RESPONSIBILITY

PROGRESS

PEOPLE

ENERGY

DEPENDABILITY

Polski Koncern Naftowy ORLEN
Spółka Akcyjna

SEPARATE ANNUAL REPORT POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA

2014

SEPARATE ANNUAL REPORT FOR THE YEAR 2014

SELECTED FINANCIAL DATA OF PKN ORLEN

	PLN million		EUR million	
	2014	2013	2014	2013
Sales revenues	76 972	84 040	18 373	20 061
Profit/(Loss) from operations	(380)	457	(91)	109
Profit/(Loss) before tax*	(4 880)	632	(1 165)	151
Net profit/(loss)*	(4 672)	618	(1 115)	148
Total net comprehensive income	(6 217)	857	(1 484)	205
Net cash provided by operating activities	2 217	4 370	529	1 043
Net cash (used) in investing activities	(2 401)	(1 578)	(573)	(377)
Net cash provided by/(used in) financing activities	1 592	(1 691)	380	(404)
Net increase in cash	1 408	1 101	336	263
Net profit/(loss) and diluted net profit/(loss) per share (in PLN/EUR per share)	(10.92)	1.44	(2.61)	0.34

	31/12/2014	31/12/2013	31/12/2014	31/12/2013
Non-current assets	21 802	23 355	5 115	5 479
Current assets	16 176	18 708	3 795	4 389
Total assets	37 978	42 063	8 910	9 869
Non-current liabilities	11 379	6 923	2 670	1 624
Current liabilities	10 297	12 005	2 416	2 817
Total equity	16 302	23 135	3 825	5 428
Share capital	1 058	1 058	248	248
Number of shares	427 709 061	427 709 061	427 709 061	427 709 061
Carrying amount and diluted carrying amount per share (in PLN/EUR per share)	38.11	54.09	8.94	12.69

The above data for 2014 and 2013 was translated into EUR using the following exchange rates:

- items of statement of profit or loss and other comprehensive income and statement of cash flows - by the arithmetic average of average exchange rates published by the National Bank of Poland as of every last day of the month during the reporting period: from 1 January to 31 December 2014 – 4.1893 EUR/PLN;
- items of assets, equity and liabilities – by the average exchange rate published by the National Bank of Poland as at 31 December 2014 – 4.2623 EUR/PLN.

* in 2014 impairment allowances of shares of AB ORLEN Lietuva and in shares of ORLEN Upstream recognized in total of PLN (4,967) million.

POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA

SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014
PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS ADOPTED BY EUROPEAN UNION

TABLE OF CONTENT:

PKN ORLEN S.A. (in PLN million)

Separate statement of profit or loss and other comprehensive income

	NOTE	2014	2013
Statement of profit or loss			
Sales revenues	*6*	76 972	84 040
Cost of sales	*7.1,7.2*	(74 283)	(80 813)
Gross profit on sales		**2 689**	**3 227**
Distribution expenses		(2 177)	(2 090)
Administrative expenses		(823)	(737)
Other operating income	*8.1*	311	324
Other operating expenses	*8.2*	(380)	(267)
Profit/(Loss) from operations		**(380)**	**457**
Finance income	*9.1*	1 477	589
Finance costs	*9.2*	(5 977)	(414)
Net finance income and costs	*9*	**(4 500)**	**175**
Profit/(loss) before tax		**(4 880)**	**632**
Tax expense	*10*	208	(14)
Net profit/(loss)		**(4 672)**	**618**
Items of other comprehensive income:			
which will not be reclassified into profit or loss		**(7)**	**2**
Actuarial gains and losses		*(9)*	*2*
Deferred tax	*10*	*2*	*-*
which will be reclassified into profit or loss under certain conditions		**(1 538)**	**237**
Hedging instruments	*20.3*	*(1 899)*	*293*
Deferred tax	*10, 20.3*	*361*	*(56)*
		(1 545)	**239**
Total net comprehensive income		**(6 217)**	**857**
Net profit/(loss) and diluted net profit/(loss) per share (in PLN per share)		(10.92)	1.44

PKN ORLEN S.A. (in PLN million)

Separate statement of financial positions

	NOTE	31/12/2014	31/12/2013
ASSETS			
Non-current assets			
Property, plant and equipment	*11*	13 465	12 097
Intangible assets	*12*	334	439
Perpetual usufruct of land		91	98
Shares in related parties	*13*	6 733	9 646
Financial assets available for sale		40	40
Deferred tax assets	*10.2*	169	-
Other non-current assets	*14*	970	1 035
		21 802	**23 355**
Current assets			
Inventories	*16*	6 497	9 383
Trade and other receivables	*17*	4 954	6 248
Other financial assets	*18*	1 206	974
Current tax assets		6	31
Cash	*19*	3 475	2 072
Non-current assets classified as held for sale		38	-
		16 176	**18 708**
Total assets		**37 978**	**42 063**
EQUITY AND LIABILITIES			
EQUITY			
Share capital	*20.1*	1 058	1 058
Share premium	*20.2*	1 227	1 227
Hedging reserve	*20.3*	(1 370)	168
Retained earnings	*20.4*	15 387	20 682
Total equity		**16 302**	**23 135**
LIABILITIES			
Non-current liabilities			
Loans, borrowings and bonds	*21*	9 212	6 096
Provisions	*22*	355	324
Deferred tax liabilities	*10.2*	-	404
Other non-current liabilities	*23*	1 812	99
		11 379	**6 923**
Current liabilities			
Trade and other liabilities	*24*	7 572	9 836
Loans,borrowings and bonds	*21*	930	1 314
Provisions	*22*	342	348
Deferred income	*25*	97	94
Other financial liabilities	*26*	1 356	413
		10 297	**12 005**
Total liabilities		**21 676**	**18 928**
Total equity and liabilities		**37 978**	**42 063**

PKN ORLEN S.A. (in PLN million)

Separate statement of changes in equity

	Share capital and share premium	Hedging reserve	Retained earnings	Total equity
NOTE	*20.1, 20.2*	*20.3*	*20.4*	
01/01/2014	2 285	168	20 682	23 135
Net (loss)	-	-	(4 672)	(4 672)
Items of other comprehensive income	-	(1 538)	(7)	(1 545)
Total net comprehensive income	**-**	**(1 538)**	**(4 679)**	**(6 217)**
Dividends	-	-	(616)	(616)
31/12/2014	**2 285**	**(1 370)**	**15 387**	**16 302**
01/01/2013	2 285	(69)	20 704	22 920
Net profit	-	-	618	618
Items of other comprehensive income	-	237	2	239
Total net comprehensive income	**-**	**237**	**620**	**857**
Dividends	-	-	(642)	(642)
31/12/2013	**2 285**	**168**	**20 682**	**23 135**

PKN ORLEN S.A. (in PLN million)

Separate statement of cash flows

	NOTE	2014	2013
Cash flows - operating activities			
Net profit/(loss)		**(4 672)**	**618**
Adjustments for:			
Depreciation and amortisation	*7.2*	1 028	1 022
Foreign exchange loss	*27.3*	97	9
Interest, net	*27.4*	213	255
Dividends	*9.1*	(1 092)	(220)
Loss on investing activities	*27.5*	4 928	99
Tax expense	*10*	(208)	14
Change in provisions	*27.1*	180	102
Change in working capital		1 823	2 462
inventories	*27.1*	*2 840*	*1 019*
receivables	*27.1*	*1 244*	*411*
liabilities	*27.1*	*(2 261)*	*1 032*
Other adjustments	*27.2*	(103)	(110)
Income tax received	*27.6*	23	119
Net cash provided by operating activities		**2 217**	**4 370**
Cash flows - investing activities			
Acquisition of property, plant and equipment, intangible assets and perpetual usufruct of land		(2 426)	(1 136)
Disposal of property, plant and equipment, intangible assets and perpetual usufruct of land		324	173
Acquisition of shares		(1 297)	(2)
Disposal of shares		69	-
Acquisition of bonds		(100)	-
Sale of bonds		5	-
Interest received	*27.4*	45	34
Dividends received		1 094	220
Outflows from additional repayable payments to subsidiaries' equity		(806)	(770)
Proceeds from additional repayable payments to subsidiaries' equity		38	9
Outflows from non-current loans granted		(353)	(303)
Proceeds from repayment of non-current loans granted		695	-
Proceeds from current loans granted		259	345
Proceeds/(Outflows) from cash pool facility		64	(133)
Other		(12)	(15)
Net cash (used) in investing activities		**(2 401)**	**(1 578)**
Cash flows - financing activities			
Proceeds from loans and borrowings received		9 991	3 319
Bonds issued		931	1 341
Repayments of loans and borrowings		(7 042)	(4 966)
Redemption of bonds		(1 419)	(538)
Interest paid	*27.4*	(249)	(300)
Dividends paid		(616)	(642)
Payments of liabilities under finance lease agreements		(18)	(14)
Proceeds from cash pool facility		15	114
Other		(1)	(5)
Net cash provided by/(used in) financing activities		**1 592**	**(1 691)**
Net increase in cash		**1 408**	**1 101**
Effect of exchange rate changes		(5)	(1)
Cash, beginning of the period		2 072	972
Cash, end of the period	*19*	**3 475**	**2 072**

PKN ORLEN S.A. (in PLN million)

ACCOUNTING PRINCIPLES AND OTHER EXPLANATORY INFORMATION

1. General information

1.1. Principal activity of the Company

Polski Koncern Naftowy ORLEN Spółka Akcyjna seated in Płock, 7 Chemików Street ("Company", "PKN ORLEN", "Issuer", "Parent Company") was funded by incorporation of Petrochemia Płock S.A. with Centrala Prodkuktów Naftowych S.A., on 7 September 1999.

The core business of the Company is crude oil processing, production of fuel, petrochemical and chemical goods, as well as, retail and wholesale of fuel products. PKN ORLEN generates, distributes and trades of electricity and heat.

PKN ORLEN shares are quoted on the main market of the Warsaw Stock Exchange (WSE) in the continuous trading system. The first quotation of the shares were held on 26 November 1999. According to the WSE classification, PKN ORLEN is classified to the oil and gas sector.

1.2. Concessions held

The Company's operations required concessions, due to their importance to the public interest.

31/12/2014	Remaining concession periods (in years)
Electrical energy: manufacturing, distribution, trade	11
Heating energy: manufacturing, transmission, distribution, trade	11 - 16
Liquid and gaseous fuels: manufacturing, trade, storage	11 - 16
Rock salt: exploration and recognition	1

The Management Board believes that the probability of failure in obtaining required concessions is remote.
As at 31 December 2014 and as at 31 December 2013 the Company had no liabilities related to concession services in scope of IFRIC 12.

1.3. Shareholder's structure

Shareholders holding directly or indirectly via related parties, at least 5% of total votes at the General Shareholders' Meeting of PKN ORLEN as at 31 December 2014:

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

* according to information from the Ordinary Shareholders' Meeting of PKN ORLEN S.A. held on 15 May 2014

1.4. Composition of the Management Board and the Supervisory Board

As at 31 December 2014 and the date of preparation of these financial statements, the composition of the management and supervisory boards of the Company is as follows:

Management Board

Dariusz Jacek Krawiec – President of the Management Board, General Director
Sławomir Jędrzejczyk – Vice-President of the Management Board, Chief Financial Officer
Piotr Chełmiński – Member of the Management Board, Business Development/Power and Heat Generation Officer
Krystian Pater – Member of the Management Board, Production
Marek Podstawa – Member of the Management Board, Sales

Supervisory Board

Angelina Anna Sarota – Chairman of the Supervisory Board
Leszek Jerzy Pawłowicz – Deputy Chairman of the Supervisory Board
Adam Ambrozik – Secretary of the Supervisory Board
Maciej Bałtowski – Member of the Supervisory Board
Cezary Banasiński – Member of the Supervisory Board
Grzegorz Borowiec – Member of the Supervisory Board
Artur Gabor – Member of the Supervisory Board
Radosław L. Kwaśnicki – Member of the Supervisory Board
Cezary Możeński – Member of the Supervisory Board

2. Statement of the Management Board

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

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

PKN ORLEN S.A. (in PLN million)

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

The Management Board of PKN ORLEN declares that the entity authorized to conduct audit was selected in compliance with the law and that the entity and auditors conducting the audit met the conditions to issue an independent opinion in compliance with relevant regulations.
KPMG Audyt Sp. z o.o. is the entity authorized to conduct audit of separate financial statements of PKN ORLEN for the year 2014. Additional information is presented in note 36.

3. Accounting principles

3.1. Principles of preparation of financial statement

The separate financial statements have been prepared in accordance with accounting principles contained in the International Financial Reporting Standards (IFRS), comprising International Accounting Standards (IAS) as well as Interpretations of Standing Interpretation Committee (SIC) and the International Financial Reporting Standards Interpretations Committee (IFRIC), which were adopted by the European Union (EU) and were in force as at 31 December 2014. The financial statements have been prepared on a historical cost basis with the exception of derivatives, financial assets available for sale which are measured at fair value. The scope of separate financial statement is compliant with Minister of Finance Regulation of 19 February 2009 on current and periodic information provided by issuers of securities and conditions for recognition as equivalent information required by the law of a non-Member state (uniform text Official Journal 2014, item 133) and covers the annual period from 1 January to 31 December 2014 and the comparative period from 1 January to 31 December 2013.

Presented separate financial statements are compliant with all requirements of IFRSs adopted by the EU and present a true and fair view of the Company's financial position as at 31 December 2014, results of its operations and cash flows for the year ended 31 December 2014.
The separate financial statements have been prepared assuming that the Company will continue to operate as a going concern in the foreseeable future. As at the date of approval of these separate financial statements, there is no evidence indicating that the Company will not be able to continue its operations as a going concern. Duration of the Company is unlimited.
The foregoing separate financial statements, except for separate cash flows statement, have been prepared using the accrual basis of accounting.

The foregoing separate financial statements have been prepared in accordance with usefulness, relevance and faithfully representation principles contained in chapter 3 of the IFRS conceptual framework.

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

3.2.1. Binding amendments to IFRSs and interpretations

The amendments to standards and IFRS interpretations, in force from 1 January 2014 until the date of publication of these separate financial statements did not appy to the separate financial statements.

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

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

Standards and Interpretations adopted by EU	Possible impact on financial statements
IFRIC Interpretation 21 - Levies	no impact expected
Amendments to IAS 19 Employee Benefits entitled Defined Benefit Plans: Employee Contributions	no impact expected
Improvements to International Financial Reporting Standards 2010-2012; 2011-2013	no impact expected

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

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

Standards and Interpretations waiting for approval of EU	Possible impact on financial statements
New standard IFRS 9 - Financial Instruments	impact*
New standard IFRS 14 - Regulatory Deferral Accounts	no impact expected
New standard IFRS 15 - Revenue from Contracts with Customers	impact**
Amendments to IFRS 11 - Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations	does not apply to separate financial statement
Amendments to IAS 16 - Property, Plant and Equipment and IAS 38 - Intangible Assets: Clarification of Acceptable Methods of Depreciation and Amortisation	no impact expected
Amendments to IAS 16 - Property, Plant and Equipment and IAS 41 - Agriculture: Agriculture - Bearer Plants	no impact expected
Amendments to IAS 27 - Separate Financial Statements: Equity Method in Separate Financial Statements	does not apply to separate financial statement
Amendments to IFRS 10 - Consolidated Financial Statements and IAS 28 - Investments in Associates: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	does not apply to separate financial statement
Improvements to International Financial Reporting Standards 2012-2014	no impact expected
Amendments to IFRS 10 - Consolidated Financial Statements, IFRS 12 - Disclosure of Interests in Other Entities and IAS 28 - Investments in Associates and Joint Ventures: Investment Entities: Applying the Consolidation Exception	does not apply to separate financial statement
Ammendments to IAS 1 - Presentation of Financial Statements: Disclosure initiative	no impact expected

* At the time of the implementation of the new IFRS 9, allocation of the appropriate financial assets to the new categories of financial instruments will be made.

** At the time of implementation, i.e. on 1 January 2017, the impact of the new IFRS 15 will depend on the specific facts and circumstances relating to the contracts with customers, which the Company is a party.

3.2.4. Presentation changes

During the I half of 2014 PKN ORLEN implemented changes of operating activities management in order to improve their effectiveness and integration. The organizational structure was adjusted by changes of competences of the particular Management Board Members.
As a result, the presentation of the Company's operating segments were restructured – integrated operating segment: Downstream is composed of Refinery and Petrochemical segments which previously were treated as separate operations.
Accordingly, in relation to the mentioned changes, the segment data were restated for the comparative year 2013 and as at 31 December 2013.

Impact of new segment division on presented financial segment data in 2013

	Downstream Segment	Refining Segment	Petrochemical Segment	Corporate Functions	Adjustments
Sales revenues from external customers	65 340	(57 845)	(7 495)	-	-
Sales revenues from transactions with other segments	14 159	(22 907)	(3 231)	-	11 979
Sales revenues	79 499	(80 752)	(10 726)	-	11 979
Operating expenses	(79 196)	81 347	9 826	2	(11 979)
Other operating income	78	(72)	(6)	-	-
Other operating expenses	(80)	73	7	-	-
Segment profit/(loss) from operations	**301**	**596**	**(899)**	**2**	**-**
Depreciation and amortisation	**728**	**(408)**	**(320)**	**-**	**-**
EBITDA	**1 029**	**188**	**(1 219)**	**2**	**-**
Increases in investment expenditures (including borrowing costs)	**743**	**(496)**	**(109)**	**(138)**	**-**

Assets divided into operating segments

	published data 31/12/2013	impact of change in segment division	data after changing segment division 31/12/2013
Refining Segment	17 918	(17 918)	-
Petrochemical Segment	5 955	(5 955)	-
Downstream Segment	-	24 263	24 263
Retail Segment	3 493	-	3 493
Segment assets	**27 366**	**390**	**27 756**
Corporate Functions	14 697	(390)	14 307
	42 063	**-**	**42 063**

Moreover, in 2014, the Company introduced a change in the statement of cash flows in the presentation of the cash flows from the issuance and redemption of bonds. The change in the presentation concerns short-term corporate bonds and it does not affect the value shown as net cash and cash equivalent presented in the financial income. Accordingly, comparative data have been restated for 2013.

3.2.5. Functional currency and presentation currency

The functional currency and presentation currency of the foregoing separate financial statements is Polish Złoty ("PLN"). The data in the separate financial statements is presented in millions of PLN, unless is stated differently. The accounting policies for transactions in foreign currency have been disclosed in note 3.3.1.

3.3. Applied accounting policies

3.3.1. Transactions in foreign currency

The Company recognizes exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition in profit or loss of the period in which they arise, except for the monetary items which hedge the currency risk and are accounted in accordance with the cash flow hedge accounting principles.

3.3.2. Operating segments

The operations of the Company were divided into the following segments:
- the Downstream segment, which includes the integrated operating areas of production and the refinery and petrochemical sales and operations in the energy production activity,
- the Retail segment, which includes sales at fuel stations,
- the Upstream segment, which includes the activity rebated to exploration and extraction of mineral resources,

as well as Corporate Functions which are reconciling items and include activities related to management and administration and other support functions as well as remaining activities not allocated to separate segments.
Segment revenues are from sales to external customers or revenues from transactions with other segments that are directly attributable to a segment.
Segment expenses are expenses resulting from the operating activities of a segment that are directly attributable to the segment and the relevant portion of the Company's expenses that can be allocated on a reasonable basis to a segment, including expenses relating to sales to external customers and expenses relating to transactions with other segments.
Segment result is calculated on the level of operating activity result.
Segment assets are those operating assets that are employed by that segment in operating activity, and that are either directly or on a reasonable basis attributable to the segment.

3.3.3. Sales revenues

Revenues from sale (from operating activity) comprise revenues that relate to core activity, i.e. activity for which the Company was founded, revenues are recurring and are not of incidental character.
Revenues from sales are 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 goods and services is recognized when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods and the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.
Revenues include received or due payments for delivered goods or services rendered decreased by the amount of any trade discounts, value added tax (VAT), excise tax and fuel charges.
Revenues are measured at fair value of the received or due payments. Revenues from sale are adjusted for profit or loss from settlement of cash flows hedging instruments related to above mentioned revenues.
Revenues and expenses relating to services for which the start and end dates fall within different reporting periods are recognized based on the percentage of completion method, if the outcome of a transaction can be measured reliably, i.e. when total contract revenue can be measured reliably, it is probable that the economic benefits associated with the contract will flow to the Company and the stage of completion can be measured reliably.
If those conditions are not met, revenues are recognized up to the cost incurred, but not greater than the cost which are expected to be recovered by the Company.

3.3.4. Costs

Costs (relating to operating activity) comprise costs that relate to core activity, i.e. activity for which the Company was founded, costs are recurring and are not of incidental character.
Cost of sales comprises cost of finished goods, merchandise and raw materials sold and adjustments related to inventories written down to net realizable value.

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

3.3.4.Costs continued

Distribution expenses include selling brokerage expenses, trading expenses, advertising and promotion expenses as well as distribution expenses.
Administrative expenses include expenses relating to management and administration of the Company as a whole.

3.3.5. Other operating income and expenses

Other operating income and expenses are related indirectly to operating activities and are incidental.

3.3.6. Finance income and costs

Finance income and costs relate to financial operations, including the funding sources acquisition and their service.

3.3.7. Income tax expenses

Income tax expenses comprise of current tax and deferred tax.
Current tax is determined in accordance with the relevant tax law based on the taxable profit for a given period and is recognized as liability, in the amount which has not been paid or receivable, if the amount of the current and prior periods income tax paid exceeds the amount due the excess is recognized.
Deferred tax assets and liabilities are accounted for as non-current and are not discounted are as well as offset in the statement of financial position, if there is legally enforceable right to set off the recognized amounts.
The transactions settled directly in equity are recognized in equity.

3.3.8. Profit / (Loss) per share

Profit / (Loss) per share is calculated by dividing the net profit or loss for a given period which is attributable to ordinary shareholders of the Parent Company by the weighted average number of ordinary shares outstanding during the period.
The Company has no potential dilutive shares.

3.3.9. 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 measured at cost, including grants related to assets (IAS 20). The cost of an item of property, plant and equipment comprises its purchase price, including any costs directly attributable to bringing the asset into use.
The cost of an item of property, plant and equipment includes also the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which is connected with acquisition or construction of an item of property, plant and equipment.
Property, plant and equipment are stated in the statement of financial position prepared at the end of the reporting period at the net book value i.e. the amount at which an asset is initially recognized (cost) less accumulated depreciation and any accumulated impairment losses, as well as received grants for assets.
Depreciation of an item of property, plant and equipment begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management, over the period reflecting its estimated useful life, considering the residual value. Fixed assets are depreciated with straight-line method and in justified cases units of production method of depreciation (catalysts).
The depreciable amount of an asset is determined after deduction of the residual value from the initial value.
Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately over the period reflecting its useful life.
The following standard useful lives are used for property, plant and equipment:

Building and constructions	10–40 years
Machinery and equipment	4–35 years
Vehicles and other	2–20 years

The depreciation method, the residual value and the useful life of property, plant and equipment are verified at least at the end of each year. When necessary, the adjustments to depreciation expense are accounted for in next periods (prospectively).
The costs of significant repairs and regular maintenance programs are recognized as property, plant and equipment and depreciated in accordance with their useful lives. The costs of current maintenance of property, plant and equipment are charged to profit or loss in the period in which they are incurred.
Property, plant and equipment are tested for impairment, when there are indicators or events that may imply that the carrying amount of those assets may not be recoverable.
Recognition and reversal of impairment allowance of property, plant and equipment is recognized in other operating activities.

3.3.10. Intangible assets

An intangible asset shall be measured initially at acquisition or production cost and shall be presented in the financial statements in its net carrying amount, including grants related to assets (IAS 20).
Intangible assets with definite useful life are amortised using straight-line method. Amortization shall begin when the asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. The asset shall be amortised over the period reflecting its estimated useful life.
Standard useful lives of intangible assets are from 2 to 15 years for concessions, licenses, patents and similar and from 2 to 10 years for software.
The amortization method and useful life of intangible asset item are verified at least at the end of each year. When necessary, the adjustments to amortization expense are accounted for in the future periods (prospectively).
Intangible assets with an indefinite useful life shall not be amortised. Their value is decreased by the eventual impairment allowances. Additionally, the useful life of an intangible asset that is not being amortised shall be reviewed each period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset.
Recognition and reversal of impairment allowances on intangible assets is recognized in other operating activities.

3.3.10.1. Rights

Carbon dioxide emission rights (CO_2)

By the virtue of The Kyoto Protocol, the countries, which decided to ratify the Protocol, obliged themselves to reduce emissions of greenhouse gases, i.a. carbon dioxide (CO_2).
In the European Union countries, the plants and companies, which reach productivity exceeding 20 MW and some other industrial plants were obliged to participate in emissions trading system. They acquire emission rights to CO_2 or they are partially granted free of charge in a specified quantity under the derogations provided in Art. 10a and 10c of the EU Directive 2009/29/EC and are obliged to redeem them in a number corresponding to the size of emission realized in a given year.
CO_2 emission rights are initially recognized as intangible assets, which are not amortised (assuming the high residual value), but tested for impairment.
Granted emission allowances should be presented as intangible assets in correspondence with deferred income at fair value as at the date of registration (grant in scope of IAS 20). Purchased allowances should be presented as intangible assets at purchase price.
For the estimated CO_2 emission during the reporting period, a provision should be created (taxes and charges).
Grants should be recognized on a systematic basis to ensure proportionality with the related costs which the grants are intended to compensate.
Outgoing of allowances is recognized using FIFO method (First In, First Out) within the individual types of rights (EUA, ERU, CER).

3.3.11. Investments in related parties

Investments in subsidiaries, jointly controlled entities and associates that are not classified as held for sale (or not as a part of a disposal the company classified as held for sale in accordance with IFRS 5), are recognized at cost less impairment allowances.
Non repayable additional payments to equity with non-confirmed repayment date are presented in shares in the transferring payment entity and shall be treated as an investment.
Repayable additional payments to equity are initially recognized at fair value in the short-term or long-term receivables depending on the date of return, i.e. up to 12 months- a short-term receivables or more than 12 months as long-term receivables.
Recognition and reversal of impairment allowances of shares are presented in financing activities.

3.3.12. Impairment of non-current assets

The Company asses impairment possibility and estimates recoverable amount of property, plant and equipment, intangible assets and shares in related parties accordingly with IAS 36.
At the end of the reporting period, the Company assesses whether there are any indicators that an asset or cash-generating unit (CGU) may be impaired or any indicators that the previously recognized impairment should be reversed. If any indicator exists, the Company estimates the recoverable amount of such asset or CGU by determining the greater of its fair value less costs of disposal or value in use by applying the proper discount rate.
If any such indication exists, the Company estimates the recoverable amount of such asset or CGU by determined as higher of fair value less costs of disposal or value in use by applying the proper discount rate, depending on which one is higher.

3.3.13. Inventories

Inventories, including mandatory reserves comprise products, semi-finished products and work in progress, merchandise and materials.
Finished goods, semi-finished products and work in progress are measured initially at production cost. Production costs include costs of materials and costs of conversion for the production period. Costs of production include also a systematic allocation of fixed and variable production overheads estimated for normal production level.
Finished goods, semi-finished products and work in progress shall be measured at the end of the reporting period at the lower of cost and net realizable value, after deducting any impairment losses.
Outgoings of finished goods, semi-finished products and work in progress are determined based on the weighted average cost of production.
Merchandise and materials are measured initially at acquisition cost, while as at the end of the reporting period merchandise and raw materials are measured at the lower of cost and net realizable value, considering any impairment allowances.
Outgoings of merchandise and raw materials is determined based on the weighted average acquisition cost or production cost formula.
Impairment tests for specific items of inventories are carried out on a current basis during a reporting period. Write-down to net realizable value concerns inventories that are damaged or obsolete and the selling price have fallen.
Raw materials held for use in the production are not written down below acquisition or production cost if the products in which they will be incorporated are expected to be sold at or above cost. However, when a decline in the price of materials indicates that the cost of the products exceeds net realizable value, the materials are written down to net realizable value.
Recognition and reversal of impairment loss of inventories is recognized in cost of sales.

3.3.14. Receivables

Receivables, including trade receivables, are recognised initially at fair value increased by transaction costs and subsequently at amortised cost using the effective interest method less impairment allowances.
Impairment allowances of receivables are based on the individual analysis on the value of held collaterals, and based on the possible mutual compensation of debts.
Recognition and reversal of impairment allowances on receivables are recognized in other operating activity in relation to principal amount and in financial activities in relation to interest for delay payments.

3.3.15. Cash and cash equivalents

Cash comprises cash on hand and in a bank accounts. 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.
Valuation and outflows of cash and cash equivalents in foreign currencies are based on FIFO (First In First Out) method.

3.3.16. Equity

3.3.16.1. Share capital

The share capital is an equity paid by shareholders and is stated at nominal value in accordance with the Company's articles of association and the entry in the Commercial Register.
Share capital as at 31 December 1996, in accordance with IAS 29, § 24 and 25, was revalued based on monthly price indices of consumer goods and services.

3.3.16.2. Share premium

Share premium is created by the surplus of the issuance value in excess of the nominal value of shares decreased by issuance costs. Capital from issue of shares above their nominal value as at 31 December 1996, in accordance with IAS 29, § 24 and 25, was revalued based on monthly price indices of consumer goods and services.

3.3.16.3. Hedging reserve

Hedging reserve relates to valuation and settlement of hedging instruments that meet the criteria of cash flow hedge accounting. The Company applies cash flow hedge accounting to hedge commodity risk, exchange rate risk and interest rate risk. Changes in fair value, which are an ineffective part of the hedge relationship are recognised in statement of profit or loss.

3.3.16.4. Retained earnings

Retained earnings include:
- reserve capital created and used in accordance with the Commercial Companies Code,
- actuarial gains and losses from post-employment benefits,
- the current reporting period profit/loss,
- other capitals created and used according to the rules prescribed by law.

3.3.17. Liabilities

Liabilities, including trade liabilities, are initially measured at fair value, increased by, in case of financial liability not qualified as those measured at fair value through the profit or loss, transaction cost and subsequently at amortised cost using the effective interest rate method.

3.3.18. Provisions

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The provisions are reviewed on a regular basis during reporting period and adjusted to reflect the current best estimate.
Provisions are not recognised for the future operating losses.

3.3.18.1. 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 on the basis of contamination assessment.

3.3.18.2. Jubilee bonuses and post employment benefits

Under the remuneration plans employees of the Company are entitled to jubilee bonuses, paid to employees after elapse of a defined number of years in service as well as retirement and pension benefits, paid once at retirement or pension.
The amount of retirement and pension benefits as well as jubilee bonuses depends on the number of years in service and an employee's average remuneration.
The jubilee bonuses are other long-term employee benefits, whereas retirement and pension benefits are classified as post-employment defined benefit plans.
Provisions are determined by an independent actuary and revalued if there are any indications impacting their value, taking into account the staff turnover and planned growth of wages.
Actuarial gains and losses from post-employment benefits are recognised in components of other comprehensive income and from other employment benefits, including jubilee awards, are recognised in the statement of profit or loss.

3.3.18.3. Shield programs

Shield programs provision (restructuring provision) is created when the Company started to implement the restructuring plan or announced the main features of the restructuring plan to those affected by it in a sufficiently specific manner to raise a valid expectation in them that the restructuring will be carried out. A restructuring provision shall include only the direct expenditures arising from the restructuring, i.e. connected with the termination of employment (paid leave payments and compensations), termination of lease contracts, dismantling of assets.

3.3.18.4. CO_2 emissions costs

The Company recognize provision for the estimated CO_2 emission during the reporting period in operating activity costs (taxes and charges). Provision is recognized based on the value of allowances recognised in the statement of financial position, taking into account the principle of FIFO (first in, first out). If there is a shortage of allowances, the provision is created based on the purchase price of allowance concluded in forward contracts and market quotations at the reporting date.

3.3.18.5. Other provisions

Other provisions include mainly provisions for legal proceedings and are recognized after consideration of all available information, including the opinions of independent experts. The Company recognizes a provision if the existence of the obligation at the end of the reporting period, based on evidence is more likely than not.
If there is more likely that no obligation exists at the end of the reporting period, the Company discloses a contingent liability, unless the possibility of an outflow of resources embodying economic benefits is remote.

3.3.19. Government grants

Government grants are transfers of resources to the Company by government, government agencies and similar bodies in return for past or future compliance with certain conditions.
Government grants are recognized if there is reasonable assurance that the grants will be received and the entity will comply with the conditions attaching to them.
Grants for cost position (e.g. the cost of CO_2 emissions) are recognised as a reduction of costs as they are incurred. Surplus of received grant over the value of the relevant costs are recognised in other operating income.
Government grants related to assets, are recognized as a decrease of a carrying amount of an asset and as a revenue over the useful life of the amortised asset through the decreased depreciation and amortisation charges.

3.3.20. Statement of cash flows

The Company has chosen the presentation within the statement of cash flows and applies the following rules:
- cash flow from operating activities using the indirect method,
- the components of cash and cash equivalents in the statement of cash flows and statement of financial position are the same,
- dividends received are presented in cash flows from investing activities,
- dividends paid are presented in cash flows from financing activities,
- interest received due to financial leases, loans, bonds and cash pooling system (cash pool) presents in cash flows from investing activities, other interest received are presented in cash flows from operating activities,
- interest and commissions paid on bank loans and borrowings received, debt securities issued, cash pool, finance leases are presented in cash flows from financing activities, other interest paid is presented in cash flows from operating activities,
- inflows and outflows from the settlement of derivative financial instruments, which are not recognised as a hedging position are presented in investing activities.

3.3.21. Financial instruments

3.3.21.1. Measurement of financial assets and liabilities

At initial recognition, the Company measures financial assets and liabilities 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.
At the end of the reporting period the Company measures loans and receivables including trade receivables and investments held to maturity at amortised cost using effective interest rate method.
Effective interest is the rate which discounts estimated future cash flows or payments made in expected periods until financial instrument expiration, and in justified situations in shorter period, up to net book value of financial asset of financial liability. At the end of the reporting period the Company measures its financial liabilities at amortised cost using the effective interest rate method.

3.3.21.2. Transfers

In the Company there were no particular circumstances for the reclassification of the financial instruments measured at fair value through profit and loss.

3.3.21.3. Hedge accounting

Derivatives designated as hedging instruments whose cash flows are expected to offset changes in the cash flows of a hedged item are accounted for in accordance with the cash flow hedge accounting.
The Company assess effectiveness at the inception of the hedge and later, at minimum, at each reporting date. The Company assess hedge as effective, for external reporting purposes only if the actual results of the hedge are within a range of 80% - 125%.
The Company uses statistical methods, in particular regression analysis, to assess effectiveness of the hedge. The Company uses simplified analytical methods, when a hedged item and a hedging instruments are of the same nature i.a. maturity dates, amounts, changes affecting fair value risk or cash flow changes.
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 in other comprehensive income are reclassified to profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss. However, if the Company expects that all or a portion of a loss recognized in other comprehensive income will not be recovered in one or more future periods, it reclassifies to profit or loss the amount that is not expected to be recovered.
If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, or a forecast transaction for a non-financial asset or non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, the Company removes the associated gains and losses that were recognized in the other comprehensive income and includes them in the initial cost or other carrying amount of the asset or liability.
If a hedge of a forecast transaction results in the recognition of revenues from sales of products, merchandise, materials or services, the Company removes the associated gains or losses that were recognized in the other comprehensive income and adjusts these revenues.

3.3.22. Fair value measurement

The Company maximises the use of relevant observable inputs and minimizes the use of unobservable inputs to meet the the objective of fair value measurement, which is to estimate the price at which an orderly transaction to transfer the liability or equity instrument would take place between market participants as at the measurement date under current market conditions.
The Company measures derivative instruments at fair value using valuation models for financial instruments based on generally available exchange rates, interest rates, forward and volatility curves, for currencies and commodities quoted on active markets.
Fair value of derivatives is based on discounted future flows related to contracted transactions as a difference between term price and transaction price.
Forward rates of exchange are not modeled as a separate risk factor, but they are calculated as a result of spot rate and forward interest rate for foreign currency in relation to PLN.
Derivative instruments are presented as assets, when their valuation is positive and as liabilities, when their valuation is negative. Gains and losses resulting from changes in fair value of derivative instruments, for which hedge accounting is not applicable, are recognized in a current year profit or loss.
As compared to the previous reporting period the Company has not changed valuation methods concerning derivative instruments.

3.3.23. Lease

A lease is an agreement whereby a lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time. Particularly leases are the agreements defined in the Polish Civil Code as well as rent and tenancy agreements concluded for a definite time.
Assets used under the operating lease, that is under the agreement that does not transfer substantially all the risks and rewards incidental to ownership of an asset to the lessee, are recognised as assets of the lessor.
Determining whether the transfer of risks and rewards exists depends on the assessment of essence of the economic substance of the transaction.

4. Significant values based on professional judgement and estimates

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

In the matters of considerable weight, the Management Board might base its judgments, estimates or assumptions on opinions of independent experts. The judgments, estimates and related assumptions are verified on a regular basis.

4.1. Professional judgements

Financial instruments

The Management Board assesses the classification of financial instruments, nature and extent of risks related to financial instruments and application of the cash flow hedge accounting. The financial instruments are classified into different categories depending on the purpose of the purchase and nature of acquired asset. Additional information is presented in note 28.

4.2. Estimates

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

As described in note 3.3.9. and 3.3.10, The Company verifies useful lives of property, plant and equipment and intangible assets at least once at year end. Additional information is presented in notes 11.3 and 12.3.

Impairment of non-currents assets

The Management Board assesses whether there is any indicator for impairment of an asset or cash generating unit. If there is an impairment, the estimation of recoverable amount of an asset is made. Additional information, including the sensitivity analysis of value in use, is presented in notes 11.2, 12.2, 13, 15.

Impairment of inventories

If there is an impairment of inventory, estimation of the net realizable value of inventories is required.
Additional information is presented in note 16.

Impairment of trade and other receivables

The Management Board assesses whether there is any indicator for impairment of receivables taking into account the adopted internal procedures such as individual assessment of each customer with regard to credit risk.
Additional information is presented in note 17 and 28.5.2.

Provisions

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

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

EXPLANATORY NOTES TO OPERATING SEGMENTS

5. Operating segments

Accounting principles used in operating segments are in line with the accounting principles of the Company, described in note 3.3.2.
The Management Board of PKN ORLEN assesses the segment financial results and decides about allocation of resources based on segment profit from operations plus depreciation and amortisation (EBITDA).
Revenues from transactions with external customers and transactions with other segments are carried out at arm's length.

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

2014

	NOTE	Downstream Segment	Retail Segment	Upstream Segment	Corporate Functions	Adjustments	Total
Sales revenues from external customers		58 729	18 166	-	77	-	76 972
Sales revenues from transactions with other segments		13 378	-	-	76	(13 454)	-
Sales revenues	6	72 107	18 166	-	153	(13 454)	76 972
Operating expenses		(72 654)	(17 282)	(42)	(759)	13 454	(77 283)
Other operating income	8.1	122	159	-	30	-	311
Other operating expenses	8.2	(153)	(174)	-	(53)	-	(380)
Segment profit/(loss) from operations		**(578)**	**869**	**(42)**	**(629)**	**-**	**(380)**
Net finance income and costs	9						(4 500)
(Loss) before tax							**(4 880)**
Tax expense	10						208
Net (loss)							**(4 672)**
Depreciation and amortisation	7.2	**733**	**218**	**-**	**77**	**-**	**1 028**
EBITDA		**155**	**1 087**	**(42)**	**(552)**	**-**	**648**
Increases in investment expenditures (including borrowing costs)		**1 928**	**214**	**-**	**216**	**-**	**2 358**

2013

	NOTE	Downstream Segment (restated data)	Retail Segment	Upstream Segment	Corporate Functions (restated data)	Adjustments (restated data)	Total (restated data)
Sales revenues from external customers		65 340	18 631	-	69	-	84 040
Sales revenues from transactions with other segments		14 159	-	-	74	(14 233)	-
Sales revenues	6	79 499	18 631	-	143	(14 233)	84 040
Operating expenses		(79 196)	(17 898)	(37)	(742)	14 233	(83 640)
Other operating income	8.1	78	64	-	182	-	324
Other operating expenses	8.2	(80)	(81)	-	(106)	-	(267)
Segment profit/(loss) from operations		**301**	**716**	**(37)**	**(523)**	**-**	**457**
Net finance income and costs	9						175
Profit before tax							**632**
Tax expense	10						(14)
Net profit							**618**
Depreciation and amortisation	7.2	**728**	**210**	**-**	**84**	**-**	**1 022**
EBITDA		**1 029**	**926**	**(37)**	**(439)**	**-**	**1 479**
Increases in investment expenditures (including borrowing costs)		**743**	**338**	**-**	**92**	**-**	**1 173**

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

5.2. Other segment data

5.2.1. Assets by operating segment

	31/12/2014	31/12/2013 (restated data)
Downstream Segment	21 310	24 263
Retail Segment	3 433	3 493
Segment assets	**24 743**	**27 756**
Corporate Functions	13 235	14 307
	37 978	**42 063**

As at 31 December 2014, in Downstream segment, the Company recognized non-current assets held for sale such as granted free of charge yellow energy rights and acquired red and green energy rights amounted to PLN 38 million.
As at 31 December 2013, the Company did not have any non-current assets classified as held for sale.

Operating segments include all assets except for financial assets (presented in notes 14, 18, 19), shares in related parties (note 13) and tax assets (note 10.2). Assets used jointly by different operating segments are allocated based on revenues generated by particular operating segments.

5.2.2. Recognition and reversal of impairment allowances

	NOTE	Recognition 2014	Recognition 2013 (restated data)	Reversal 2014	Reversal 2013 (restated data)
Downstream Segment		(545)	(51)	15	4
Retail Segment		(94)	(36)	116	39
Impairment allowances by segments		**(639)**	**(87)**	**131**	**43**
Corporate Functions		(25)	(43)	20	23
Impairment allowances in operating activities	*8.1, 8.2,16.1*	**(664)**	**(130)**	**151**	**66**
Impairment allowances in financing activities	*9.1,9.2*	**(5 177)**	**(109)**	**215**	**8**
		(5 841)	**(239)**	**366**	**74**

Additional information about impairment allowances of non-current assets are presented in notes 8.2, 9.2 and note 15.

5.2.3. Geographical information

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

	NOTE	2014	2013
Poland		43 493	46 083
Germany		1 039	609
Czech Republic		11 853	9 358
Lithuania, Latvia, Estonia		16 136	22 679
Other countries		4 451	5 311
	6	**76 972**	**84 040**

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

As at 31 December 2014 and 31 December 2013 non-current assets of the Company, presented in notes 11, 12 were located in Poland.

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

5.3. Sales revenues

	NOTE	2014	2013 (restated data)
Downstream Segment*			
Light distillates		4 352	5 375
Medium distillates		12 891	14 898
Heavy fractions		2 637	2 927
Crude oil		29 558	32 080
Monomers		3 292	3 510
Aromas		754	776
PTA		1 767	2 048
Other		3 478	3 726
		58 729	**65 340**
Retail Segment			
Light distillates		5 732	5 780
Medium distillates		10 292	10 815
Other		2 142	2 036
		18 166	**18 631**
Corporate Functions		77	69
	6	**76 972**	**84 040**

*Additional information concerning restatement of segments' revenues in relation to changes in division of operating segments and implementation of new IFRS 11 – Joint Agreements is presented in note 3.2.4.

5.4. Information about major customers

In 2014 and 2013, the Company generated revenues from sale of products and finished goods in the Downstream segment from three customers of PLN 39,830 million and PLN 43,849 million respectively, which individually exceeded 10% of total revenues from sales. These customers were entities related to PKN ORLEN.

EXPLANATORY NOTES TO PROFIT OR LOSS STATEMENT

6. Sales revenues

	2014	2013
Sales of finished goods	41 724	46 953
Sales of services	481	442
Revenues from sales of finished goods and services	**42 205**	**47 395**
Sales of merchandise	32 509	35 583
Sales of raw materials	2 258	1 062
Revenues from sales of merchandise and raw materials	**34 767**	**36 645**
	76 972	**84 040**

7. Operating expenses

7.1. Cost of sales

	2014	2013
Cost of finished goods and services sold	(40 031)	(44 599)
Cost of merchandise and raw materials sold	(34 252)	(36 214)
	(74 283)	**(80 813)**

7.2. Cost by nature

	2014	2013
Materials and energy	(37 218)	(43 301)
Cost of merchandise and raw materials sold	(34 252)	(36 214)
External services	(2 366)	(2 226)
Employee benefits	(681)	(650)
Depreciation and amortisation	(1 028)	(1 022)
Taxes and charges	(429)	(390)
Other	(611)	(473)
	(76 585)	**(84 276)**
Change in inventories	(1 104)	194
Cost of products and services for own use	26	175
Operating expenses	**(77 663)**	**(83 907)**
Distribution expenses	2 177	2 090
Administrative expenses	823	737
Other operating expenses	380	267
Cost of sales	**(74 283)**	**(80 813)**

In 2014 and 2013 external services included research and development expenditures of PLN (8) million.

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

7.3. Employee benefits costs

	2014	2013
Payroll expenses	(549)	(543)
Future benefits expenses	(10)	12
Social security expenses	(88)	(89)
Other employee benefits expenses	(34)	(30)
	(681)	**(650)**

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

8. Other operating income and expenses

8.1. Other operating income

	NOTE	2014	2013
Profit on sale of non-current non-financial assets		29	68
Reversal of provisions		31	6
Reversal of receivables impairment allowances	*5.2.2, 17.1*	24	19
Reversal of impairment allowances of property, plant and equipment and intangible assets	*5.2.2, 11.2, 12.2*	117	44
Penalties and compensations earned		29	63
Other		81	124
		311	**324**

The line 'other' in 2014 includes mainly the effect of recognition of property rights, so called yellow and red energy certificates for the period from 30 April to 31 December 2014 of PLN 48 million, the impact of CO_2 emission rights prices fluctuation on the value of CO_2 emission cost of PLN 9 million.
In 2013, this line consisted mainly income resulting from the tax authority's decision concerning the refund of excise tax paid by PKN ORLEN in previous years, and liabilities correction due to fuel charge from RME of PLN 65 million.

8.2. Other operating expenses

	NOTE	2014	2013
Loss on sale of non-current non-financial assets		(49)	(26)
Recognition of provisions		(113)	(58)
Recognition of receivables impairment allowances	*5.2.2, 17.1*	(49)	(36)
Recognition of impairment allowances of property, plant and equipment and intangible assets	*5.2.2, 11.2, 12.2*	(95)	(86)
Costs of fines, losses and compensation		(11)	(12)
Other		(63)	(49)
		(380)	**(267)**

Additional information about the change in provisions is presented in note 22.
In 2014 and 2013 the line "other" comprises mainly the settlement of inventory count differences and costs of disposal of current assets and costs of insurance of receivables amounted to PLN (34) million and PLN (27) million respectively.

9. Net finance income and costs

	2014	2013
Interest	(168)	(181)
Foreign exchange (loss)/gain surplus	(513)	214
Dividends	1 092	220
Profit on disposal of shares	34	8
Settlement and valuation of derivative financial instruments	1	4
Reversal of receivables impairment allowances	5	2
Recognition of impairment allowances of shares in related parties	(4 967)	(103)
Other	16	11
	(4 500)	**175**

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

9.1. Finance income

	NOTE	2014	2013
Interest		94	112
Foreign exchange gain surplus		-	214
Dividends	*34.4*	1 092	220
Profit on disposal of shares		34	8
Settlement and valuation of derivative financial instruments		15	13
Reversal of receivables impairment allowances	*5.2.2,17.1*	7	8
Reversal of impairment allowances on loans granted	*5.2.2*	208	-
Other		27	14
		1 477	**589**

9.2. Finance costs

	NOTE	2014	2013
Interest		(262)	(293)
Foreign exchange loss surplus		(513)	-
Settlement and valuation of derivative financial instruments		(14)	(9)
Recognition of receivables impairment allowances	*5.2.2,17.1*	(2)	(6)
Recognition of impairment allowances of shares in related parties	*5.2.2,15*	(4 967)	(103)
Recognition of impairment allowances on loans granted	*5.2.2*	(208)	-
Other		(11)	(3)
		(5 977)	**(414)**

Additional information about impairment allowances of shares in related entities is presented in note 5.2.2 and 15.

10. Tax expense

	2014	2013
Tax expense in the statement of profit or loss		
Current tax expense	(2)	94
Deferred tax	210	(108)
	208	**(14)**
Deferred tax recognized in other comprehensive income		
Hedging instruments	361	(56)
Actuarial gains and losses	2	-
	363	**(56)**
	571	**(70)**

10.1. The differences between tax expenses recognised in profit or loss and the amount calculated based on profit/(loss) before tax

	2014	2013
Profit/(Loss) before tax	**(4 880)**	**632**
Corporate tax expense for 2014 and 2013 by the valid tax rate	927	(120)
Impairment allowances for shares in related parties	(944)	-
Current tax adjustment relating to previous years	(2)	97
Dividends received	208	42
Other	19	(33)
Tax expense	**208**	**(14)**
Effective tax rate	**4%**	**2%**

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

10.2. Deferred tax

	31/12/2013	Deferred tax recognized in statement of profit or loss	Deferred tax recognized in other comprehensive income	31/12/2014
Deferred tax assets				
Impairment allowances	80	76	-	156
Provisions and accruals	181	(8)	2	175
Unrealized foreign exchange differences	29	27	-	56
Tax loss	-	191	-	191
Valuation of financial instruments	-	-	321	321
Other	37	10	-	47
	327	**296**	**323**	**946**
Deferred tax liabilities				
Investment relief	39	(3)	-	36
Difference between carrying amount and tax base of non-current assets	595	93	-	688
Surplus of contribution in kind over the value of shares	43	-	-	43
Valuation of financial instruments	41	(1)	(40)	-
Other	13	(3)	-	10
	731	**86**	**(40)**	**777**
	(404)	**210**	**363**	**169**

EXPLANATORY NOTES TO THE STATEMENT OF FINANCIAL POSITION

11. Property, plant and equipment

	31/12/2014	31/12/2013
Land	442	284
Buildings and constructions	6 584	6 637
Machinery and equipment	4 269	4 216
Vehicles and other	385	334
Construction in progress	1 785	626
	13 465	**12 097**

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

11.1. Changes in property, plant and equipment by class

	Land	Buildings and constructions	Machinery and equipment	Vehicles and other	Construction in progress	Total
01/01/2014 Net carrying amount						
Gross carrying amount	288	11 007	9 996	710	637	**22 638**
Accumulated depreciation and impairment allowances	(4)	(4 369)	(5 780)	(376)	(11)	**(10 540)**
Government grants	-	(1)	-	-	-	**(1)**
	284	**6 637**	**4 216**	**334**	**626**	**12 097**
increases/(decreases), net						
Investment expenditures	-	24	92	8	2 166	2 290
Depreciation	-	(410)	(486)	(77)	-	(973)
Borrowing costs	-	3	2	-	25	30
Impairment allowances	-	29	(4)	(1)	(1)	23
Reclassifications	158	318	486	164	(1 027)	99
Liquidation	-	(16)	(22)	(43)	-	(81)
Government grants – received, settled	-	-	(13)	-	-	(13)
Other increases/(decreases)	-	(1)	(2)	-	(4)	(7)
31/12/2014 Net carrying amount	**442**	**6 584**	**4 269**	**385**	**1 785**	**13 465**
Gross carrying amount	446	11 289	10 345	742	1 797	**24 619**
Accumulated depreciation and impairment allowances	(4)	(4 704)	(6 063)	(357)	(12)	**(11 140)**
Government grants	-	(1)	(13)	-	-	**(14)**
	442	**6 584**	**4 269**	**385**	**1 785**	**13 465**
01/01/2013 Net carrying amount						
Gross carrying amount	276	10 733	9 756	707	444	**21 916**
Accumulated depreciation and impairment allowances	(1)	(4 009)	(5 424)	(361)	(32)	**(9 827)**
Government grants	-	(1)	-	-	-	**(1)**
	275	**6 723**	**4 332**	**346**	**412**	**12 088**
increases/(decreases), net						
Investment expenditures	-	16	77	2	1 051	1 146
Depreciation	-	(418)	(485)	(74)	-	(977)
Borrowing costs	-	4	1	-	8	13
Impairment allowances	(3)	10	-	-	21	28
Reclassifications	12	335	294	88	(843)	(114)
Sale	-	(18)	-	-	-	(18)
Liquidation	-	(13)	(4)	(27)	(21)	(65)
Other increases/(decreases)	-	(2)	1	(1)	(2)	(4)
31/12/2013 Net carrying amount	**284**	**6 637**	**4 216**	**334**	**626**	**12 097**

In 2014 and in 2013 capitalization rate used to calculate borrowing costs amounted to 2.7% per annum and 3.1% per annum, respectively.

11.2. Changes in impairment allowances of property, plant and equipment

	NOTE	Land	Buildings and constructions	Machinery and equipment	Vehicles and other	Construction in progress	Total
01/01/2014		4	183	15	1	11	214
Recognition	*8.2*	-	80	12	2	1	95
Reversal	*8.1*	-	(105)	(7)	(1)	-	(113)
Usage		-	(4)	(1)	-	-	(5)
		4	**154**	**19**	**2**	**12**	**191**
increases/(decreases), net		-	(29)	4	1	1	(23)
01/01/2013		1	193	15	1	32	242
Recognition	*8.2*	3	29	4	2	1	39
Reversal	*8.1*	-	(38)	(4)	-	(1)	(43)
Usage		-	(1)	-	(2)	(21)	(24)
		4	**183**	**15**	**1**	**11**	**214**
increases/(decreases), net		3	(10)	-	-	(21)	(28)

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

11.3. Other information regarding property, plant and equipment

	NOTE	31/12/2014	31/12/2013
The gross carrying amount of all fully depreciated property, plant and equipment still in use		1 458	1 505
The net carrying amount of withdrawn from use property, plant and equipment and not classified as held for sale		11	11
Impairment of property, plant and equipment withdrawn		(47)	(44)
The net carrying amount of property, plant and equipment in finance lease	*30.1*	98	81

Should the economic useful lives of property, plant and equipment from 2013 be applied in 2014, the depreciation expense would be higher by PLN 38 million.
PKN ORLEN has grants for financing the investment projects under allocated free CO_2 emission rights for the electricity sector (i.e. derogations for the energy industry).

12. Intangible assets

	NOTE	31/12/2014	31/12/2013
Other intangible assets		334	439
Patents, trade marks and licenses		*190*	*212*
Rights	*12.4*	*57*	*149*
Other		*87*	*78*
		334	**439**

As at 31 December 2014 and 31 December 2013 the Company has no internally generated intangible assets.

12.1. The changes in other intangible assets

	Patents, trade marks and licenses	Rights	Other	Total
01/01/2014 **Net carrying amount**				
Gross carrying amount	562	206	79	**847**
Accumulated amortisation and impairment allowances	(350)	(57)	(1)	**(408)**
	212	**149**	**78**	**439**
increases/(decreases), net				
Investment expenditures	19	-	18	37
Amortisation	(44)	-	(10)	(54)
Borrowing costs	-	-	1	1
Impairment allowances	4	-	-	4
Reclassifications	-	(34)	-	(34)
Sale	-	(218)	-	(218)
Liquidation	(1)	-	-	(1)
Other increases/(decreases)	-	160	-	160
31/12/2014 **Net carrying amount**	**190**	**57**	**87**	**334**
Gross carrying amount	567	114	98	**779**
Accumulated amortisation and impairment allowances	(377)	(57)	(11)	**(445)**
	190	**57**	**87**	**334**
01/01/2013 **Net carrying amount**				
Gross carrying amount	535	395	1	**931**
Accumulated amortisation and impairment allowances	(312)	(15)	(1)	**(328)**
	223	**380**	**-**	**603**
increases/(decreases), net				
Amortisation	(44)	-	-	(44)
Borrowing costs	2	-	-	2
Impairment allowances	(4)	(42)	-	(46)
Reclassifications	36	-	78	114
Sale	-	(40)	-	(40)
Other increases/(decreases)	(1)	(149)	-	(150)
31/12/2013 **Net carrying amount**	**212**	**149**	**78**	**439**

Other increases/(decreases) of property rights in the net book value consist mainly of purchase, acquisition free of charge and settlement of rights for 2014 and 2013. Additional information is presented in note 12.4.

PKN ORLEN S.A. (in PLN million)

12.2. Changes in impairment allowances of other intangible assets

As at 31 December 2014 and 31 December 2013 there were no significant changes in impairment losses of intangible assets. As a result, the Company withdrew from detailed presentation.
For 2014 and 2013 the reversal of impairment losses amounted to PLN 4 million and PLN 1 million respectively, while in 2013, recognition of impairment losses amounted to PLN (47) million.

12.3. Other information on intangible assets

	31/12/2014	31/12/2013
The gross carrying amount of all fully amortised intangible assets still in use	140	151
The net carrying amount of intangible assets with indefinite useful life	5	5
The net carrying amount of intangible assets of withdrawn from use and not classified as held for sale	-	1

Should the economic useful lives of intangible assets from 2013 be applied in 2014, amortisation expense would be higher by PLN 2 million.
Net book value of intangible assets with an indefinite useful life includes expenses related to registration of produced or imported chemicals, so called REACH (*Registration, Evaluation, Authorization and Restriction of Chemicals)*.

12.4. Rights

12.4.1. CO_2 emission rights

Change in CO_2 emission rights in 2014

	Quantity (in thous. tonnes)	Value
01/01/2014	4 977	139
Granted free of charge for 2013 and 2014	7 429	151
Settled for 2013	(6 273)	(156)
Purchase/(Sale), net	(3 242)	(78)
	2 891	**56**
CO_2 emission in 2014	5 789	145

In connection with the forecasted shortage of allowances for the years 2013-2020, the Company entered into transactions to hedge future purchase price of allowances. The concluded transactions cover a substantial part of the expected shortage for the period.

As at 31 December 2014 the market value of one EUA amounted to PLN 30.86 (representing EUR 7.24 at exchange rate as at 31 December 2014) (source*:* www.theice.com).
Additionally, as at 31 December 2014 the Company recognized the rights to so called colorfull energy of PLN 1 million.

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

13. Shares in related parties

	Seat	31/12/2014	31/12/2013	Company's share in share capital /of total number of votes on 31/12/2014	Company's share in share capital /of total number of votes on 31/12/2013	Principal activity
Subsidiaries and jointly controlled entities						
UNIPETROL a.s.	Czech Republic - Prague	1 813	1 813	62.99%	62.99%	asset management of the Unipetrol Group
AB ORLEN Lietuva	Lithuania – Juodeikiai	835	4 542	100.00%	100.00%	crude oil processing, production of refining products and whole sale
ORLEN Deutschland GmbH	Germany - Elmshorn	504	504	100.00%	100.00%	asset management and retail fuel sale
Basell ORLEN Polyolefins Sp. z o.o.	Poland – Plock	454	454	50.00%	50.00%	production, distribution and sale of polyolefins
Anwil S.A.	Poland – Wloclawek	399	399	100.00%	100.00%	production of nitrogen fertilizers, plastic and chemicals
ORLEN Oil Sp. z o.o.	Poland – Cracow	161	58	100.00%	51.69%	production, distribution and sale of grease oils, maintenance liquids
Rafineria Trzebinia S.A. [1]	Poland – Trzebinia	156	109	99.46%	86.35%	crude oil processing, production and sale of biofuels, oils
ORLEN Asfalt Sp. z o.o.	Poland – Plock	90	50	100.00%	82.46%	manufacture and sale of road bitumens and specific bitumen products
Rafineria Nafty Jedlicze S.A. [1]	Poland – Jedlicze	88	88	100.00%	100.00%	crude oil processing, waste oils regeneration, production and sale of oil bases, heating oils
ORLEN Paliwa Sp. z o.o.	Poland – Plock	84	84	100.00%	100.00%	liquid fuels trade
Petrolot Sp. z o. o.	Poland - Warsaw	68	68	100.00%	100.00%	aviation refueling services
AB Ventus-Nafta	Lithuania - Vilnius	61	-	100.00%	-	retail sales of petroleum products
Inowrocławskie Kopalnie Soli "SOLINO" S.A.	Poland – Inowroclaw	48	48	100.00%	100.00%	storage of crude oil, fuels and gases, extraction and supply of brine
ORLEN KolTrans Sp. z o.o.	Poland – Plock	41	41	99.85%	99.85%	rail services
ORLEN PetroTank Sp. z o.o.	Poland – Widelka	36	36	100.00%	100.00%	distribution and sale of liquid fuels
Płocki Park Przemysłowo-Technologiczny S.A.	Poland – Plock	32	32	50.00%	50.00%	real estate rental
ORLEN Projekt S.A.	Poland – Plock	28	28	99.77%	99.77%	design services in the refining, petrochemical, chemical, environmental protection, energy
ORLEN Upstream Sp. z o.o.	Poland - Warsaw	25	25	100.00%	100.00%	exploration and prospecting of hydrocarbon deposits, extraction of crude oil and natural gas
ORLEN Gaz Sp. z o.o.	Poland – Plock	25	25	100.00%	100.00%	wholesale of liquid gas, distribution of gas in cylinders
ORLEN Eko Sp. z o.o.	Poland – Plock	23	23	100.00%	100.00%	waste management, processing of nonmetallic waste
ORLEN Transport S.A.	Poland – Plock	22	22	100.00%	100.00%	transport services
Other subsidiaries		68	74			
Repayable additional payments to equity of subsidiaries		**1 672**	**1 123**			
ORLEN Upstream Sp. z o.o.		*1 611*	*1 053*			
ORLEN Eko Sp. z o.o.		*35*	*35*			
Other		*26*	*35*			
		6 733	**9 646**			

1) from 05.01.2015 ORLEN Południe S.A.

As at 31 December 2014 and as at 31 December 2013 impairment allowances of shares in related parties amounted to PLN 8,675 million and PLN 3,815 million respectively and related mainly to impairment of shares in AB ORLEN Lietuva
Additional information about impairment allowances is presented in note 15.

14. Other non-current assets

	NOTE	31/12/2014	31/12/2013
Cash flow hedge instruments		302	122
currency forwards		*16*	*-*
commodity swaps		*286*	*94*
currency interest rate swaps		*-*	*16*
interest rate swaps		*-*	*12*
Receivables due to sale of non-current non-financial assets	*28.5.2*	-	8
Loans granted		668	905
		970	**1 035**

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

15. Impairment of non-current assets

The observed in the II half of 2014 decline in crude oil prices on the global markets and prices forecasts affects the result of the Upstream segment and the impairment of evaluation and extraction of mineral resources assets recognized as at 31 December 2014 in the Canadian TriOil Resources Ltd. ("TriOil"), belonging to the ORLEN Upstream Group – which is a part of Capital Group of Polski Koncen Naftowy ("ORLEN Group", "Group", "Capital Group"). As at 31 December 2014 the fair value of evaluation and extraction of mineral resources assets in Canada was determined based on the projected crude oil prices and reserves evaluation developed by an independent company in accordance with professional standards for the Canadian market. Impairment allowance of assets resulted in decrease of equity of ORLEN Upstream Group and consequently PKN ORLEN recognized impairment allowance of payment to ORLEN Upstream equity (parent company of ORLEN Upstream Group) of PLN (217) million.

The Company's results for the 12 months of 2014 include the impairment allowances recognized as a result of the impairment tests carried out as at 30 June 2014 in accordance with IAS 36 – impairment of assets.

As at 30 June 2014, an impairment indicators were identified in the Company and resulted from the deterioration of the macroeconomic situation and the lack of prospects for its improvement, particularly in the refinery area. Limited fuel consumption due to lasting economic crisis, excess of global capacity increasing products' supply and growing pressure on margins resulting from shale gas revolution in America and economic changes in Russia have led to an update of assumptions of the Parent Company's and Group's Strategy and Mid-term Plan for years 2014-2017.

During development of assumptions to impairment tests, in accordance with IAS 36 – impairment of assets, the possibility of estimation of the fair value and value in use of individual assets of the Company was considered. The measurement of fair value less cost of disposal is not possible because there is no basis for making a reliable estimate of the price, at which an orderly transaction to sell the asset owned by the Company would be executed. As a result, it was assumed that the best estimate of the recoverable amount of particular Company's assets is its value in use, according to IAS 36.20.

As at 30 June 2014, the analysis were conducted based on the Mid-term Plan for 2014-2017 and after the period of financial projections a constant growth rate of cash flows was adopted estimated separately for each relevant geographic markets at the level of long-term inflation.
While determining the value in use, future cash flows are discounted to their present value with a discount rate before tax that represents current market valuation of time value of money as well as the common risk allocated to the relevant asset.
The discount rate is calculated as the weighted average cost of capital of equity and debt. The source for macroeconomic indicators necessary to determine the discount rate were based on publications of prof. Aswath Damodaran (source: http://pages.stern.nyu.edu), the official listing of treasury bonds and rating agencies available as at 30 June 2014.

The discount rate structure used in the impairment tests of assets by cash-generating unit as at 30 June 2014

	Poland				Czech Republic			Lithuania		Canada	Germany
	Refining	Petrochemical	Retail	Upstream	Refining	Petrochemical	Retail	Refining	Retail	Upstream	Retail
Cost of equity	13.10%	11.41%	11.61%	11.85%	10.72%	9.10%	9.28%	13.99%	12.24%	10.20%	7.40%
Cost of debt after tax	4.25%	4.25%	4.25%	4.25%	2.58%	2.58%	2.58%	4.92%	4.92%	2.89%	1.65%
Capital structure	0.51	0.15	0.74	0.41	0.51	0.15	0.74	0.51	0.74	1.56	0.74
Nominal discount rate	**10.13%**	**10.46%**	**8.47%**	**9.62%**	**7.99%**	**8.23%**	**6.43%**	**10.94%**	**9.12%**	**5.75%**	**4.95%**
Long-term rate of inflation	2.22%	2.22%	2.22%	2.22%	1.96%	1.96%	1.96%	2.20%	2.20%	2.08%	1.40%

Cost of equity is determined by the profitability of the government bonds that are considered to be risk-free, with the level of market and operating segment risk premium (beta). Cost of debt includes the average level of credit margins and expected market value of money for each country. The analysis periods were separately determined for each cash-generating unit on the basis of the expected useful life.

15.1. Impairment of shares in related parties

For the purpose of impairment test of shares each related party is treated as a separate cash-generating unit (CGU).

Valuation was conducted on the basis of cash flows included in the Mid-Term Plan for years 2014-2017 and by determining the residual value after this period. The calculation considered changes in net working capital and value of net debt.

As a result of analysis performed as at 30 June 2014, the Company recognized the impairment allowance of shares in AB Orlen Lietuva and loan granted to AB Orlen Lietuva amounted to total PLN (4,750) million. In IV quarter of 2014 due to repayment the loan by AB ORLEN Lietuva, impairment allowance of PLN 208 million was reversed and simultaneously recognized in the same amount in relation to shares of AB ORLEN Lietuva.

As at 31 December 2014 the Company did not identify new impairment indicators of shares in related parties.

Sensitivity analysis of the AB ORLEN Lietuva shares value in use as at 30 June 2014

The major elements that influence the amount of the value in use of assets within the individual cash-generating unit are: operating profit before depreciation and amortisation (i.e. EBITDA ratio) and the discount rate.
The sensitivity of changes of the above factors on the impairment allowances of AB ORLEN Lietuva shares and loan granted are presented below.

15. Impairment of non-current assets continued

in PLN million — EBITDA

DISCOUNT RATE change	-5%	0%	5%
- 0.5 p.p.	*increase in allowance* (143)	*decrease in allowance* 67	*decrease in allowance* 277**
0.0 p.p.	*increase in allowance* (204)	-	*decrease in allowance* 204
+ 0.5 p.p.	*increase in allowance* (262)*	*increase in allowance* (62)	*decrease in allowance* 137

*Application of the above assumptions would cause additional impairment allowance of loan granted to AB ORLEN Lietuva of PLN (262) million.

**Application of the above assumptions would decrease of allowance of shares of PLN 69 million and no impairment allowance of loan granted to AB ORLEN Lietuva.

In 2013 the Company recognized impairment allowance of shares in Orlen International Exploration & Production Company BV. Impairment allowance of PLN (103) million was based on a technical analysis of the KAMBR project stating the lack of hydrocarbon saturation.

Detailed information about the current status of the stock and shares in related parties are presented in note 13.

15.2. Impairment allowances of property, plant and equipment and intangible assets

For the purpose of impairment test of property, plant and equipment and intangible assets in the financial projections of future cash flows, all necessary corrections concerning the level and capital expenditures effect were included. Calculations includes changes of net working capital.

The period of analysis for particular cash-generating units, the equivalent of segments separated within the Company, was established on the basis of the planned useful life of main assets for each segment.
For the cash-generating units within the CGU Refinery and CGU Petrochemicals, useful life of 25 years was assumed.
For the units within the CGU Retail, average useful life of 15 years was assumed.

After a period of 5 years, covered by the financial projections, a constant growth rate of cash flows was assumed, estimated individually for particular geographic markets at the level of long-term inflation.

Sensitivity analysis of the Company value in use as at 30 June 2014

The major elements that influence the amount of the value in use of assets within the individual cash-generating unit are: operating profit before depreciation and amortisation (i.e. EBITDA ratio) and the discount rate.
The sensitivity of changes of the above factors on the impairment allowances are presented below. Appling of the above assumptions would cause impairment allowance of Refinery CGU.

in PLN million — EBITDA

DISCOUNT RATE change	-5%	0%	5%
- 0.5 p.p.	*increase in allowance* (97)	*lack of impairment* -	*lack of impairment* -
0.0 p.p.	*increase in allowance* (540)	-	*lack of impairment* -
+ 0.5 p.p.	*increase in allowance* (952)	*increase in allowance* (381)	*lack of impairment* -

In 2014, the Company recognised an impairment loss of property, plant and equipment in the amount of PLN (95) million, mainly due to impairment loss of assets in the Retail segment.
As at 31 December 2014, the Company did not identify any new impairment indicators of other Company's assets.

In 2013 the Company recognised an impairment loss of property, plant and equipment of PLN (39) million and impairment of intangible assets of PLN (47) million mainly due to impairment of energy rights.

Detailed information about the value of recognition and reversal of impairment losses of non-financial assets are presented in notes 5,11,12.

16. Inventories

	NOTE	31/12/2014	31/12/2013
Raw materials		2 473	4 249
Work in progress		552	538
Finished goods		3 058	4 176
Merchandise		196	195
Spare parts		218	225
Inventories, net		**6 497**	**9 383**
Impairment allowances of inventories to net realisable value	*16.1*	522	15
Inventories, gross		**7 019**	**9 398**

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

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

	2014	2013
At the beginning of the period	15	12
Recognition	520	8
Reversal	(10)	(3)
Usage	(3)	(2)
	522	**15**

16.2. Mandatory reserves

Obligation to maintain mandatory reserves of crude oil and oil derivative products in European Union (EU) is defined by Council Directive 2009/119/WE of 14 September 2009, which requires Member States to hold the minimum level of mandatory reserves.

In Poland regulations regarding mandatory reserves require an obligation to held the mandatory reserves between entities producing or importing the crude oil and the specialized state agencies.

PKN ORLEN uses solutions developed in the previous years, that include sale of the part of the mandatory reserves to the third party and outsourcing keeping the mandatory reserves in favour of PKN ORLEN. The selling prices and the repurchase prices of reserves are determined basing on the market quotations. PKN ORLEN concluded transactions hedging future prices of crude oil in case of repurchase of mandatory reserves – detailed information is presented in note 28.4.

Hedging crude oil price expressed in USD, PKN ORLEN uses commodity swaps and currency forwards. As at 31 December 2014 positive valuation of currency forwards was recognized in other financial assets of PLN 141 million (note 18), whereas negative value of commodity swaps was recognized in other financial liabilities, both long- and short-term (note 23 and 26) of PLN (1,530) million. Net effect of PLN (1,125) million of the above mentioned valuations after consideration of deferred tax impact was recognized in equity in the position: hedging reserve (note 20.3).

As at 31 December 2013 the Company recognized in other financial assets, both short- and long-term (note 14 and 18) positive valuation of commodity swaps of PLN 169 million, whereas the negative value of currency forward was recognized in other financial liabilities (note 26) of PLN (12) million. Net effect of the above mentioned valuations after consideration of deferred tax impact of PLN 127 million in equity in the position: hedging reserve (note 20.3.).

Each of these transactions were approved by Material Reserves Agency. In the period from 1 January 2013 till the publication of the foregoing separate financial statements, the following contracts of sale/repurchase of mandatory reserves were concluded:

No.	transaction date	parties of the transaction		value of the transaction	
		seller	buyer	million USD	million PLN*
1	28 March 2013	Ashby	PKN	**404**	**1 318**
				including hedging transaction settlement	
				38	*124*
2	27 June 2013	PKN	Neon	**314**	**1 045**
3	28 January 2014	Whirlwind	PKN	**385**	**1 189**
				including hedging transaction settlement	
				(11)	*(34)*
4	26 June 2014	PKN	Cranbell	**736**	**2 236**
5	29 January 2015	Neon	PKN	**257**	**959**
				including hedging transaction settlement	
				112	*419*

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

As at 31 December 2014 and as at 31 December 2013 the value of mandatory reserves of the Company amounted to PLN 3,584 million and PLN 6,205 million.

17. Trade and other receivables

	NOTE	31/12/2014	31/12/2013
Trade receivables		4 298	5 438
Receivables due to sale of non-current non-financial assets		-	1
Receivables due to sale of non-current financial assets		-	25
Other		14	61
Financial assets	*28.5.2*	**4 312**	**5 525**
Excise tax and fuel charge receivables		106	115
Other taxation, duty and social security receivables		85	120
Advances for non-current non-financial assets		330	286
Energy rights		14	69
Prepayments for deliveries		18	12
Prepayments		89	121
Non-financial assets		**642**	**723**
Receivables, net		**4 954**	**6 248**
Receivables impairment allowance	*17.1*	293	284
Receivables, gross		**5 247**	**6 532**

As at 31 December 2014 and as at 31 December 2013 trade and other receivables denominated in foreign currencies amounted to PLN 2,064 million and PLN 2,419 million.
Breakdown of receivables from related parties is presented in note 34.4.
Breakdown of financial assets denominated in foreign currencies was presented in note 28.5.1.2.1.

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

17.1. Change in impairment allowances of trade and other receivables

	NOTE	2014	2013
At the beginning of the period		284	279
Recognition	8.2, 9.2	51	42
Reversal	8.1, 9.1	(31)	(27)
Usage		(11)	(10)
		293	**284**

18. Other financial assets

	31/12/2014	31/12/2013
Cash flow hedge instruments	556	143
currency forwards	*178*	*65*
commodity swaps	*378*	*78*
Derivatives not designated as hedge accounting	4	-
currency forwards	*4*	-
Embedded derivatives	1	3
currency swaps	*1*	*3*
Bonds	96	-
Loans granted	356	570
Cash pool	193	258
	1 206	**974**

19. Cash

	31/12/2014	31/12/2013
Cash on hand and in bank (including cash in transit)	3 475	2 072
	3 475	**2 072**
including restricted cash	2	2

20. Shareholders' equity

20.1. Share capital

In accordance with the Polish Commercial Register, the share capital of Polski Koncern Naftowy ORLEN S.A. as at 31 December 2014 and as at 31 December 2013 amounted to PLN 535 million. It is divided into 427,709,061 ordinary shares with nominal value of PLN 1.25 each. As at 31 December 2014 and 31 December 2013, the number of shares issued and the number of shares approved for issuance is equal. As at 31 December 2014 and as at 31 December 2013 the share capital consist of the following series of shares:

Number of shares issued				
A Series	B Series	C Series	D Series	Total
336 000 000	6 971 496	77 205 641	7 531 924	**427 709 061**

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

	31/12/2014	31/12/2013
Share capital	535	535
Share capital revaluation adjustment	523	523
	1 058	**1 058**

20.2. Share premium

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

	31/12/2014	31/12/2013
Nominal share premium	1 058	1 058
Share premium revaluation adjustment	169	169
	1 227	**1 227**

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

20.3. Hedging reserve

Change in equity due to hedge accounting

	2014	2013
At the beginning of the period	**168**	**(69)**
gross value	*208*	*(85)*
deferred tax	*(40)*	*16*
Settlement of hedge instruments	**(179)**	**70**
sales revenues	*(139)*	*(58)*
foreign exchange differences	*(12)*	*(38)*
interest	*4*	*43*
construction in progress	*1*	*(1)*
inventories	*(33)*	*124*
Valuation of hedge instruments	**(1 720)**	**223**
Deferred tax from settlement and valuation of hedge instruments	**361**	**(56)**
	(1 370)	**168**
gross value	*(1 691)*	*208*
deferred tax	*321*	*(40)*

Additional information is presented in note 3.3.21.3 and 28.4.

20.4. Retained earnings

	31/12/2014	31/12/2013
Reserve capital	19 234	19 178
Other capital	830	884
Actuarial gains and losses	(5)	2
Net profit/(loss) for the period	(4 672)	618
	15 387	**20 682**

20.5. Suggested distribution of the Company's loss for 2014 and the recommendation regarding dividend payment in 2015

Improved financial situation of the ORLEN Group achieved in the recent years enabled to implement, within the ORLEN Group's Strategy for years 2014-2017, the dividend policy which assumes a gradual increase in the level of dividend per share by taking into account the implementation of strategic financial indicators and forecasts of the macroeconomic situation. This method does not relate the dividend to net profit, which in the ORLEN Group's area of operations is the subject to high fluctuations and can include non-cash items, such as the revaluation of assets, inventories or loans, and as a result does not fully reflect the Group's current financial position.

Taking the above into account, the Management Board of PKN ORLEN recommends to cover the net loss for 2014 of PLN (4,671,826,145.06) from the reserve capital of the Company.

Simultaneously, the Management Board of PKN ORLEN, after considering the liquidity situation, recommends to distribute the amount of PLN 705,719,950.65 (PLN 1.65 per share) for dividend payment. The dividend will be paid from PKN ORLEN's reserve capital, which includes net profits from previous years.

The Management Board recommend 16 June 2015 as the dividend date and 8 July 2015 as the payment date. This recommendation will be presented to the General Shareholders` Meeting of PKN ORLEN, which will make a conclusive decision in this matter.

20.6. Distribution of the Company's profit for 2013

Pursuant to article 395 § 2 point 2 of the Commercial Code and § 7 sec. 7 point 3 of the Company's Articles of Association, the Ordinary General Shareholders' Meeting of PKN ORLEN S.A. on 15 May 2014, having analyzed the motion of the Management Board, decided to distribute the total net profit for 2013 of PLN 617,684,481.41 as follows: PLN 615,901,047.84 as dividend payment (PLN 1.44 per 1 share) and the remaining amount of PLN 1,783,433.63 as reserve capital of the Company.

20.7. Equity management policy

Equity management is performed on the Capital Group level in order to protect the Group's ability to continue its operations as a going concern while maximizing returns for shareholders.

The Management Board monitors the following ratios:

- net financial leverage of the Group. As at 31 December 2014 and as at 31 December 2013 the ratio amounted to 33.0% and 16.9%, respectively;
- dividend per ordinary shares – depends on current financial position of the Group. In 2014 and in 2013 the dividend of PLN 615,901,047.84 was paid, e.i. PLN 1.44 per share and PLN 641,563,591.50 was paid e.i. PLN 1.50 per share, respectively.

Net financial leverage: net debt/equity (calculated as at the end of the period) x 100%

Net debt: non-current loans, borrowings and bonds + current loans and borrowings – cash and cash equivalents

21. Loans, borrowings and bonds

	Non-current		Current		Total	
	31/12/2014	31/12/2013	31/12/2014	31/12/2013	31/12/2014	31/12/2013
Loans	5 057	4 378	481	139	5 538	4 517
Borrowings	2 135	-	240	177	2 375	177
Bonds	2 020	1 718	209	998	2 229	2 716
	9 212	**6 096**	**930**	**1 314**	**10 142**	**7 410**

PKN ORLEN S.A. (in PLN million)

21. Loans, borrowings and bonds continued

The Company bases its financing mainly on floating interest rates, wherein hedges that change the variable to a fixed rate are used. Depending on the currency of financing these are WIBOR, LIBOR, EURIBOR, PRIBOR or EONIA increased by margin. The margin reflects risk connected to financing of the Company and in case of long-term contracts depends on net debt to EBITDA ratio.

21.1. Bank loans

– **by currency (translated into PLN)/ by interest rate**

	31/12/2014	31/12/2013
PLN / WIBOR	455	-
EUR / EURIBOR	3 942	2 227
USD / LIBOR	526	1 988
CZK / PRIBOR	615	302
	5 538	**4 517**

As at 31 December 2014 unused credit lines increased by trade and other receivables (note 17) and cash (note 19) exceeded trade and other liabilities (note 24) by PLN 6,251 million.
The Company hedges cash flows related to interest payments regarding external financing in EUR and USD, by using interest rate swaps (IRS).
In the period covered by the foregoing separate financial statements as well as after the reporting date there were no cases of violations of loans or interests repayment.

21.2. Borrowings

– **by currency (translated into PLN)/ by interest rate**

	31/12/2014	31/12/2013
EUR / fixed interest rate	2 135	-
EUR / EONIA	-	147
USD / LIBOR	240	30
	2 375	**177**

As at 31 December 2014 and as at 31 December 2013 the Company presented liability regarding borrowings from its subsidiaries. As at 31 December 2014, amount of PLN 2,135 million concerned borrowing from ORLEN Capital AB.
In the period covered by the foregoing separate financial statement as well as after reporting data there were no cases of violations of borrowings repayment nor breaches of covenants.

21.3. Bonds

– **by currency**

	31/12/2014	31/12/2013
PLN	2 229	2 716
	2 229	**2 716**

– **by interest rate**

	Floating rate bonds		Fixed rate bonds		Total	
	31/12/2014	31/12/2013	31/12/2014	31/12/2013	31/12/2014	31/12/2013
Nominal value	1 900	1 700	309	1 000	2 209	2 700
Carrying amount	1 919	1 718	310	998	2 229	2 716

PKN ORLEN's Supervisory Board at its meeting on 28 March 2013 approved the issuance of bonds by PKN ORLEN through a public bond issue program (Program).
Acting on the basis of an agreement concluded with UniCredit CAIB Poland S.A. and Powszechna Kasa Oszczędności Bank Polski S.A. and Bank Pekao S.A. PKN ORLEN issued four series of medium-term bonds (4 year) in 2013 with a total nominal value of PLN 700 million, aimed at retail investors. On 2 April 2014, PKN ORLEN issued the fifth series of the 4-year bonds (Series E) with a nominal value of PLN 200 million, and on 9 April 2014 the sixth series of bonds (Series F) with a nominal value of PLN 100 million.
Bonds issued under the Program are unsecured, bearer ordinary bonds, registered in the National Depository for Securities listed on the regulated market within the Catalyst platform operated by the Warsaw Stock Exchange.
As a part of non-public bond issue Program, operating on the basis of the agreement concluded with the syndicate of Polish banks in November 2006, with the maximum indebtedness of PLN 2,000 million, the Company issued 7-years coupon bonds with the nominal value of PLN 1,000 million in February 2012 and within granted limit short-term bonds to the Group's entities are issued in order to optimize liquidity within the Company.

PKN ORLEN S.A. (in PLN million)

21.3.Bonds continued

	Nominal value	Subscription date	Expiration date	Base rate	Margin	Rating
A Series	200	28.05.2013	28.05.2017	6M WIBOR	1.50%	A - (pol)
B Series	200	03.06.2013	03.06.2017	6M WIBOR	1.50%	A - (pol)
C Series	200	06.11.2013	06.11.2017	6M WIBOR	1.40%	A - (pol)
D Series	100	14.11.2013	14.11.2017	6M WIBOR	1.30%	A - (pol)
E Series	200	02.04.2014	02.04.2018	6M WIBOR	1.30%	A - (pol)
F Series	100	09.04.2014	09.04.2020	Fixed interest rate 5%		A - (pol)
	1 000					
Corporate bonds	1 000	27.02.2012	27.02.2019	6M WIBOR	1.60%	-
	2 000					

In addition, as at 31 December 2014 the nominal value of short-term bonds issued to the companies from the Group amounted to PLN 209 million.

22. Provisions

	Non-current		Current		Total	
	31/12/2014	31/12/2013	31/12/2014	31/12/2013	31/12/2014	31/12/2013
Environmental	218	211	27	23	245	234
Jubilee bonuses and post-employment benefits	137	113	20	25	157	138
Shield programs	-	-	27	27	27	27
CO_2 emissions	-	-	145	165	145	165
Other	-	-	123	108	123	108
	355	**324**	**342**	**348**	**697**	**672**

Change in provisions in 2014

	Environmental provision	Jubilee bonuses and post-employment benefits provision	Shield programs provision	Provision for CO_2 emissions	Other provisions	Total
01/01/2014	234	138	27	165	108	672
Recognition	38	34	-	136	81	289
Usage	(27)	(15)	-	(156)	(35)	(233)
Reversal	-	-	-	-	(31)	(31)
	245	**157**	**27**	**145**	**123**	**697**

Change in provisions in 2013

	Environmental provision	Jubilee bonuses and post-employment benefits provision	Shield programs provision	Provision for CO_2 emissions	Other provisions	Total
01/01/2013	262	152	28	193	126	761
Recognition	3	8	-	147	67	225
Usage	(31)	(22)	(1)	(175)	(57)	(286)
Reversal	-	-	-	-	(28)	(28)
	234	**138**	**27**	**165**	**108**	**672**

22.1.Environmental provision

The Company has legal obligation to remove surface contamination in the area of production plant in Plock, fuel stations, fuel terminals and warehouses.
The Management Board estimated the provision for environmental risks regarding the removal of contaminants based on analyzes provided by independent experts, determining its amount as at 31 December 2014. The amount of the provision is the best estimate of future expenses based on the average level of costs incurred for the remediation in relation to individual objects. In 2014, the value of environmental provisions has increased mainly due to increase of the “frequency” rate of occurrence remediation processes and higher unit costs of cleaning in the fuel stations segment. Should 2013 assumption were used, the environmental provision would have been lower by PLN (38) million.
Additional information about making estimates for environmental provision presented is in note 3.3.18.1.

PKN ORLEN S.A. (in PLN million)

22.2. Provision for jubilee bonuses and post-employment benefits

22.2.1. Change in employee benefits obligations

	NOTE	Provision for jubilee bonuses	Post-employment benefits	Total
01/01/2014		84	54	138
Current service costs		3	1	4
Interest expenses		4	2	6
Actuarial gains and losses arising from changes in		16	9	25
financial assumptions		*12*	*12*	*24*
other		*4*	*(3)*	*1*
Payments under program		(15)	(1)	(16)
	22	**92**	**65**	**157**

	NOTE	Provision for jubilee bonuses	Post-employment benefits	Total
01/01/2013		94	58	152
Current service costs		4	1	5
Interest expenses		4	2	6
Actuarial gains and losses arising from changes in		(5)	(2)	(7)
demographic assumptions		*(2)*	-	*(2)*
financial assumptions		*(3)*	*(3)*	*(6)*
other		-	*1*	*1*
Payments under program		(13)	(5)	(18)
	22	**84**	**54**	**138**

The carrying amount of employee benefits liabilities is identical to their present value as at 31 December 2014 and 31 December 2013.

22.2.2. Employee benefits liabilities divided into active and retired employees

	Active employees		Pensioners		Total	
	31/12/2014	31/12/2013	31/12/2014	31/12/2013	31/12/2014	31/12/2013
Poland	140	122	17	16	157	138

22.2.3. Sensitivity analysis to changes in actuarial assumptions

The Company analysed the impact of the financial and demographic assumptions and calculated that the change of remuneration ratio by +/- 1 percentage points, the discount rate by +/- 0.5 percentage points and the rate of turnover by +/- 0.5 percentage point amounts to PLN 5 million. Therefore, the Company does not present any detailed information.

As at 31 December 2014, the Company used the following actuarial assumptions, that had an impact on the level of actuarial provisions: discount rate 2.6%, expected inflation 2.5%, the remuneration increase rate: 0% in years 2015-2017 and 2.5% in subsequent years.

The Company carries out the employee benefit payments from current resources. As at 31 December 2014 there were no funded plans and the Company paid no contributions to fund liabilities.

22.2.4. Employee benefits maturity and payments of liabilities analysis

22.2.4.1. Maturity of employee benefits analysis

	Provision for jubilee bonuses		Post-employment benefits		Total	
	31/12/2014	31/12/2013	31/12/2014	31/12/2013	31/12/2014	31/12/2013
up to 1 year	8	12	12	13	20	25
from 1 to 5 years	28	25	7	7	35	32
above 5 years	56	47	46	34	102	81
	92	**84**	**65**	**54**	**157**	**138**

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

	31/12/2014	31/12/2013
Poland	13	14

22.2.4.3. Employee benefits payments analysis

	Provision for jubilee bonuses		Post-employment benefits		Total	
	31/12/2014	31/12/2013	31/12/2014	31/12/2013	31/12/2014	31/12/2013
up to 1 year	8	12	12	13	20	25
from 1 to 5 years	36	35	8	8	44	43
above 5 years	168	178	340	350	508	528
	212	**225**	**360**	**371**	**572**	**596**

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

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

The total employee benefit expenses in 2014 and in 2013 amounted to PLN (35) million and PLN (4) million and are recognized in profit and loss statement of PLN (26) million and PLN (6) million, respectively and in other comprehensive income of PLN (9) million and PLN 2 million, respectively.
In 2014 the amount of provision for employee benefits changed as a result of update of assumptions, mainly in relation to discount rate and projected inflation as well as the remuneration increase rate. Should the 2013 assumptions be used, the provision for employee benefits would be lower by PLN (24) million.
Additional information concerning jubilee bonuses and post-employment benefits are disclosed in note 3.3.18.2.

22.3. Shield programs provision

Employee shield programs were launched to support the restructuring processes conducted in the Company. The programs provide such elements as additional severances, training packages for employees with whom the employment agreement was or would be dissolved and relocation packages for the employees, who agreed to change the workplace on the intiative of the employer.
In 2014 the assumptions used in calculation of shield programs provision did not change in comparison to those used in prior year.

22.4. Provision for CO_2 emissions

The Company recognises provision for estimated CO_2 emissions in the reporting period. The cost of recognised provision is compensated with settlement of deferred income on CO_2 emission rights granted free of charge. The description of the accounting principles applied is presented in note 3.3.18.4.

22.5. Other provisions

As at 31 December 2014 and as at 31 December 2013 other provisions comprised mainly provisions for negative outcome of administrative oe legal proceedings of PLN 95 million and PLN 48 million, respectively.

23. Other non-current liabilities

	31/12/2014	31/12/2013
Cash flow hedge instruments	1 599	29
interest rate swaps	*93*	*-*
commodity swaps	*1 395*	*-*
currency interest rate swaps	*111*	*29*
Investment liabilities	124	-
Finance lease	89	70
	1 812	**99**

24. Trade and other liabilities

	31/12/2014	31/12/2013
Trade liabilities	5 063	7 185
Investment liabilities	703	707
Finance lease	18	17
Other	102	80
Financial liabilities	**5 886**	**7 989**
Payroll liabilities	108	102
Environmental liabilities	18	18
Special funds	6	6
Excise tax and fuel charge	1 092	1 066
Value added tax	418	616
Other taxation, duties, social security and other benefits	20	18
Holiday pay accruals	24	21
Non-financial liabilities	**1 686**	**1 847**
	7 572	**9 836**

The currency structure of financial liabilities is presented in note 28.5.1.2.1.
Non-financial liabilities relate to balances of settlements in PLN.

25. Deferred income

	31/12/2014	31/12/2013
Loyalty program VITAY	88	84
Other	9	10
	97	**94**

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

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

26. Other financial liabilities

	31/12/2014	31/12/2013
Cash flow hedge instruments	955	27
currency forwards	*23*	*21*
interest rate swaps	*-*	*6*
commodity swaps	*932*	*-*
Embedded derivatives	1	-
currency swaps	*1*	*-*
Cash pool	400	386
	1 356	**413**

EXPLANATORY NOTES TO THE STATEMENT OF CASH FLOWS

27. Explanatory notes to the statement of cash flows

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

	2014	2013
Change in other non-current assets and trade and other receivables presented in the statement of financial position	**1 359**	**(239)**
Change in investment receivables from:	(282)	525
advances for non-current non-financial assets	*44*	*172*
sale of non-current non-financial assets	*(9)*	*9*
sale of non-current financial assets	*(25)*	*25*
granted non-current loans	*(237)*	*285*
rights granted free of charge	*(55)*	*34*
Purchase of receivables	-	44
Change in non-current cash flows hedge instruments	180	94
Charge in prepayments regarding bank commissions	(11)	(9)
Other	(2)	(4)
Change in receivables in the statement of cash flows	**1 244**	**411**
Change in inventories presented in the statement of financial position	**2 886**	**992**
Reclassification of inventories from / to property, plant and equipment	(46)	27
Change in inventories in the statement of cash flows	**2 840**	**1 019**
Change in other non-current liabilities, trade and other liabilities presented in the statement of financial position	**(551)**	**1 216**
Change in liabilities arising from investment expenditures	(120)	(179)
Purchase of receivables	-	(44)
Change in non-current cash flows hedge instruments	(1 570)	42
Change in financial liabilities from finance lease	(20)	(12)
Other	-	9
Change in liabilities in the statement of cash flows	**(2 261)**	**1 032**
Change in provisions presented in the statement on finacial position	**25**	**(89)**
Usage of prior year CO_2 emission provision	156	175
Usage of prior year energy rights provision	8	14
Actuarial gains and losses	(9)	2
Change in provisions in the statement of cash flows	**180**	**102**

27.2. Other adjustments in cash flows from operating activities

	2014	2013
CO_2 emission rights granted free of charge	(68)	(69)
Energy rights granted free of charge	(47)	6
Change in deferred income	3	(43)
Other	9	(4)
	(103)	**(110)**

PKN ORLEN S.A. (in PLN million)

27.3.Foreign exchange loss

	NOTE	2014	2013
Foreign exchange (loss)/gains surplus presented in statement of loss or profit and other comprehensive income	*9*	**(513)**	**214**
Adjustments to net profit/(loss) of foreign exchange differences presented in statement of cash flows:		**97**	**9**
realized foreign exchange differences concerning investing activities		*(183)*	*(11)*
realized foreign exchange differences concerning financing activities		*267*	*166*
unrealized foreign exchange differences concerning investing and financing activities		*8*	*(147)*
foreign exchange differences on cash		*5*	*1*
Foreign exchange differences concerning operating activities not correcting net profit/(loss)		**(416)**	**223**

27.4. Interest, net

	NOTE	2014	2013
Finance income and costs of net interest presented in statement of profit or loss and other comprehensive income	*9*	**(168)**	**(181)**
Adjustments to net profit/(loss) of net interest presented in statement of cash flows:		**213**	**255**
interest received concerning investing activities		*(45)*	*(34)*
interest paid concerning financing activities		*249*	*300*
accrued interest concerning investing and financing activities		*9*	*(11)*
Net interest concerning operating activities not correcting net profit/(loss)		**45**	**74**

27.5. Loss on investing activities

	NOTE	2014	2013
Adjustments to net profit/(loss) of loss on investing activities			
(Profit)/Loss on sale of non-current non-financial assets	*8.1, 8.2*	20	(42)
Recognition/reversal of impairment allowances of property, plant and equipment and intangible assets	*8.1, 8.2*	(22)	42
Recognition of impairment allowances of shares in related parties	*9*	4 967	103
Profit on disposal of shares	*9*	(34)	(8)
Other		(3)	4
		4 928	**99**

27.6. Income tax received

	NOTE	2014	2013
Tax expense on profit/(loss) before tax	*10*	**208**	**(14)**
Change in deferred tax asset		(169)	-
Change in deferred tax liabilities		(404)	164
Change in current tax assets		25	25
Deferred tax recognized in other comprehensive income		363	(56)
		23	**119**

PKN ORLEN S.A. (in PLN million)

EXPLANATORY NOTES TO FINANCIAL INSTRUMENTS

28. Financial instruments

28.1. Financial instruments by category and class

Financial assets

31/12/2014

Financial instruments by class	NOTE	Financial instruments by category: Financial assets at fair value through profit or loss	Loans and receivables	Financial assets held to maturity	Financial assets available for sale	Hedging financial instruments	Total
Unquoted shares		-	-	-	40	-	40
Bonds	18		-	96		-	96
Trade receivables	17	-	4 298	-	-	-	4 298
Loans granted	14,18	-	1 024	-	-	-	1 024
Embedded derivatives and hedging instruments	14,18	5	-	-	-	858	863
Cash	19	-	3 475	-	-	-	3 475
Cash pool	18	-	193	-	-	-	193
Other	17	-	14	-	-	-	14
		5	**9 004**	**96**	**40**	**858**	**10 003**

31/12/2013

Financial instruments by class	NOTE	Financial instruments by category: Financial assets at fair value through profit or loss	Loans and receivables	Financial assets available for sale	Hedging financial instruments	Total
Unquoted shares		-	-	40	-	40
Trade receivables	17	-	5 438	-	-	5 438
Sale of non-financial non-current assets	14,17	-	9	-	-	9
Sale of financial non-current assets	17	-	25	-	-	25
Loans granted	14,18	-	1 475	-	-	1 475
Embedded derivatives and hedging instruments	14,18	3	-	-	265	268
Cash	19	-	2 072	-	-	2 072
Cash pool	18	-	258	-	-	258
Other	17	-	61	-	-	61
		3	**9 338**	**40**	**265**	**9 646**

Financial liabilities

31/12/2014

Financial instruments by class	NOTE	Financial instruments by category: Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortised cost	Hedging financial instruments	Liabilities excluded from the scope of IAS 39	Total
Bonds	21	-	2 229	-	-	2 229
Loans	21	-	5 538	-	-	5 538
Borrowings	21	-	2 375	-	-	2 375
Finance lease	23,24	-	-	-	107	107
Trade liabilities	24	-	5 063	-	-	5 063
Investment liabilities	23,24	-	827	-	-	827
Embedded derivatives and hedging instruments	23,26	1	-	2 554	-	2 555
Cash pool	26	-	400	-	-	400
Other	24	-	102	-	-	102
		1	**16 534**	**2 554**	**107**	**19 196**

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

28.1. Financial instruments by category and class continued

31/12/2013

Financial instruments by class	NOTE	Financial instruments by category: Financial liabilities measured at amortised cost	Hedging financial instruments	Liabilities excluded from the scope of IAS 39	Total
Bonds	*21*	2 716	-	-	2 716
Loans	*21*	4 517	-	-	4 517
Borrowings	*21*	177	-	-	177
Finance lease	*23,24*	-	-	87	87
Trade liabilities	*24*	7 185	-	-	7 185
Investment liabilities	*24*	707	-	-	707
Hedging instruments	*23,26*	-	56	-	56
Cash pool	*26*	386	-	-	386
Other	*24*	80	-	-	80
		15 768	**56**	**87**	**15 911**

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

2014

	NOTE	Financial instruments by category: Financial assets and liabilities at fair value through profit or loss	Loans and receivables	Financial assets held to maturity	Financial assets available for sale	Financial liabilities measured at amortised cost	Hedging financial instruments	Liabilities excluded from the scope of IAS 39	Total
Interest income	*9.1*	-	91	3	-	-	-	-	94
Interest costs	*9.2*	-	-	-	-	(257)	-	(5)	(262)
Foreign exchange gains/(losses)	*9*	-	567	-	-	(1 082)	-	-	(515)
Recognition/reversal of receivables impairment allowances recognized in:									
- other operating income/expenses	*8.1, 8.2*	-	(30)	-	-	-	-	-	(30)
- finance income/costs	*9*	-	5	-	-	-	-	-	5
Settlement and valuation of financial derivatives, net	*9*	7	-	-	-	-	(6)	-	1
Dividends	*9*	-	-	-	2	-	-	-	2
Income/costs on fees and commissions	*9*	-	18	-	-	(2)	-	-	16
		7	**651**	**3**	**2**	**(1 341)**	**(6)**	**(5)**	**(689)**
other, excluded from the scope of IFRS 7									
Dividends from related entities, incl.:	*9*								1 092
realized exchange rate differences	*9*								*2*
Profit on sale of stocks	*9*								34
Impairment allowances of shares in related entities	*9*								(4 967)
Recognition/reversal of allowance for impairment of receivables recognised in									
other operating income/expenses	*8.1, 8.2*								5
									(3 836)

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

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

2013

	NOTE	Financial assets and liabilities at fair value through profit or loss	Loans and receivables	Financial assets available for sale	Financial liabilities measured at amortised cost	Hedging financial instruments	Liabilities excluded from the scope of IAS 39	Total
		Financial instruments by category						
Interest income	9.1	-	112	-	-	-	-	112
Interest costs	9.2	-	-	-	(289)	-	(4)	(293)
Foreign exchange gains/(losses)	9	-	(120)	-	334	-	-	214
Recognition/reversal of receivables impairment allowances recognized in:								
- other operating income/expenses	8.1, 8.2	-	(8)	-	-	-	-	(8)
- finance income/costs	9	-	2	-	-	-	-	2
Settlement and valuation of financial derivatives, net	9	2	-	-	-	2	-	4
Dividends	9	-	-	2	-	-	-	2
Income/costs on fees and commissions	9	-	14	-	(3)	-	-	11
		2	**-**	**2**	**42**	**2**	**(4)**	**44**
other, excluded from the scope of IFRS 7								
Dividends from related entities	9							218
Profit on sale of shares	9							8
Impairment allowances of stocks in related entities	9							(103)
Recognition/reversal of allowance for impairment of receivables recognised in other operating income/expenses	8.1, 8.2							(9)
								114

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

	NOTE	2014	2013
Trade receivables	9.2	(2)	(6)
Loans granted	9.2	(208)	-
		(210)	**(6)**

28.4. Hedge accounting

As a part of hedging strategy the Company hedges its cash flows:

– from operating activities using non-deliverable sales/purchase forwards,
– from sales of products and purchase of crude oil using commodity swaps,
– from periodic changes in the operating inventory level using commodity swaps,
– from interest payments concerning external financing using interest rate swaps (IRS),
– from investment projects using foreign exchange forwards,
– from repurchase of previously sold mandatory reserves tranches of crude oil using commodity swaps and currency forwards.

As at 31 December 2014 the net negative net valuation of instruments in hedge accounting presented in notes 14, 18, 23, 26 of these financial statements amounted to PLN (1,696) million and concerned mainly valuation of commodity swaps hedging future price of repurchase of mandatory crude oil reserves planned for January 2015 and 2016 – additional information on the above transactions in note 16.2. As at 31 December 2014 the valuation results mainly from decrease in crude oil prices on global markets observed especially in the II half of 2014 and the beginning of 2015.
Hedging transactions, which settlement and fair value measurement influence the foregoing separate financial statements were concluded in the years 2012 – 2014.

PKN ORLEN S.A. (in PLN million)

28.4. Hedge accounting contiuned

– **net fair value which will be recognised in the profit or loss at the realization date**

	31/12/2014	31/12/2013
Planned realization date of hedged cash flows		
Currency operating exposure		
2014	-	56
2015	139	-
Finance currency exposure		
2014	-	(11)
2015	16	-
2016	16	-
Interest rate exposure		
2014 - 2020	-	(7)
2015 - 2017	(15)	-
2015 - 2018	(6)	-
2015 - 2019	(90)	-
2015 - 2020	(93)	-
Commodity risk exposure		
2014	-	78
2015	(539)	94
2016	(1 086)	-
2017	(33)	-
2018	(5)	-
	(1 696)	**210**

In 2014 and 2013 in regards of the cash flow hedges that meet the criteria for hedge accounting, an ineffective part was recognized in profit or loss of PLN (6) million and PLN 2 million, respectively.

28.5. Financial risk management

The Company's operations are exposed to the following main risks:
- market risks, including:
  - *commodity risk*
  - *foreign currency risk and*
  - *interest rate risk*
- liquidity and credit risk
- other, disclosed in details in the Management Board Report on the operations of PKN ORLEN in point 5.4.

PKN ORLEN applies a consistent financial risk hedging policy based on market risk management policy supported and supervised by the Financial Risk Committee, Management Board and Supervisory Board.

28.5.1. Market risk

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

The above mentioned risks are managed on the basis of market risk management policy and hedging strategies, which define the principles of measurement of individual exposure, parameters and the time horizon of risk hedging and hedging instruments.
Market risk management is conducted using derivative instruments which are used solely to reduce the risk of changes in fair value and risk of changes in cash flows.

As far as market valuation of the instruments is concerned, the Company uses its own records and valuation for derivatives. Transactions are concluded only with reliable partners, authorized to participate in transactions through the application of appropriate procedures and signing the relevant documentation.

28.5.1.1. Commodity risk

As part of its operating activity the Company is exposed mainly to the following commodity risks:

- risk of changes in refining and petrochemical margins on the sale of products and Ural/Brent differential fluctuations- hedges on an irregular basis as a part of hedging strategies,
- risk of changes in crude oil and products prices related to the time mismatch between the date of the crude oil purchase and the date of its processing and sale of products, oversize periodic stock of operational crude oil and/or products, as well as future sales transactions - identified and hedged in a systematic and regular manner,

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

28.5.1.1. Commodity risk continued

- risk of changes in CO_2 emission rights prices - hedged on a regular basis through periodic verification of number of owned and required rights to CO_2 emission with determining the method of balancing of the future shortages or surpluses. In 2014 and 2013, the Company concluded forward and spot transactions for purchase of rights which in the future will be amortized as a settlement of CO_2 emissions. Valuations of these transactions are not subject to recognition in the separate financial statement, as purchased emission rights will be used for own purposes,
- risk of changes in crude oil and refining product prices related to the obligation to maintain mandatory reserves of crude oil and fuels - is not hedged on purpose due to the permanent exposure and non-cash impact on the Company's results.

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

Type of hedged raw material/product	Unit of measure	31/12/2014	31/12/2013
Crude oil	bbl	11 134 473	8 754 586
Diesel oil	Mt	931 878	-
Heating oil	Mt	603 997	22 222
Gasoline	Mt	8 010	2 222

Sensitivity analysis of commodity risk

Analysis of the influence of changes in the carrying amount of financial instruments on result before tax and hedging reserve to a hypothetical change in prices of products and raw materials:

31/12/2014

	Increase of prices	Influence	Decrease of prices	Influence
Crude oil USD/bbl	+19%	448	-19%	(448)
Diesel oil USD/Mt	+17%	(14)	-17%	14
Heating oil USD/Mt	+20%	48	-20%	(48)
Gasoline USD/Mt	+21%	(3)	-21%	3
		479		**(479)**

31/12/2013

	Increase of prices	Influence	Decrease of prices	Influence
Crude oil USD/bbl	+17%	344	-17%	(344)
Heating oil USD/Mt	+14%	5	-14%	(5)
Gasoline USD/Mt	+17%	(1)	-17%	1
		348		**(348)**

Applied for the sensitivity analysis of commodity risk hedging instruments variation of oil and products prices were calculated based on volatility for 2014 and 2013 and available analysts' forecasts.
The influence of changes of prices was presented on annual basis. Fair value of commodity swaps is calculated based on discounted future cash flows of executed transactions, calculated as a difference between term and transaction price.
In case of derivatives, the influence of crude oil, and products prices variations on fair value were examined at constant level of currency rates.
The net carrying amount of hedging instruments for commodity risk as at 31 December 2014 and as at 31 December 2013 amounted to PLN (1,663) million and PLN 172 million, respectively.

28.5.1.2. Currency risk

As part of its business activities the Company is exposed to the following risks from foreign currency rates:
- economic currency exposure over the next 12 months that results from reduced by indexed of denominated in other that functional currency expense - regularly and actively hedged using purchase or sales currency forwards,
- balance sheet exposure resulting from denominated in foreign currency assets and liabilities – hedged on an irregular basis in selected elements of exposure, currency risk related to investments expenditures - regularly hedged by forward currency purchase transactions of foreign currencies in which the expenses are incurred,
- currency risk related to investment expenditures - regularly hedge using purchase currency forwards, in which the expenses are incurred.

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

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

Currency structure of financial instruments

Financial instruments by class	EUR		USD		CZK		JPY		Total after translation to PLN	
	31/12/2014	31/12/2013	31/12/2014	31/12/2013	31/12/2014	31/12/2013	31/12/2014	31/12/2013	31/12/2014	31/12/2013
Financial assets										
Trade receivables	112	78	386	694	-	-	-	-	1 832	2 414
Loans granted	84	-	-	389	4 021	2 002	-	-	974	1 473
Embedded derivatives and hedging instruments	2	18	243	59	-	-	-	-	863	252
Cash	23	18	22	18	7	-	-	-	176	130
Other	-	-	-	1	-	-	-	-	-	3
	221	**114**	**651**	**1 161**	**4 028**	**2 002**	**-**	**-**	**3 845**	**4 272**
Financial liabilities										
Loans	925	537	150	660	4 000	2 002	-	-	5 083	4 517
Borrowings	501	35	68	10	-	-	-	-	2 375	177
Trade liabilities	18	35	1 153	1 994	-	-	-	-	4 123	6 151
Investment liabilities	36	23	13	2	-	-	-	123	201	105
Embedded derivatives and hedging instruments	50	1	668	8	-	-	-	-	2 554	28
Other	-	1	-	-	-	-	-	-	-	4
	1 530	**632**	**2 052**	**2 674**	**4 000**	**2 002**	**-**	**123**	**14 336**	**10 982**

Sensitivity analysis for currency risk

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

	Assumed variation		Influence on result before tax		Influence on hedging reserve		Total	
	31/12/2014	31/12/2013	2014	2013	2014	2013	2014	2013
EUR/PLN	+15%	+15%	(759)	(356)	(827)	(552)	(1 586)	(908)
USD/PLN	+15%	+15%	(516)	(707)	(65)	255	(581)	(452)
CZK/PLN	+15%	-	1	-	-	-	1	-
JPY/PLN	-	+15%	-	(1)	-	-	-	(1)
			(1 274)	**(1 064)**	**(892)**	**(297)**	**(2 166)**	**(1 361)**
EUR/PLN	-15%	-15%	759	356	827	552	1 586	908
USD/PLN	-15%	-15%	516	707	65	(255)	581	452
CZK/PLN	-15%	-	(1)	-	-	-	(1)	-
JPY/PLN	-	-15%	-	1	-	-	-	1
			1 274	**1 064**	**892**	**297**	**2 166**	**1 361**

Variations of currency rates described above were calculated based on average volatility of particular currency rates in 2014 and 2013.
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 amount calculated using assumed changes in currency rates. In case of derivative instruments the influence of currency rate variations on fair value was examined at constant level of interest rates. Fair value of currency forwards and foreign exchange swaps is calculated based on discounted future cash flows of concluded transactions as a difference between forward price and transaction price.

28.5.1.3. Interest rate risk

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

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

PKN ORLEN S.A. (in PLN million)

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

Structure of financial instruments subject to interest rate risk

Financial instruments by class	NOTE	WIBOR 31/12/2014	WIBOR 31/12/2013	LIBOR 31/12/2014	LIBOR 31/12/2013	EURIBOR 31/12/2014	EURIBOR 31/12/2013	PRIBOR 31/12/2014	PRIBOR 31/12/2013	Total 31/12/2014	Total 31/12/2013
Financial assets											
Loans granted	14,18	50	2	-	1 170	356	-	618	303	1 024	1 475
Embedded derivatives and hedging instruments	14,18	-	16	-	5	-	7	-	-	-	28
Cash pool	18	193	258	-	-	-	-	-	-	193	258
		243	**276**	**-**	**1 175**	**356**	**7**	**618**	**303**	**1 217**	**1 761**
Financial liabilities											
Bonds	21.3	1 919	1 718	-	-	-	-	-	-	1 919	1 718
Loans	21.1	455	-	526	1 989	3 942	2 225	615	303	5 538	4 517
Borrowings	21.2	-	-	240	30	-	-	-	-	240	30
Embedded derivatives and hedging instruments	23,26	111*	29	11	2	193*	4	-	-	204**	35
Cash pool	26	400	386	-	-	-	-	-	-	400	386
		2 885	**2 133**	**777**	**2 021**	**4 135**	**2 229**	**615**	**303**	**8 301****	**6 686**

* In the position financial liabilities - embedded derivatives and hedging instruments, the Company recognized cross interest rate swaps (CIRS) of PLN 111 million, which are sensitive to both WIBOR and EURIBOR interest rates.
** The position total includes the valuation of CIRS of PLN 111 million.

The sensitivity analysis for interest rate risk includes account interest rate swaps and cross interest rate swaps. The currency forwards and commodity swaps are not presented in the above table due to its marginal sensitivity for interest rate changes. The sensitivity analysis for commodity risk and currency risk for those instruments are presented in note 28.5.1.1.1 and 28.5.1.2.1

Sensitivity analysis for interest rates

Interest rate	Assumed variation 31/12/2014	Assumed variation 31/12/2013	Influence on result before tax 2014	Influence on result before tax 2013	Influence on hedging reserve 2014	Influence on hedging reserve 2013	Total 2014	Total 2013
WIBOR	+0.5p.p.	+0.5p.p.	(13)	(9)	(3)	(3)	(16)	(12)
LIBOR	+0.5p.p.	+0.5p.p.	(4)	(4)	14	14	10	10
EURIBOR	+0.5p.p.	+0.5p.p.	(18)	(11)	70	76	52	65
			(35)	**(24)**	**81**	**87**	**46**	**63**
WIBOR	-0.5p.p.	-0.5p.p.	13	9	3	4	16	13
			13	**9**	**3**	**4**	**16**	**13**

The above interest rates variations were calculated based on observations of average interest rates fluctuations in 2014 and 2013. Low interest rates of LIBOR, EURIBOR, both at the end of 2014 and 2013 and market forecasts for further periods caused that the Company did not take the further decrease of these interest rates, in the sensitivity analysis into consideration.
The sensitivity analysis was performed on the basis of instruments held as at 31 December 2014 and as at 31 December 2013, the influence of interest rates changes was presented on annual basis.

The sensitivity of financial instruments for the risk of interest rate changes was calculated as arithmetic product of the balance of accounting items, sensitive to interest rates changes (excluding derivatives) multiplied by adequate variation of interest rates.
For derivatives in sensitivity analysis for the risk of interest rate changes interest rate curve displacement due to potential reference rate change was used, provided that other risk factors remain constant.

28.5.2. Liquidity and credit risk

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

The Company is exposed to liquidity risk arising from the ratio of current assets to current liabilities. As at 31 December 2014 and 31 December 2013, current ratio amounted to 1.6. The objective of liquidity risk management is to ensure the financial security and stability of the Company and the basic tool reducing above risk is the ongoing review of assets and liabilities maturity. Additionally, the Company carries out a policy of its funding sources diversification and uses a range of tools for effective liquidity management.

Banking sector has the majority share in the Company's financing and provides financing in the form of syndicated loans (representing the core bank funding source) and bilateral loans (overdrafts, multi-purpose credit lines, investment loans) of diversed maturity structure.
The Company additionally takes advantage of two programs of PLN bonds, that enable to use of resources outside the bank sector. Bonds issued under the Program realised since 2007 can be purchased by financial institutions and companies. The above mentioned program is also used in the Company's working capital management.

In 2013 a public bond issue program was launched, aimed at retail investors, that ended by the last issuance tranche in 2014.

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

28.5.2. Liquidity and credit risk continued

As at 31 December 2014 and as at 31 December 2013 the maximum possible indebtedness due to loans for the Company amounted to PLN 13,923 million and PLN 15,039 million, respectively. As at 31 December 2014 and as at 31 December 2013 PLN 5,394 million and PLN 10,377 million, respectively, remained unused.
Additional information regarding loans, borrowings and bonds is presented in note 21.

The Company is exposed to liquidity risk associated with granted guarantees to contractors. The value of guarantees regarding liabilities to third parties granted during ongoing operations as at 31 December 2014 and as at 31 December 2013 amounted to PLN 219 million and PLN 177 million, respectively. These concern mainly contract performance guarantees.
Based on analysis and forecasts as at the end of the reporting period, the Company recognized the probability of payment of the above amounts as low.

Credit risk associated with cash and bank deposits is assessed by the Company as low due to domestic banks and branches of foreign banks in which cash is deposited have the highest short-term credit rating (50% of deposited cash) or good rating (50% of deposited cash).

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

The measure of credit risk is the maximum credit risk for each class of financial assets, which is equal to their carrying amount. In order to minimize credit risk the Company as at 31 December 2014 and as at 31 December 2013 received bank and insurance guarantees of PLN 1,065 million and PLN 1,021 million, respectively. Additionally the Company receives from its customers securities such as blockade of cash on bank accounts, mortgage and bills of exchange.

Credit risk is also related to the credit credibility of customers with whom sales transactions are concluded. Granting credit limit the Company is subject to risk associated with unsettled receivables for the delivered products and services by the customers.
Above risk is partly reduced through a wide range of customers dispersed in various sectors of domestic and foreign economy.
In order to minimize the above risk, procedures are used regarding granting credit limits to the customers. Each time customers' financial situation is assessed and their credibility and solvency are verified and also ongoing monitoring of debtors turnover and their aging structure. The Company implements various legal forms of legal pledges (mortgages, guarantees, warranties, blockade of cash on bank accounts, security deposits, bills of exchange). For the customers to whom credit limits are granted, prepayment or cash is the valid form of payment in the initial period of cooperation.
In order to reduce the risk of customers' insolvency, the Company additionally insures portion of its receivables within the organized trade credit insurance programs.

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

The division of not past due receivables

	NOTE	31/12/2014	31/12/2013
Group I		3 654	4 773
Group II		515	625
	14,17	**4 169**	**5 398**

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

	NOTE	31/12/2014	31/12/2013
up to 1 month		104	125
from 1 to 3 months		18	5
from 3 to 6 months		2	3
from 6 to 12 months		18	2
above 1 year		1	-
	17	**143**	**135**

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

28.5.2. Credit and liquidity risk continued

Maturity analysis for financial liabilities

31/12/2014

	NOTE	up to 1 year	from 1 to 3 years	from 3 to 5 years	above 5 years	Total	Carrying amount
Bonds	21.3	285	842	1 268	103	2 498	2 229
floating-rate bonds - undiscounted value		*71*	*832*	*1 258*	-	*2 161*	*1 919*
fixed rate bonds - undiscounted value		*214*	*10*	*10*	*103*	*337*	*310*
Loans - undiscounted value	21	551	375	4 645	302	5 873	5 538
Borrowings - undiscounted value	21	240	-	-	2 142	2 382	2 375
Finance lease	23,24	18	28	20	41	107	107
Trade liabilities	24	5 063	-	-	-	5 063	5 063
Investment liabilities	23,24	703	14	110	-	827	827
Embedded derivatives and hedging instruments - undiscounted value	23,26	964	1 454	39	5	2 462	2 555
gross exchange amounts		*(10)*	*(2)*	*17*	-	*5*	*112*
currency interest rate swaps	23	*(11)*	*(2)*	*17*	-	*4*	*111*
currency swaps	26	*1*	-	-	-	*1*	*1*
net exchange amounts		*974*	*1 456*	*22*	*5*	*2 457*	*2 443*
interest rate swaps	23	*25*	*41*	*22*	*5*	*93*	*93*
currency forwards	26	*23*	-	-	-	*23*	*23*
commodity swaps	23,26	*926*	*1 415*	-	-	*2 341*	*2 327*
Cash pool	26	400	-	-	-	400	400
Other	24	102	-	-	-	102	102
		8 326	**2 713**	**6 082**	**2 593**	**19 714**	**19 196**

31/12/2013

	NOTE	up to 1 year	from 1 to 3 years	from 3 to 5 years	above 5 years	Total	Carrying amount
Bonds	21.3	1 072	145	807	1 022	3 046	2 716
floating-rate bonds - undiscounted value		*74*	*145*	*807*	*1 022*	*2 048*	*1 718*
fixed rate bonds - undiscounted value		*998*	-	-	-	*998*	*998*
Loans - undiscounted value	21	205	4 475	-	-	4 680	4 517
Borrowings - undiscounted value	21	177	-	-	-	177	177
Finance lease	23,24	17	23	14	33	87	87
Trade liabilities	24	7 185	-	-	-	7 185	7 185
Investment liabilities	24	707	-	-	-	707	707
Hedging instruments - undiscounted value	23,26	23	(15)	(37)	(26)	(55)	56
gross exchange amounts		*(4)*	*(17)*	*(36)*	*(24)*	*(81)*	*29*
currency interest rate swaps	23	*(4)*	*(17)*	*(36)*	*(24)*	*(81)*	*29*
net exchange amounts		*27*	*2*	*(1)*	*(2)*	*26*	*27*
interest rate swaps	26	*6*	*2*	*(1)*	*(2)*	*5*	*6*
currency forwards	26	*21*	-	-	-	*21*	*21*
Cash pool	26	386	-	-	-	386	386
Other	24	80	-	-	-	80	80
		9 852	**4 628**	**784**	**1 029**	**16 293**	**15 911**

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

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

OTHER EXPLANATORY NOTES

29. Fair value measurement

31/12/2014

	NOTE	Carrying amount	Fair value	Fair value hierarchy Level 1	Level 2
Financial assets					
Bonds	18	96	96	-	96
Loans granted	14,18	1 024	1 024	-	1 024
Embedded derivatives and hedging instruments	14,18	863	863		863
		1 983	**1 983**	**-**	**1 983**
Financial liabilities					
Bonds	21	2 229	2 243	2 034	209
Loans	21	5 538	5 540	-	5 540
Borrowings	21	2 375	2 382	-	2 382
Finance lease	23,24	107	111	-	111
Embedded derivatives and hedging instruments	23,26	2 555	2 555	-	2 555
		12 804	**12 831**	**2 034**	**10 797**

31/12/2013

	NOTE	Carrying amount	Fair value	Fair value hierarchy Level 1	Level 2
Financial assets					
Loans granted	14,18	1 475	1 476	-	1 476
Embedded derivatives and hedging instruments	14,18	268	268	-	268
		1 743	**1 744**	**-**	**1 744**
Financial liabilities					
Bonds	21	2 716	2 728	1 730	998
Loans	21	4 517	4 518	-	4 518
Borrowings	21	177	177	-	177
Finance lease	23,24	87	88	-	88
Hedging instruments	23,26	56	56	-	56
		7 553	**7 567**	**1 730**	**5 837**

For other classes of financial assets and liabilities presented in note 28.1 fair value represents their caring amount.

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

Financial liabilities due to loans, bonds, finance lease and liabilities and receivables for borrowings are measured at fair value using discounted cash flows method. Discount factors are calculated based on market interest rates according to quotations of 1- month, 3-months and 6-months interest rates increased by proper margins for particular financial instruments. For the majority as at 31 December 2014 and as at 31 December 2013 1-month interest rate quotations were applied

	31/12/2014	31/12/2013
WIBOR	2.0800%	2.6100%
EURIBOR	0.0180%	0.2160%
LIBOR	0.1713%	0.1677%

As at 31 December 2014 and as at 31 December 2013 the Company held unquoted shares in entities, for which fair value cannot be reliably measured, due to the fact that there are no active markets for these entities and no comparable transactions in the same type of instruments were noted. The value of shares of this entities was recognised in the separate statement of financial position for 31 December 2014 and 31 December 2013 of PLN 40 million at acquisition cost less impairment allowances.
During the reporting period and comparative period there were no reclassifications in the Company between Level 1 and 2 of fair value hierarchy.

30. Lease

30.1. The Company as a lessee

Operating lease

As at 31 December 2014 and as at 31 December 2013 the Company possessed non-cancellable operating lease agreements as a lessee, regard mainly the leased caverns. Agreements include clauses concerning contingent rent payables and they can be prolonged.
The total lease payments, resulting from non-cancellable operating lease agreements recognised as expenses in 2014 and in 2013 amounted to PLN (31) million and PLN (26) million, respectively.

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

30.1. The Company as a lessee continued

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

	31/12/2014	31/12/2013
up to 1 year	32	32
from 1 to 5 years	156	189
above 5 years	38	44
	226	**265**

Finance lease

The Company as at 31 December 2014 and as at 31 December 2013 possessed the finance lease agreements as a lessee. The finance lease agreements relate mainly to the lease of fuel stations, cars and car washes.
In concluded lease agreements, the general conditions of finance lease are effective, they do not contain any clauses concerning contingent rent payables, give the possibility to purchase the leased equipment and eventually be extended.

	NOTE	Present value of future minimum lease payments 31/12/2014	31/12/2013	Value of future minimum lease payments 31/12/2014	31/12/2013
up to 1 year		18	17	22	20
from 1 to 5 years		48	37	60	47
above 5 years		41	33	51	39
	23, 24	**107**	**87**	**133**	**106**

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

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

	31/12/2014	31/12/2013
Property, plant and equipment	**98**	**81**
Buildings and constructions	60	51
Machinery and equipment	26	18
Vehicles	12	12

Disclosures required by IFRS 7 relating to finance lease are captured in note 28.1.

30.2. The Company as lessor

As at 31 December 2014 and as at 31 December 2013 the Company did not posses any significant non-cancellable operating lease agreements as a lessor as well as any finance lease agreements as a lessor.

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

Total investment expenditures together with borrowing costs incurred in 2014 and 2013 amounted to PLN 2,358 million and PLN 1,173 million, respectively, including PLN 467 million and PLN 225 million of investments relating to environmental protection.
As at 31 December 2014 and as at 31 December 2013 future liabilities resulting from contracts signed until this date amounted to PLN 2,449 million and PLN 1,894 million, respectively.

32. Contingent liabilities

As at 31 December 2014 there were no significant contingent liabilities.

33. Other disclosures

Excise tax guarantees and excise tax on goods and merchandise under the excise tax suspension procedure as at 31 December 2014 and as at 31 December 2013 amounted to PLN 1,184 million and PLN 1,241 million, respectively.

34. Related party transactions

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

In 2014 and 2013 there were no material related party transactions in the Company concluded on other than market terms.

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

In 2014 and in 2013 the Company did not grant to managing and supervising persons and their relatives any advances, loans, guarantees and commitments, or concluded other agreements obliging to render services to the Company and its related parties.
As at 31 December 2014 and as at 31 December 2013 there were no loans granted by the Company to managing and supervising persons and their relatives.

In 2014 and 2013 there were no significant transactions concluded with members of the Management Board and Supervisory Board of the Company, their spouses, siblings, descendants, ascendants or their other relatives.

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

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

In 2014 and 2013 key management personnel of the Company did not conclude any transaction with related parties.

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

2014

	Subsidiaries	Jointly- controlled entities	Associates	Total
Sales	38 482	2 945	-	41 427
Purchases	4 062	27	1	4 090
Finance income, including:	1 187	-	-	1 187
dividends	*1 090*	-	-	*1 090*
Finance costs	56	-	-	56

31/12/2014

	Subsidiaries	Jointly- controlled entities	Associates	Total
Other non-current assets	668	-	-	668
Trade and other receivables	2 268	572	-	2 840
Other financial assets	645	-	-	645
Other non-current liabilities	12	-	-	12
Trade and other liabilities	406	3	-	409
Borrowings and bonds	2 584	-	-	2 584
Other financial liabilities	400	-	-	400

2013

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

31/12/2013

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

Sale and purchase transactions with related parties were concluded on market terms and include mainly sale and purchase of refinery and petrochemicals products, crude oil and sale and purchase of repair, transportation and other services
Guarantees and sureties granted to related parties to third parties as at 31 December 2014 and as at 31 December 2013 amounted to PLN 6,462 million and PLN 2,197 million, respectively. They are related to guarantee payments by subsidiaries. Revenues from guarantees granted for 2014 and 2013 amounted to PLN 14 million and PLN 11 million, respectively.

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

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

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

	2014	2013
Remuneration of the Management Board Members of the Company	**12**	**12**
Remuneration and other benefits	7	6
Bonus paid for the previous year	5	6
Bonus potentially due to the Management Board Members, to be paid in the next year [2]	**6**	**5**
Remuneration paid to the Management Board Members of the Company performing the function in the previous years	**1**	**1**
Remuneration and other benefits [1]	1	-
Remuneration due to Management Board Member, to be paid in the next year	-	1
		-
Remuneration and other benefits of the key executive personnel of the Company	**35**	**34**
Remuneration of the Supervisory Board Members of the Company	**1**	**1**

[1] paid remuneration due to severance pay and paid bonus for 2011
[2] bonus for 2014 estimated assuming full realisation of bonus goals by the Management Board Members, and for 2013 on the basis of forecast goals realisation

35.1. Bonus system for key executive personnel

In 2014 there has been an amendment to the Bonus Regulations for Councillor Concern and directors that are directly reporting to the Management Board of PKN ORLEN aiming to the higher level of standardization and improvement of bonuses motivating characteristics.
The regulations applicable to PKN ORLEN Management Board, directors directly reporting to the Management Board of PKN ORLEN entities and other key positions have certain common features. The persons subject to the above mentioned systems are remunerated for the accomplishment of specific goals set at the beginning of the bonus period, by the Supervisory Board for the Management Board Members and by the Management Board for the key executive personnel. The Bonus Systems are consistent with the Concern's Values, so as to promote the cooperation between individual employees in view to achieve the best possible results for the PKN ORLEN.
The goals so-said are qualitative or quantitative and are accounted for the end of the year for which they were set. Regulation gives the possibility to promote employees, who significantly contribute to the achieved results.

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

According to agreements, Members of the PKN ORLEN Management Board are obliged to obey a non-competition clause for 6 or 12 months, starting from the date of termination or expiration of the contract. In the period, they are entitled to receive remuneration in the amount of six or twelve basic monthly remuneration, payable in equal monthly instalments. In addition, agreements include remuneration payments in case of dissolution of the contract because of dismissal from the position held. Remuneration in such a case is six or twelve basic monthly remuneration.

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

	2014	2013
Remuneration of KPMG Audyt Sp. z o.o.	**4**	**4**
Audit of the annual financial statements	1	1
Reviews of financial statements	1	1
Related services	2	2

37. Information on significant court, arbitration and administrative proceedings

As at 31 December 2014 the Company was a party in the following significant proceedings in front of court, body appropriate for arbitration proceedings or in front of public administration bodies:

37.1. Proceedings in which the Company acts as a defendant

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

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

The claim regarding the payment of a compensation for losses related among others to alleged unfair competition of PKN ORLEN included in Agrofert Holding a.s. (Agrofert) claim and alleged illegal violation of reputation of Agrofert in relation to purchase by PKN ORLEN of UNIPETROL a.s. shares. On 21 October 2010 the Court of Arbitration in Prague overruled the entire claim of Agrofert against PKN ORLEN regarding the payment of PLN 2,992 million translated using exchange rate as at 31 December 2014 (representing CZK 19,464 million) with interest and obliged Agrofert to cover the cost of proceedings born by PKN ORLEN. On 3 October 2011 PKN ORLEN received from the common court in Prague (Czech Republic) claim which overruled the sentence of the Arbitration Court attached to the Economic Chamber of the Czech Republic and Agricultural Chamber of the Czech Republic in Prague issued on 21 October 2010. The complaint was dismissed by the court in Prague with the ruling of 24 January 2014. On 7 April 2014 Agrofert appealed from the above sentence. In the opinion of PKN ORLEN the decision included in the judgment of the Arbitration Court dated 21 October 2010 and in the judgment of the common court in Prague dated 24 January 2014 are correct and will take all necessary means to retain the judgment in force. On 24 March 2015, the hearing of the court of appelas was held in which the date on the next hearing was set on 7 April 2015.

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

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

PKN ORLEN participates in court proceeding concerning the settlement of system fee with ENERGA – OPERATOR S.A. for the period from 5 July 2001 to 30 June 2002. ENERGA – OPERATOR S.A. disputed claims from PKN ORLEN payment of PLN 46 million increased by the statutory interest. During the retrial, an opinion was prepared by an expert witness for the variant damages calculation. The District Court in Warsaw (as a first instance authority) by its judgment from 27 October 2014 ordered PKN ORLEN to pay to ENERGA - OPERATOR S.A. the amount of PLN 46 million, together with statutory interest from 30 June 2004 to the date of payment. The judgment is not binding. PKN ORLEN filed an appeal against the judgment.

37.1.2.2. Claim of OBR S.A. for compensation

On 5 September 2014, the company OBR S.A. filed an action against PKN ORLEN to the District Court in Lodz with the claim for payment in respect of the alleged breach by PKN ORLEN of patent rights: "The technique of the separation of hydrodesulfurization products of heavy residue after extractive distillation of crude oil. The amount of the claim in the lawsuit has been estimated by the OBR S.A. of approximately PLN 83 million. The claim covers the adjudge sum of money from PKN ORLEN for the OBR S.A. in the amount corresponding to the market value of the license fee for the use of the solution under the above patent and adjudge the obligation to repay the benefits derived from the use of this solution. On 16 October 2014, PKN ORLEN responded for the lawsuit. The value of the dispute was referred to by the plaintiff in the procedural document from 11 December 2014 in the amount of PLN 247 million.
In the opinion of PKN ORLEN the claim of patent infringement is groundless.

37.2. Court proceedings in which the Company acts as plaintiff

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

On 20 December 2012 PKN ORLEN sent an arbitration call to Basell Europe Holdings B.V. regarding ad hoc proceeding in front of the Court of Arbitration in London relating to Joint Venture Agreement signed in 2002 between PKN ORLEN and Basell Europe Holdings B.V. The claims follow from the use by Basell Sales & Marketing Company so-called *Cash Discounts* which effectively led to a lower product price payable to Basell Orlen Polyolefins Sp. z o.o. On 27 February 2014 PKN ORLEN submitted its statement on this case, according to which claimed amounts were updated in the way that PKN ORLEN requests payments from Basell Europe Holdings B.V. to Basell Orlen Polyolefins Sp. z o.o. the amount of PLN 128 million translated using exchange rate as of 31 December 2014 (representing approximately EUR 30 million) plus interest, or alternatively, from Basell Europe Holdings B.V. to PKN ORLEN the amount of approximately PLN 57 million, provided that the amounts may be adjusted during arbitration proceedings. On 10 April 2014 PKN ORLEN submitted an application for suspension of the arbitration proceedings until 1 November 2014. Basell Europe Holdings B.V. accepted this request. On 23 April 2014 the parties received the Tribunal's decision regarding the suspension of the proceeding until 1 November 2014. On 1 November 2014, the arbitration proceedings were resumed. On 24 March 2015, the seating of the Tribunal which was planned on 24-27 March 2015 began.

38. Events after the end of the reporting period

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

39. Approval of the financial statements

The foregoing separate financial statements were approved by the Management Board on 24 March 2015.

....
Dariusz Krawiec
President of the Board

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

....
Piotr Chełmiński
Member of the Board

....
Krystian Pater
Member of the Board

....
Marek Podstawa
Member of the Board

Signature of a person responsible for keeping accounting books

....
Rafał Warpechowski

Executive Director
Planning and Reporting