)	20 816	-
Total	126 310	-

In the period covered by the foregoing financial statements there was a single case of a 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 108,125 thousand was derecognized from equity and recognized in the income statement in the positions such as sales of finished goods - PLN 72,438 thousand, negative foreign exchange differences surplus - PLN (6,557) thousand, interest expense - PLN 110 thousand, and other financial revenues and expenses net - PLN 42,290 thousand as well as in the carrying amount of property plant and equipment - PLN (156) thousand.

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

(all amounts in PLN thousand)

Transactions for which hedge accounting is not applied

For the transactions concluded and settled in the same quarter the Company 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 applied due to a 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.

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**
Purchased bonds	10 073	10 073	25 028	25 004
Loans granted	50 207	50 207	52 387	52 461
Other	14 232	15 121	15 427	16 426
Total	**74 512**	**75 401**	**92 842**	**93 891**
Financial liabilities				
Liabilities due to debt securities issued	792 778	791 663	1 112 181	1 117 512
Liabilities due to loans and borrowings	9 443 984	9 438 735	5 824 177	5 822 950
Finance lease liabilities	37 948	43 104	34 943	40 404
Other	838	838	-	-
Total	**10 275 548**	**10 274 340**	**6 971 301**	**6 980 866**

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 and other 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.

	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 Company presents in the financial statements valuation of all derivate instruments at fair value.

The Company measures derivative instruments at fair value using valuation models for financial instruments on generally available exchange rates, interest rates, forward and volatility curves, for currencies and commodities, coming from active markets. As compared to the previous reporting period the Company has not changed valuation methods concerning derivative instruments.

(all amounts in PLN thousand)

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 a current year result.

Fair value of shares quoted on active markets is determined based on market quotations, except for shares in related entities.

First day profit/ loss

As at 31 December 2008 and 31 December 2007 the Company 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) does not occur.

Financial instruments for which fair value cannot be measured reliably

As at 31 December 2008 and 31 December 2007 the Company 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 31,162 thousand. As at the balance sheet date there are no binding decisions regarding method and date of disposal of these assets.

f) Nature and extent of risks arising from financial instruments

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

Credit risk
The Company is significantly exposed to credit risk connected above all with trade receivables. Within its trading activity PKN ORLEN sells products and services with deferred payment term, which may result in the risk that customers will not pay for the Company's receivables for sales of products and services. In order to minimize credit risk and working capital the Company 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.

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	2 337 188	3 604 390
Group II	910 213	314 074
Total	3 247 401	3 918 464

As at 31 December 2008 and 31 December 2007 there were no financial assets in the Company, for which the terms of trade have been renegotiated, and which otherwise would be impaired.

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

Current receivables as financial instruments	31 December 2008	31 December 2007
Up to 1 month	136 852	140 567
1-3 months	7 032	4 059
3-6 months	-	719
6-12 months	-	107
Total	143 884	145 452

(all amounts in PLN thousand)

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 Company as low due to the fact that all transactions are concluded with banks having high credit rating. One of the factors significant for bank choice is rating on the level not lower than A.

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	32 304	44 422
Purchased bonds	10 073	25 004
Current receivables classified as financial instruments	3 391 285	4 063 916
Loans granted	50 207	52 461
Assets from valuation of derivatives	244 854	163 168
Cash and cash equivalents	442 938	166 142
Other	15 121	16 426
Total	**4 186 782**	**4 531 539**

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

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

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

As at 31 December 2008 and 31 December 2007 the Company did not possess receivables as financial instruments which would be impaired if their payment dates did not change.

Liquidity risk

The Company 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 0.75 in comparison to 1.75 as at 31 December 2007. The decrease in ratio as compared to the prior year is connected with reclassification of bank loans of PLN 9,051,266 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 1.82.

Detailed information regarding loans is included in note 7.11.

As at 31 December 2008 the maximum possible indebtedness due to loans amounted to PLN 13,532,920 thousand, out of which PLN 4,116,632 thousand remained unused. As at 31 December 2007 it was PLN 8,879,002 thousand and PLN 3,059,025 thousand, respectively.

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

In 2006 the 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 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 Company 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 Company optimizes its financial expenses within the Capital Group.

(all amounts in PLN thousand)

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	24 000	-	750 000	-	**774 000**
Loans and borrowings received - undiscounted value	9 913 011	-	-	-	**9 913 011**
Short-term liabilities classified as financial instruments	3 504 591	-	-	-	**3 504 591**
Net payments due to derivative instruments - gross settled amounts	248 995	69 364	-	-	**318 359**
Net payments due to derivative instruments - net settled amounts	-		13 862		**13 862**
Other financial liabilities	-	838	-	-	**838**
Total	**13 690 597**	**70 202**	**763 862**	**-**	**14 524 661**

The amount of PLN 9,043,324 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	1-3 years	3-5 years	above 5 years	Total
Bonds issued - undiscounted value	356 000	-	750 000	-	**1 106 000**
Loans and borrowings received - undiscounted value	604 582	-	5 086 440	644 760	**6 335 782**
Short-term liabilities classified as financial instruments	4 637 159	-	-	-	**4 637 159**
Net payments due to derivative instruments - gross settled amounts	20 665	-	-	-	**20 665**
Other financial liabilities	-	-	-	-	**-**
Total	**5 618 406**	**-**	**5 836 440**	**644 760**	**12 099 606**

Market risks

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

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 Committee, the Management Board and the Supervisory Board of the Company. As compared to the previous reporting period, there were no changes in the market risk management policy applied by the Company.

– **Currency risk**

The Company is significantly exposed to currency risk resulting from current receivables and short-term liabilities, cash and cash equivalents, investment expenditures encompassing purchases of non-current assets and capital investments as well as 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).

(all amounts in PLN thousand)

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 and hedging reserve:

2008

Influence of financial intruments on financial result

	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
USD/PLN	+15%	(632 294)	-15%	632 294
EUR/PLN	+10%	(656 744)	-10%	656 744
JPY/PLN	+20%	(827)	-20%	827
Total		(1 289 865)		1 289 865

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%	(114 618)	-10%	114 618
JPY/PLN	+20%	75 405	-20%	(75 405)
Total		(68 882)		68 882

Total influence of financial intruments on equity

	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
USD/PLN	+15%	(661 963)	-15%	661 963
EUR/PLN	+10%	(771 362)	-10%	771 362
JPY/PLN	+20%	74 578	-20%	(74 578)
Total		(1 358 747)		1 358 747

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 and hedging reserve:

2007

Influence of financial intruments on financial result

	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
USD/PLN	+4,2%	(81 439)	-4,2%	81 439
EUR/PLN	+3,6%	(201 211)	-3,6%	201 211
Total		(282 650)		282 650

Influence of financial intruments on hedging reserve

	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
USD/PLN	+4,2%	6 818	-4,2%	(6 818)
EUR/PLN	+3,6%	44 577	-3,6%	(44 577)
Total		51 395		(51 395)

Total influence of financial intruments on equity

	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
USD/PLN	+4,2%	(74 621)	-4,2%	74 621
EUR/PLN	+3,6%	(156 634)	-3,6%	156 634
Total		(231 255)		231 255

Variations of currency rates described above were calculated based on historical volatility of particular currency rates and analysts forecasts. The Company changed variations of currency rates in comparison to the previous reporting period because of significant depreciation of PLN in the second half of 2008 resulting from crisis on the world financial markets.

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

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

− **Interest rate risk**

The Company 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 Company owns derivative transactions hedging partly risk of cash flows due to interest rates (such as interest rate swaps IRS), for which cash flow hedge accounting is applied.

(all amounts in PLN thousand)

Sensitivity analysis for interest rate risk

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

Interest rate	Assumed variation	Assumed variation	Influence on financial result		Influence on hedging reserve		Influence on equity	
	2008	2007	31 December 2008	31 December 2007	31 December 2008	31 December 2007	31 December 2008	31 December 2007
WIBOR	+100	+50	(11 055)	(5 742)	10 271	(4 864)	(784)	(10 606)
LIBOR	+25	+50	(7 895)	-	-	-	(7 895)	-
EURIBOR	+150	+25	(88 388)	(29 799)	-	-	(88 388)	(29 799)
VILIBOR	+100	+75	2	-	-	-	2	-
Total			**(107 336)**	**(35 541)**	**10 271**	**(4 864)**	**(97 065)**	**(40 405)**
WIBOR	-100	-50	11 055	5 742	(10 588)	4 864	467	10 606
LIBOR	-25	-50	7 895	-	-	-	7 895	-
EURIBOR	-150	-25	88 388	29 799	-	-	88 388	29 799
VILIBOR	-100	-75	(2)	-	-	-	(2)	-
Total			**107 336**	**35 541**	**(10 588)**	**4 864**	**96 748**	**40 405**

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 Company changed interest rates variations in comparison to previous reporting period because of reduction of interest rates by central banks resulting from crisis on the world financial markets in the second half of 2008.

The Company does not own financial instruments with fixed interest rates measured at fair value in the balance sheet. The Company 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 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 Company 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 product 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.
CO_2 emission rights management is held according to the Management Board recommendations. For the period of 2008-2012 the Company performed verification of the number of rights granted as well as defined methods of their systematic balancing in the way of intercompany transactions depending on declared shortages/surpluses or depending on the situation on the market of term and spot transactions.

10. Revenues from sale of finished goods, net

Revenues from sale of finished goods, net in the amount of PLN 30,543,259 thousand in 2008 and PLN 24,649,037 thousand in 2007 included revenues from sale of services of PLN 304,467 thousand in 2008 and PLN 241,974 thousand in 2007, respectively.

11. Cost by kind

	for the year ended 31 December 2008	for the year ended 31 December 2007
Materials and energy	(26 541 305)	(20 073 961)
Cost of merchandise and materials sold	(26 150 903)	(17 327 593)
External services	(1 849 584)	(1 902 911)
Payroll, social security and other employee benefits	(577 822)	(555 122)
Depreciation	(947 919)	(898 116)
Taxes and charges	(270 051)	(235 369)
Other	(588 905)	(409 180)
Total	**(56 926 489)**	**(41 402 252)**
Change in inventory and accruals	71 105	(549 692)
Cost of products and services for own use	(47 492)	(49 862)
Operating expenses	**(56 950 102)**	**(40 802 698)**
Distribution expenses	(1 714 385)	(1 686 709)
General and administrative expenses	(634 259)	(691 039)
Other operating expenses	(425 099)	(284 634)
Cost of finished goods, merchandise and raw materials sold	**(54 176 359)**	**(38 140 316)**

External services include research expenditure of PLN 16,004 thousand in 2008 and PLN 14,456 thousand in 2007.

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	56 304	16 820
Reversal of provision	49 258	33 746
Reversal of receivables impairment allowances	83 152	87 348
Reversal of impairment allowances of property, plant and equipment and intangible assets	44 379	15 570
Penalties and compensations earned	98 104	2 723
Other	28 415	36 017
Total	**359 612**	**192 224**

(all amounts in PLN thousand)

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	(31 725)	(45 170)
Creation of provisions	(158 415)	(36 256)
Impairment allowances of property, plant and equipment	(66 129)	(17 004)
Impairment allowances of receivables	(105 360)	(121 388)
Donations	(5 880)	(6 923)
Nonculpable shortages in current assets	(18 702)	(11 824)
Other	(38 888)	(46 069)
Total	**(425 099)**	**(284 634)**

13. Net financial revenues and expenses

Financial revenues

	for the year ended 31 December 2008	for the year ended 31 December 2007
Interest received	64 304	41 779
Positive foreign exchange surplus	-	669 169
Dividends	718 224	708 701
Profit from sale of shares and other securities	42 363	1 661
Investment impairment allowances	84 323	5 381
Decrease in receivables impairment allowances	8 696	6 199
Settlement and valuation of financial instruments	332 014	107 041
Other	5 755	3 155
Total	**1 255 679**	**1 543 086**

Financial expenses

	for the year ended 31 December 2008	for the year ended 31 December 2007
Interest paid	(375 786)	(294 255)
Negative foreign exchange surplus	(1 509 430)	-
Loss on sale of shares and other securities	(120)	(1 000)
Investment impairment allowances	(1 730 511)	(6 993)
Increase in receivables impairment allowances	(10 663)	(8 186)
Settlement and valuation of financial instruments	(318 750)	(57 699)
Other	(9 830)	(10 678)
Total	**(3 955 090)**	**(378 811)**

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

	for year ended 31 December 2008	for year ended 31 December 2007
Financial assets and liabilities at fair value through profit or loss (held for trading)	19 547	49 002
Financial assets available for sale (recognized in the income statement)	2 354	12 479
Financial assets held to maturity	1 662	1 194
Loans (granted)	3 300	2 217
Financial liabilities measured at amortized cost	(1 623 597)	134 713
Current receivables	439 724	(110 848)
Short-term liabilities	(667 106)	381 456
Revaluation of shares in related entities	(1 645 696)	(5 799)
Sale of shares in related entities	42 242	-
Dividends received	716 097	705 424
Cash and cash equivalents	18 345	(4 354)
Ineffective portion recognized in the income statement	(6 283)	340
Other	-	(1 549)
Total	**(2 699 411)**	**1 164 275**

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

	for year ended 31 December 2008	for year ended 31 December 2007
Impairment of shares in Companies	(731)	(6 993)
Impairment of interest on receivables (as financial instruments)	(10 663)	(8 186)
Total	**(11 394)**	**(15 179)**

(all amounts in PLN thousand)

14. Income tax expense

	for the year ended 31 December 2008	for the year ended 31 December 2007
Current tax	(148 362)	(445 504)
Deferred tax	640 472	(52 106)
Total	**492 110**	**(497 610)**

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 year ended 31 December 2008	for year ended 31 December 2007
Profit/(Loss) before tax	(2 063 057)	3 257 469
Corporate income tax for 2008 and 2007 by the valid tax rate (19% in Poland)	391 981	(618 919)
Dividends received	135 016	134 653
Business risk provision	(22 877)	-
Impairment allowances concerning receivables and disputes	(8 939)	(705)
Costs of liquidation of property, plant and equipment	(2 378)	(2 395)
Prescribed receivables recognized as expenses	(837)	(1 582)
Other	144	(8 662)
Income tax expense	**492 110**	**(497 610)**
Effective tax rate	**24%**	**15%**

As at 31 December 2008 deferred tax assets and deferred tax liabilities consisted of the following items:

	31 December 2008	31 December 2007
Deferred tax assets:	-	-
Land reclamation provision	51 852	61 064
Receivables impairment allowances	10 904	14 642
Cost of jubilee bonuses and retirement benefits	26 584	22 556
Impairment of property, plant and equipment and intangible assets	22 883	19 654
Impairment of non-current financial assets	337 407	24 007
Other provisions	35 448	39 825
Other expenses concerning wages and salaries	15 229	16 918
Expenses for loyalty program prizes	13 726	14 299
Accrued expenses	5 680	11 338
Unrealized negative foreign exchange differences	237 548	-
Inventory impairment allowance	45 673	-
Financial instruments	16 195	-
Other	24 278	18 504
Total deferred tax assets	**843 407**	**242 807**
Deferred tax liability:		
Investment relief	77 014	91 199
Difference between carrying amount and tax base of property, plant and equipment	327 495	322 272
Unrealized positive foreign exchange differences	-	48 660
Financial instruments	-	31 002
Difference in contribution in kind	42 870	42 870
Other	6 838	2 154
Total deferred tax liability	**454 217**	**538 157**
Deferred tax (assets)/liability, net	**(389 190)**	**295 350**

In 2008 there was an increase in equity as an effect of deferred tax recognized in hedging reserve in the amount of PLN 44,068 thousand. In 2007 there was a decrease in equity in this respect of PLN (15,043) thousand.

15. Leases

a) The Company as a lessee

Operating lease

As at 31 December 2008 and 31 December 2007, the Company did not posses non-cancellable operating lease agreements as a lessee. The lease payments recognized as cost amounted to PLN 76,531 thousand in 2008 and PLN 71,375 thousand in 2007 and related to tenancy agreements.

(all amounts in PLN thousand)

Finance lease

As at 31 December 2008 the Company possesses finance lease agreements as a lessee. The finance lease agreements relate mainly to the lease of petrol stations.
The net value of all property, plant and equipment in finance lease amounted to PLN 44,070 thousand as at 31 December 2008 and PLN 44,831 thousand as at 31 December 2007 and related to buildings, premises as well as land and water engineering objects.

In concluded lease agreements, the general conditions of finance lease are effective, there are no special restrictions nor additional terms of contract. The finance lease contracts do not contain any clauses concerning conditional liabilities from lease fees and provide possibility to purchase the object of the lease. In most cases there is the possibility of prolongation of 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	1 926	1 393
Between 1 and 5 years	18 607	14 740
Above 5 years	41 124	42 577
Total	**61 657**	**58 710**

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	808	858
Between 1 and 5 years	9 926	6 328
Above 5 years	32 211	33 218
Total	**42 945**	**40 404**

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
Property, plant and equipment	**44 070**	**44 831**
Buildings, premises as well as land and water engineering objects	44 070	44 831

b) The Company as a lessor

Operating lease

As at 31 December 2008 and 31 December 2007 the Company did not posses non-cancellable operating lease agreements as a lessor. Operating lease agreements possessed by the Company regarded lease of machinery, equipment, buildings and land owned by the Company.

Finance lease

As at 31 December 2008 and 31 December 2007 the Company as a lessor possessed finance lease agreements regarding 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	**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	**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.

(all amounts in PLN thousand)

As at 31 December 2008 and 31 December 2007 the Company did not recognize in the income statement any contingent rents nor allowances for bad debts concerning minimum lease payments. There were also no unguaranteed residual values accruing to the benefit of the lessor.

Disclosures resulting from IFRS 7 regarding the financial instruments are included in note 9 and 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 2,063,646 thousand, including PLN 259,127 thousand of environmental protection related investments. As at 31 December 2008 future liabilities resulting from contracts signed until this date amounted to PLN 1,689,374 thousand.

17. Related party transactions

a) Information on material related party transactions concluded by the Company or its subsidiaries on other than market terms

During 12 months of 2008 the Company did not conclude any material related party transactions on other than market terms.

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

As at 31 December 2008 the Company did not grant any loans to managing and supervising persons and their relatives.

In 2008 there were no significant transactions concluded with members of the Management Board, Supervisory Board, their spouses, siblings, descendants, ascendants or their other relatives.

c) Transactions with related parties concluded through the supervising persons of the Company

In 2008 the supervising persons of the Company submitted statements on transactions concluded with related parties in extended scope of the amended IAS 24 “Related Party Disclosures”.

	Sale	Purchase	Receivables	Liabilities
Legal persons	313 726	407 164	10 287	29 120
Natural persons	-	-	-	-

In the period covered by the financial statements 9 persons served as members of the Supervisory Board.

d) Transactions with related parties concluded through the managing persons of the Company

In 2008 the managing persons of the Company did not conclude any transactions with related parties in accordance with IAS 24 “Related Party Disclosures”.

e) Transactions with related parties concluded through the key management personnel of the Company

In 2008 members of the Company’s key executive personnel submitted statements on transactions concluded with related parties in extended scope of the amended IAS 24 “Related Party Disclosures”.

	Sale	Purchase	Receivables	Liabilities
Legal persons	-	-	-	-
Natural persons	6	-	-	-

(all amounts in PLN thousand)

f) Transactions of the Company with related parties in the period from 1 January to 31 December 2008 and the settlement balance of statements as at 31 December 2008

	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 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 Company exercises significant influence on the entity's supervisory bodies via its representatives
[3] The Company exercises 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 amounted to PLN 195 thousand.

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

(all amounts in PLN thousand)

18. Contingent liabilities and risks

a) Contingent liabilities of PKN ORLEN in the 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	50 964	(35 942)	15 022
Total contingent liabilities	**104 367**	**(70 539)**	**33 828**

b) Risk of losing tax relieves

Investment relief

In accordance with tax regulations, in force in previous years, the 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 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 due to breach of conditions which in effect oblige to return the amounts deducted.

c) 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 National 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 for the period January - April 2004.**

In January 2005, the Director of the Tax Control Office in Kraków ("TCO") instituted control proceedings against Rafineria Trzebinia in respect of reliability of the stated tax bases and accuracy of the calculation and settlement of excise tax and value added tax for 2002 and 2003. 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 stated tax bases and accuracy of the calculation and settlement of excise tax and value added tax for 2003. On 5 December 2008 the respective result was issued for the period January – April 2004.
In the issued results it was decided, that tax books are unreliable in the part concerning deductible excise tax of PLN 1,585 thousand stated in VAT return for August 2003.

Rafineria Trzebinia S.A. appealed against the decision and settled the amount of contentious liability together with interest. On 30 January 2009 the Director of the Tax Chamber in Kraków repealed the decision sued by Rafineria Trzebinia S.A. and decided to revoke it to reexamination by the first instance authority.

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

- **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 yet known.

The Management Board, based on the opinions of recognized tax advisors, believes that there is a high probability that the outcome of the above mentioned proceedings will be favorable for Rafineria Trzebinia S.A. As a result, no provision for potential liabilities has been created in these financial statements for the year ended 31 December 2008.

The share of PKN ORLEN in total voting rights at the General Shareholders' Meeting of Rafineria Trzebinia amounts to 77.15%.

d) The proceedings of the Energy Regulatory Office 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 the necessity to carry out evidence proceedings, repealed the sentence of the District Court, CCCP, and revoked the case to its reexamination.

e) 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 law suit against PKN ORLEN. In 2004 the Court issued a decision obliging PKN ORLEN to pay a liability connected with the so-called system fee to ENERGA – OPERATOR 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 and 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.

f) Anti-trust proceedings

As at the date of preparation of the financial statements the Company 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 current 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.

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

(all amounts in PLN thousand)

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 financial effects related to execution of these agreements.

h) 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.

19. Remuneration, together with profit-sharing paid and due or potentially due to the Management Board, Supervisory Board and members of the 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**

(all amounts in PLN thousand)

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 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 due 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.

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 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, encourage 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 as a result 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 of dissolution of the contract as a result of dismission from the position held. Remuneration amounts to six or twelve basic monthly remuneration.

(all amounts in PLN thousand)

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 in PKN ORLEN Group did not receive compensation 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 of the Company	**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.

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

	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**

(all amounts in PLN thousand)

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

	salaries and other benefits including paid and due bonuses	redundancy payments and compensation 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 concern the previous Members of the Management Board and were included in the 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 compensation 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 Management Board in the Corporate Governance of the Lithuanian company as compared to the Polish legislation. The role of Management Board of Mazeikiu is similar to the role of Supervisory Board in the Polish legislation.

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 of the Company	**1 031**

The Chairman of the Supervisory Board of PKN ORLEN performing this function since 31 May 2007, acted simultaneously since 31 August 2007 as Supervisory Board Member of Petrolot Sp. z o.o. 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.

(all amounts in PLN thousand)

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

In the period covered by these financial statements the Company's auditor is KPMG Audyt Sp. z o.o. According to the agreement concluded on 30 May 2005 for the period 2005-2009 KPMG Audyt Sp. z o.o. executes 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..* 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 financial statements	1 055	707
Fees payable for other services provided by KPMG Audyt Sp. z.o.o..** incl.:	1 130	1 118
- Fees payable for tax advisory services	-	94
	3 034	**2 532**

* 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 Company 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 Company. The Audit Committee of the Supervisory Board makes decision on awarding contracts to the Auditor for additional services.

21. Employment structure

Average employment by groups was as follows:

	for the year ended 31 December 2008	for the year ended 31 December 2007
Blue collar workers	1 995	1 970
White collar workers	2 697	2 820
	4 692	**4 790**

Employment level as at 31 December 2008 amounted to 4,725 persons and as at 31 December 2007 to 4,741 persons.

22. Supplementary information

a) 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 was 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 as a result 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, share purchase 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. On the basis of 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.

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.

As at 26 March 2009 PKN ORLEN S.A. owns shares in AB Mazeikiu Nafta representing 90.02% of the share capital of this company. If sale option is realized PKN ORLEN S.A. will posses the shares of AB Mazeikiu Nafta representing 100% of the share capital of AB Mazeikiu Nafta.

24. Signatures of the Management Board Members

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

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

…………………………
Sławomir Jędrzejczyk
Vice-President of the Board

………………………
Wojciech Kotlarek
Member of the Board

……………………
Krystian Pater
Member of the Board

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

Warsaw, 27 April 2009