Polski Koncern Naftowy ORLEN
Spółka Akcyjna

ORLEN GROUP

CONSOLIDATED HALF-YEAR REPORT

FOR THE 1st HALF 2019

ORLEN GROUP - SELECTED DATA

	PLN million		EUR million	
	6 MONTHS ENDED 30/06/2019	6 MONTHS ENDED 30/06/2018	6 MONTHS ENDED 30/06/2019	6 MONTHS ENDED 30/06/2018
Sales revenues	54 474	49 942	12 704	11 780
Profit from operations increased by depreciation and amortisation (EBITDA)	4 761	5 087	1 110	1 200
Profit from operations (EBIT)	3 082	3 788	719	894
Profit before tax	3 117	3 477	727	820
Net profit	**2 450**	**2 817**	**571**	**664**
Total net comprehensive income	2 403	3 054	560	720
Net profit attributable to equity owners of the parent	2 451	2 786	572	657
Total net comprehensive income attributable to equity owners of the parent	2 404	2 974	561	701
Net cash from operating activities	4 685	2 389	1 093	564
Net cash (used) in investing activities	(1 341)	(1 912)	(313)	(451)
Net cash (used) in financing activities	(1 338)	(1 488)	(312)	(351)
Net increase/(decrease) in cash and cash equivalents	2 006	(1 011)	468	(238)
Net profit and diluted net profit per share attributable to equity owners of the parent (in PLN/EUR per share)	5.73	6.51	1.34	1.54

	30/06/2019	31/12/2018	30/06/2019	31/12/2018
Non-current assets	37 275	33 932	8 767	7 891
Current assets	33 495	30 209	7 877	7 025
Total assets	**70 770**	**64 141**	**16 644**	**14 916**
Share capital	1 058	1 058	249	246
Equity attributable to equity owners of the parent	36 630	35 727	8 615	8 309
Total equity	**36 641**	**35 739**	**8 617**	**8 311**
Non-current liabilities	14 013	11 506	3 296	2 676
Current liabilities	20 116	16 896	4 731	3 929
Number of shares	427 709 061	427 709 061	427 709 061	427 709 061
Carrying amount and diluted carrying amount per share attributable to equity owners of the parent (in PLN/EUR per share)	85.64	83.53	20.14	19.43

PKN ORLEN – SELECTED DATA

	PLN million		EUR million	
	6 MONTHS ENDED 30/06/2019	6 MONTHS ENDED 30/06/2018	6 MONTHS ENDED 30/06/2019	6 MONTHS ENDED 30/06/2018
Sales revenues	43 058	39 206	10 042	9 248
Profit from operations increased by depreciation and amortisation (EBITDA)	3 086	3 369	720	795
Profit from operations (EBIT)	2 238	2 706	522	638
Profit before tax	2 683	3 155	626	744
Net profit	**2 194**	**2 719**	**512**	**641**
Total net comprehensive income	2 171	2 530	506	597
Net cash from operating activities	2 526	840	589	198
Net cash from/(used in) investing activities	89	(3 642)	21	(859)
Net cash from/(used in) financing activities	(813)	1 880	(190)	444
Net increase/(decrease) in cash	1 802	(922)	420	(217)
Net profit and diluted net profit per share (in PLN/EUR per share)	5.13	6.36	1.20	1.50

	30/06/2019	31/12/2018	30/06/2019	31/12/2018
Non-current assets	34 628	32 590	8 144	7 579
Current assets	24 858	22 207	5 846	5 164
Total assets	**59 486**	**54 797**	**13 990**	**12 743**
Share capital	1 058	1 058	249	246
Total equity	**32 308**	**31 634**	**7 598**	**7 357**
Non-current liabilities	11 523	10 236	2 710	2 380
Current liabilities	15 655	12 927	3 682	3 006
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)	75.54	73.96	17.77	17.20

The above data for the 6-month period of 2019 and 2018 was translated into EUR using the following exchange rates:

- items in the statement of profit or loss and other comprehensive income and the statement of cash flows - by the arithmetic average of average exchange rates quoted by the National Bank of Poland as of the last day of the month during the reporting period: 1 January to 30 June 2019 – 4.2880 EUR/PLN and 1 January to 30 June 2018 – 4.2395 EUR/PLN;
- items of assets, equity and liabilities – by the average exchange rate published by the National Bank of Poland as at 30 June 2019 – 4.2520 EUR/PLN and as at 31 December 2018– 4.3000 EUR/PLN.

TABLE OF CONTENTS

HALF-YEAR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE 6 AND 3-MONTH PERIOD ENDED 30 JUNE 2019

PREPARED IN ACCORDANCE WITH INTERNATIONAL
FINANCIAL REPORTING STANDARDS
AS ADOPTED BY THE EUROPEAN UNION

HALF-YEAR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in PLN million)

A. HALF-YEAR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION

Consolidated statement of profit or loss and other comprehensive income

	NOTE	6 MONTHS ENDED 30/06/2019 (unaudited)	3 MONTHS ENDED 30/06/2019 (unaudited)	6 MONTHS ENDED 30/06/2018 (unaudited)	3 MONTHS ENDED 30/06/2018 (unaudited)
Sales revenues	5.1	54 474	29 228	49 942	26 701
revenues from sales of finished goods and services		*45 588*	*24 349*	*40 922*	*21 830*
revenues from sales of merchandise and raw materials		*8 886*	*4 879*	*9 020*	*4 871*
Cost of sales	5.2	(47 661)	(25 269)	(43 605)	(23 169)
cost of finished goods and services sold		*(39 863)*	*(21 050)*	*(35 517)*	*(18 794)*
cost of merchandise and raw materials sold		*(7 798)*	*(4 219)*	*(8 088)*	*(4 375)*
Gross profit on sales		**6 813**	**3 959**	**6 337**	**3 532**
Distribution expenses		(3 011)	(1 546)	(2 275)	(1 140)
Administrative expenses		(870)	(449)	(765)	(387)
Other operating income	5.4	403	262	858	514
Other operating expenses	5.4	(310)	(163)	(456)	(194)
(Loss)/reversal of loss due to impairment of financial instruments		(25)	(15)	1	(4)
Share in profit from investments accounted for using the equity method	5.6	82	38	88	53
Profit from operations		**3 082**	**2 086**	**3 788**	**2 374**
Finance income	5.5	483	222	925	422
Finance costs	5.5	(447)	(184)	(1 235)	(564)
Net finance income and costs		**36**	**38**	**(310)**	**(142)**
(Loss)/reversal of loss due to impairment of financial instruments		(1)	(1)	(1)	-
Profit before tax		**3 117**	**2 123**	**3 477**	**2 232**
Tax expense		(667)	(522)	(660)	(459)
current tax		*(520)*	*(337)*	*(592)*	*(405)*
deferred tax		*(147)*	*(185)*	*(68)*	*(54)*
Net profit		**2 450**	**1 601**	**2 817**	**1 773**
Other comprehensive income:					
which will not be reclassified subsequently into profit or loss		**(16)**	**(9)**	**(3)**	**(9)**
gains/(losses) on investments in equity instruments at fair value through other comprehensive income		*(17)*	*(9)*	*(4)*	*(12)*
deferred tax		*1*	*-*	*1*	*3*
which will be reclassified into profit or loss		**(31)**	**121**	**240**	**233**
hedging instruments		*(146)*	*210*	*(382)*	*(343)*
hedging costs		*77*	*(5)*	*50*	*26*
exchange differences on translating foreign operations		*35*	*(45)*	*508*	*492*
deferred tax		*3*	*(39)*	*64*	*58*
		(47)	**112**	**237**	**224**
Total net comprehensive income		**2 403**	**1 713**	**3 054**	**1 997**
Net profit attributable to		**2 450**	**1 601**	**2 817**	**1 773**
equity owners of the parent		*2 451*	*1 602*	*2 786*	*1 744*
non-controlling interest		*(1)*	*(1)*	*31*	*29*
Total net comprehensive income attributable to		**2 403**	**1 713**	**3 054**	**1 997**
equity owners of the parent		*2 404*	*1 714*	*2 974*	*1 968*
non-controlling interest		*(1)*	*(1)*	*80*	*29*
Net profit and diluted net profit per share attributable to equity owners of the parent (in PLN per share)		5.73	3.75	6.51	4.07

The accompanying notes disclosed on pages 10 – 30 are an integral part of this half-year condensed consolidated financial statements.

HALF-YEAR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in PLN million)

Consolidated statement of financial position

	NOTE	30/06/2019 (unaudited)	31/12/2018
ASSETS			
Non-current assets			
Property, plant and equipment		31 249	31 390
Intangible assets		1 281	1 323
Right-of-use asset	5.11.1	3 606	-
Investments accounted for using the equity method		625	650
Deferred tax assets		48	70
Derivatives	5.8	254	161
Long-term lease receivables		18	-
Other assets	5.8	194	338
		37 275	**33 932**
Current assets			
Inventories		14 554	14 362
Trade and other receivables		11 771	10 479
Current tax assets		247	114
Cash and cash equivalents		6 168	4 192
Non-current assets classified as held for sale		22	202
Derivatives	5.8	352	524
Short-term lease receivables		11	-
Other assets	5.8	370	336
		33 495	**30 209**
Total assets		**70 770**	**64 141**
EQUITY AND LIABILITIES			
EQUITY			
Share capital		1 058	1 058
Share premium		1 227	1 227
Hedging reserve		295	361
Revaluation reserve		(31)	(15)
Exchange differences on translating foreign operations		744	709
Retained earnings		33 337	32 387
Equity attributable to equity owners of the parent		**36 630**	**35 727**
Non-controlling interests		**11**	**12**
Total equity		**36 641**	**35 739**
LIABILITIES			
Non-current liabilities			
Loans and bonds	5.7	8 172	8 598
Provisions	5.9	1 045	1 055
Deferred tax liabilities		1 565	1 445
Derivatives	5.8	29	42
Lease liabilities		3 018	-
Other liabilities	5.8	184	366
		14 013	**11 506**
Current liabilities			
Trade and other liabilities		17 346	13 697
Lease liabilities		550	-
Liabilities from contracts with customers		263	231
Loans and bonds	5.7	413	1 193
Provisions	5.9	732	1 019
Current tax liabilities		204	473
Derivatives	5.8	239	193
Other liabilities	5.8	369	90
		20 116	**16 896**
Total liabilities		**34 129**	**28 402**
Total equity and liabilities		**70 770**	**64 141**

The accompanying notes disclosed on pages 10 – 30 are an integral part of this half-year condensed consolidated financial statements.

HALF-YEAR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in PLN million)

Consolidated statement of changes in equity

	Equity attributable to equity owners of the parent							
	Share capital and share premium	Hedging reserve	Revaluation reserve	Exchange differences on translating foreign operations	Retained earnings	Total	Non-controlling interests	Total equity
01/01/2019 (approved data)	2 285	361	(15)	709	32 387	35 727	12	35 739
Impact of IFRS 16 adoption	-	-	-	-	(4)	(4)	-	(4)
01/01/2019 (converted data)	2 285	361	(15)	709	32 383	35 723	12	35 735
Net profit/(loss)	-	-	-	-	2 451	2 451	(1)	2 450
Items of other comprehensive income	-	(66)	(16)	35	-	(47)	-	(47)
Total net comprehensive income	**-**	**(66)**	**(16)**	**35**	**2 451**	**2 404**	**(1)**	**2 403**
Dividends	-	-	-	-	(1 497)	(1 497)	-	(1 497)
30/06/2019	**2 285**	**295**	**(31)**	**744**	**33 337**	**36 630**	**11**	**36 641**
(unaudited)								
01/01/2018 (approved data)	2 285	331	5	334	29 242	32 197	3 014	35 211
Impact of IFRS 9 adoption	-	-	-	-	(9)	(9)	-	(9)
01/01/2018 (converted data)	2 285	331	5	334	29 233	32 188	3 014	35 202
Net profit	-	-	-	-	2 786	2 786	31	2 817
Items of other comprehensive income	-	(283)	(3)	474	-	188	49	237
Total net comprehensive income	**-**	**(283)**	**(3)**	**474**	**2 786**	**2 974**	**80**	**3 054**
Change in structure	-	-	-	-	(967)	(967)	(2 564)	(3 531)
Dividends	-	-	-	-	(1 283)	(1 283)	-	(1 283)
30/06/2018	**2 285**	**48**	**2**	**808**	**29 769**	**32 912**	**530**	**33 442**
(unaudited)								

The accompanying notes disclosed on pages 10 – 30 are an integral part of this half-year condensed consolidated financial statements.

HALF-YEAR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in PLN million)

Consolidated statement of cash flows

	6 MONTHS ENDED 30/06/2019 (unaudited)	3 MONTHS ENDED 30/06/2019 (unaudited)	6 MONTHS ENDED 30/06/2018 (unaudited)	3 MONTHS ENDED 30/06/2018 (unaudited)
Cash flows from operating activities				
Profit before tax	**3 117**	**2 123**	**3 477**	**2 232**
Adjustments for:				
Share in profit from investments accounted for using the equity method	(82)	(38)	(88)	(53)
Depreciation and amortisation	1 679	846	1 299	673
Foreign exchange (profit)/loss	(85)	(100)	382	314
Net interest	125	55	96	47
Dividends	(5)	(5)	(4)	(4)
(Profit)/Loss on investing activities	7	26	(47)	(192)
Change in provisions	517	266	279	129
Change in working capital	652	1 194	(2 108)	(710)
inventories	*(203)*	*752*	*(1 804)*	*(924)*
receivables	*(1 327)*	*(340)*	*(1 861)*	*(1 581)*
liabilities	*2 182*	*782*	*1 557*	*1 795*
Other adjustments, incl.:	(319)	(518)	(484)	(347)
change in balances of settlements due to compensation from insurers in Unipetrol Group	-	-	*(264)*	*(264)*
rights received free of charge	*(337)*	*(172)*	*(214)*	*(84)*
Income tax (paid)	(921)	(355)	(413)	(210)
Net cash from operating activities	**4 685**	**3 494**	**2 389**	**1 879**
Cash flows from investing activities				
Acquisition of property, plant and equipment, intangible assets and right-of-use asset	(1 728)	(894)	(2 205)	(1 056)
Acquisition of shares	-	-	(25)	(25)
Disposal of property, plant and equipment, intangible assets and right-of-use asset	234	63	105	47
Dividends received	112	112	129	129
Settlement of derivatives not designated as hedge accounting	40	48	88	258
Other	1	(4)	(4)	-
Net cash (used) in investing activities	**(1 341)**	**(675)**	**(1 912)**	**(647)**
Cash flows from financing activities				
Change in cash related to purchase of non-controlling interest of UNIPETROL, a.s	200	(12)	(3 531)	-
Proceeds from loans received	362	58	2 133	7
Bonds issued	-	-	400	400
Repayment of loans	(412)	(2)	(91)	(90)
Redemption of bonds	(1 000)	-	(200)	(200)
Interest paid from loans and bonds	(182)	(153)	(176)	(150)
Interest paid on lease	(35)	(20)	(4)	(2)
Dividends paid	-	-	(1)	(1)
Payments of liabilities under finance lease agreements	(270)	(173)	(17)	(9)
Other	(1)	-	(1)	-
Net cash (used) in financing activities	**(1 338)**	**(302)**	**(1 488)**	**(45)**
Net increase/(decrease) in cash and cash equivalents	**2 006**	**2 517**	**(1 011)**	**1 187**
Effect of changes in exchange rates	(30)	(14)	45	11
Cash and cash equivalents, beginning of the period	4 192	3 665	6 244	4 080
Cash and cash equivalents, end of the period	**6 168**	**6 168**	**5 278**	**5 278**
including restricted cash	*93*	*93*	*23*	*23*

The accompanying notes disclosed on pages 10 – 30 are an integral part of this half-year condensed consolidated financial statements.

HALF-YEAR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in PLN million)

EXPLANATORY NOTES TO HALF-YEAR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Principal activity of the ORLEN Group

The Parent Company of the Polski Koncern Naftowy ORLEN S.A. Capital Group is Polski Koncern Naftowy ORLEN S.A. ("PKN ORLEN", "Company", "Parent Company") with its headquarters in Płock, 7 Chemików Street.
The core business of the ORLEN Group is the processing of crude oil and the production of fuel, petrochemical and chemical products as well as their wholesale and retail sale. The ORLEN Group also conducts exploration, recognition and extraction of hydrocarbons, and generates, distributes and trades of electricity and heat.
The activity of the ORLEN Group companies is also service-related activity: storage of crude oil and fuels, transportation, maintenance and overhaul services, laboratory, security, design, administrative, insurance and financial services.

2. Information on principles adopted in the preparation of half-year condensed consolidated financial statements

2.1. Statement of compliance and general principles of preparation

This half-year condensed consolidated financial statements were prepared in accordance with requirements of IAS 34 "Interim financial reporting" and in the scope required under the Minister of Finance Regulation of 29 March 2018 on current and periodical information provided by issuers of securities and terms of deeming information required by the regulations of a non-member state equivalent (Official Journal 2018, item 757) ("Regulation") and present the Polski Koncern Naftowy ORLEN S.A. Capital Group's ("Group", "ORLEN Group") financial position as at 30 June 2019 and as at 31 December 2018, financial results and cash flows for the 6 and 3-month period ended 30 June 2019 and 30 June 2018.

This half-year condensed consolidated financial statements were prepared assuming that the Group will continue to operate as a going concern in the foreseeable future. As at the date of approval of this half-year condensed consolidated financial statements there is no evidence indicating that the Group will not be able to continue its operations as a going concern.

The duration of the Parent Company and the entities comprising the ORLEN Group is unlimited.

This half-year condensed consolidated financial statements, except for the consolidated statement of cash flows, were prepared using the accrual basis of accounting.

2.2. Accounting principles and amendments to International Financial Reporting Standards (IFRS)

2.2.1. Accounting principles

In this half-year condensed consolidated financial statements, the significant accounting policies applied by the Group and significant values based on judgments and estimates were the same as described in individual explanatory notes in the Consolidated Financial Statements for 2018, except for the adopted new IFRS 16 – Lease described in note 2.2.2.

Selected accounting principles	Note	Page
Consolidation principles	7.1	14
Operating segments	9.1	18
Sales revenues	10.1.1	20
Costs	10.1.8	23
Income tax expenses (tax expense)	10.1.13	25
Property, plant and equipment	10.2.1	26-27
Exploration and extraction of mineral resources	10.2.1	26-27
Intangible assets	10.2.2	28-29
Investments accounted for using the equity method	10.2.4	30
Impairment of property, plant and equipment and intangible assets	10.2.5	32
Inventories	10.2.6.1	35
Trade and other receivables	10.2.6.2	36
Trade and other liabilities	10.2.6.4	37
Net debt	10.2.7	38
Equity	10.2.8	39-40
Provisions	10.2.10	43
Financial instruments and fair value measurement	10.3	45-46
Lease	10.4.2	56
Contingent assets and liabilities	10.4.4	57

2.2.2. Amendments to International Financial Reporting Standards (IFRS)

➢ **IFRS 16 Lease (IFRS 16)**

Selected accounting principles

IFRS 16 Lease issued on 13 January 2016 was adopted by the European Union on 31 October 2017.

Since 1 January 2019, the Group has applied the new Standard in the recognition, measurement, and presentation of lease agreements. The application of the new Standard was made in accordance with the transitional provisions contained in IFRS 16.

Implementation of IFRS 16 within the Group was carried out using the modified retrospective approach, and therefore, comparative data for the year 2018 was not converted and any cumulative effect of the first application of the new Standard was included as an adjustment to the opening balance of retained earnings on the first day of application.

As at 1 January 2019 the Group has recognised right-of-use asset in the amount of PLN 3,316 million and lease liability in the amount of PLN 3,352 million, what caused a difference in value to the position of retained earnings in the amount of PLN 4 million and the recognition of receivables from subleasing in the amount of PLN 32 million.

The Group as a lessee

Identifying a lease

The Group applies new guidelines for identifying a lease only for contracts that it has concluded (or amended) on the day of its first application, i.e. 1 January 2019 or after that date. Thereby, for all contracts concluded before 1 January 2019, the Group applied the practical exemption provided for in IFRS 16, according to which the entity is not required to reassess whether the contract is a lease or contains a lease on the date of first application. As at 1 January 2019 the Group applies IFRS 16 to contracts that were previously identified as leases in accordance with IAS 17 and IFRIC 4.
At the time of conducting a new contract, the Group assesses whether the contract is a lease or whether it contains a lease. An agreement is a lease or contains a lease if it transfers the right to control the use of an identified asset for a given period in exchange for remuneration. In order to assess if an agreement transfers the right to control the use of an identified asset for a given period, the Group shall determine whether throughout the entire period of use the customer enjoys the following rights:

a) the right to obtain substantially all economic benefits from the use of the identified asset and
b) the right to manage the use of the identified asset.

Should the Group have the right to control the use of an identified asset for part of the duration of an agreement only, the agreement contains a lease in respect of this part of the period.

Rights resulting from lease, rental, hire or other agreements which meet the definition of a lease as per IFRS 16 are recognised as right-of-use underlying assets within the framework of non-current assets with a corresponding lease liabilities.

Initial recognition and measurement

The Group recognises the right-of-use asset as well as the lease liability on the date of commencement of the lease.

On the date of commencement the Group measured the right-of-use asset at cost.

The cost of the right-of-use asset is inclusive of the following:

a) the amount of the initial measurement of the lease liability,
b) all lease payments made on or before the date of commencement, less any lease incentives received,
c) all initial costs directly incurred by the lessee, and
d) estimated costs to be incurred by the lessee in connection with the dismantling and removal of underlying assets, the refurbishment of premises within which they were located, or the refurbishment of underlying assets to the condition required by the terms and conditions of the lease, unless these costs are incurred with the aim of creating stocks.

Lease payments included in the evaluation of lease liability include:

- fixed lease payments;
- variable lease payments, which depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts that are expected to be paid by the lessee as part of the guaranteed residual value;
- the call exercise price, should it be assumed with reasonable certainty that the Group shall decide to exercise the call option;
- penalty payments for termination of a lease, unless it can be assumed with reasonable certainty that the Group shall not terminate the lease.

Variable payments, which do not depend on an index or a rate should not be taken into account when calculating lease liability. Such payments are recognised in the profit or loss in the period of the occurrence which renders them payable.

The lease liability on the commencement date shall be calculated on the basis of the current lease payments that are payable by that date and discounted by the marginal interest rates of the lessee.

The Group does not discount lease liabilities by the lease interest rate as the calculation of such rates requires information known only to the lessor (the non-guaranteed final value of the leased asset as well as the direct costs incurred by the lessor).

Determining the lessee's marginal interest rate
Marginal interest rates were specified as the sum of:

a) the risk free rate, based on the Interest Rate Swap (IRS) in accordance with the maturity of the discount rate, and the relevant basic rate for the given currency, as well as
b) the Group's credit risk premium based on the credit margin calculated inclusive of the credit risk segmentation of all companies which have entered into lease agreements.

Subsequent measurement

After the commencement date, the lessee measures the right-of-use asset applying the cost model.

In applying the cost model, the lessee shall measure the cost of the right-of-use asset:

a) less any accumulated depreciation and accumulated impairment losses; and
b) adjusted in respect of any updates to the measurement of lease liability not resulting in the necessity for recognition of a separate asset.

After the date of commencement the lessee shall measure the lease liability by:
a) increasing the carrying amount to reflect interest on the lease liability,
b) decreasing the carrying amount to reflect any lease payments made, and
c) remeasuring the carrying amount to reflect any reassessment or lease modifications or to revise in-substance fixed lease payments.

The Group shall remeasure the lease liability in cases where there is a change in future lease payments as a result of a change in the index or rate used to determine lease payments (e.g. a change in payment associated with the right of perpetual use), in cases where there is a change in the amount expected by the Group to be payable under the residual amount guarantee, or if the Group reassesses the likelihood of the exercise of the call option, or the extension or termination of the lease.

Updating the lease liability also adjusts the value of the right-of-use asset. In a situation where the carrying amount of the right-of-use asset has been reduced to zero, further reductions in the measurement of the lease liability shall be recognised by the Group as profit or loss.

Depreciation
The right-of-use asset is depreciated linearly over the shorter of the following two periods: the period of lease or the useful life of the underlying asset. However in cases where the Group can be reasonably sure that it will regain ownership of the asset prior to the end of the lease term, right-of-use shall be depreciated from the day of commencement of the lease until the end of the useful life of the asset.
The useful life of right-of-use asset is determined in the same manner as for property, plant and equipment.

The Group has leases agreements regarding mainly:
a) Land, including:
  - perpetual usufruct of land for a fixed period of up to 99 years,
  - land for petrol stations and motorway service areas concluded for a specified period up to 30 years and for an indefinite period.
b) Buildings and construction, including petrol stations, storage tank, office spaces for a fixed period up to 30 years.
c) Vehicles and other, including:
  - railway tank concluded for a specified period of 3 to 10 years,
  - cars for a fixed period up to 3 years,
  - locomotives for a fixed period up to 3 years.

Impairment
The Group applies IAS 36 Impairment of Assets to determine whether the right-of-use asset is impaired and to account for any impairment loss identified.

Exemptions, simplifications and practical solutions in the application of IFRS 16

Exemptions
Agreements not included within the scope of IFRS 16:
- lease for the exploration or use of natural resources,
- licences granted and recognised in accordance with IFRS 15 - Revenue from Contracts with Customers, and
- rights received under licence in accordance with IAS 38 - Intangible Assets.

The Group does not apply IFRS 16 to lease agreements or similar for intangible assets.

Simplifications and practical solutions

Short-term lease

The Group applies a practical solution to short-term lease contracts, which are characterised by a maximum possible contract term of up to 12 months, including any options to extend.

Simplifications regarding these contracts involve the settlement of lease payments as costs:
- on a straight-line basis, for the duration of the lease agreement, or
- another systematic method, if it better reflects the way of spreading the benefits gained by the user in time.

Leases of low-value assets
The Group does not apply the rules concerning recognition, measurement and presentation outlined in IFRS 16 to lease agreements of low-value assets.

Low-value assets are considered to be those which have a value when new not higher than PLN 18,799 translated at the exchange rate of the first day of application, i.e. 1 January 2019 (representing USD 5,000) or the equivalent value in another currency as per the average closing rate of exchange of the National Bank of Poland at the moment of initial recognition of a contract.
Simplifications in respect of such contracts are due to the settlement of costs on:
- a straight-line basis for the term of the lease contract; or
- another systematic method basis should it be more representative of the time pattern of the user's benefit.

An asset covered by a lease must not be counted as a low-value asset if the asset would typically not be of low value when new. As low-value items, the Group includes for example: gas cylinders, coffee machines, and small items of furniture.

The underlying asset may have a low-value only if:
a) the lessee may benefit from use of the underlying asset itself or in conjunction with other resources which are readily available to him, and
b) the underlying asset is not highly dependent on or related to other assets.

If the lessee transfers asset into subleasing or expects the asset to be transferred to subleasing, then the main lease does not qualify as lease of a low-value asset.

Determining the lease term: indefinite contracts

When establishing the term for indefinite leases contracts, the Group makes a professional judgment taking into account:
- expenditure incurred in connection with the contract or
- potential costs connected with the termination of the lease contract, including the costs involved in obtaining a new lease contracts, such as negotiation costs; reallocation costs, costs of identifying other underlying asset suitable for the lessee's needs; costs of integrating a new asset into the lessee's operations; or termination penalties and similar costs, including costs associated with returning the underlying asset in a contractually specified condition or to a contractually specified location.

In cases where the costs connected with the termination of the lease contract are substantial, the lease term adopted is equal to that adopted for the depreciation period of a similar fixed asset with parameters similar to the subject of the lease.

Although the costs connected with the termination of the lease agreement may be reliably measured, it is necessary to determine a lease term during which there are no justifiable grounds for termination.

In cases where expenditure incurred in connection with the contract is substantial, the lease term adopted is equal to that of the expected period of economic benefits derived from the incurred expenses.

The value of the incurred expenses represents a separate asset to the right-of-use asset.

In case of the lack of expenses incurred in connection with the contract in question, or the lack or insignificance of costs connected with its termination, the termination period of the lease is adopted as the lease term.

PROFESSIONAL JUDGEMENT

Separating non-lease components
The Group assesses whether the contract contains lease and non- lease components. Non-lease components are removed from contracts containing a lease component, for example service for assets covered by the contract.
However, in cases where a contract includes non-lease components considered by the Group to be immaterial within the context of the contract as a whole, the Group uses simplification which allows lease and non-lease components to be treated a single lease component.

Determining the lease term
In determining the lease term, the Group consider in all important facts and events behind the economic incentives to make use of the option to extend the lease or not to exercise the option of its termination. An assessment of a lease term is carried out on the date of commencement of the lease. A reassessment is made upon the occurrence of either a significant event or a significant change in circumstances, that the lessee controls, that impact such an assessment.

Estimations

The useful life of right-of-use asset
The estimated useful life of right-of-use asset is determined in the same manner as for property, plant and equipment.

2.3. Functional currency and presentation currency of financial statements and methods applied to translation of financial statements of foreign entities

2.3.1. Functional currency and presentation currency

The functional currency of the Parent Company and presentation currency of this half-year condensed consolidated financial statements is the Polish Zloty (PLN). The data is presented in PLN million, unless otherwise stated.

2.3.2. Methods applied to translation of financial statements

Translation into PLN of financial statements of foreign entities, for consolidation purposes:
- particular assets and liabilities – at spot exchange rate as at the end of the reporting period,
- items of the statement of profit or loss and other comprehensive income and the statement of cash flows - at the average exchange rate for the reporting period (arithmetic average of daily average exchange rates published by the National Bank of Poland ("NBP") in a given period).

Foreign exchange differences resulting from the above recalculations are recognized in equity in the line exchange differences on translating foreign operations.

CURRENCY	Average exchange rate for the reporting period				Exchange rate as at the end of the reporting period	
	6 MONTHS ENDED 30/06/2019	3 MONTHS ENDED 30/06/2019	6 MONTHS ENDED 30/06/2018	3 MONTHS ENDED 30/06/2018	30/06/2019	31/12/2018
EUR/PLN	4.2937	4.2837	4.2205	4.2608	4.2520	4.3000
USD/PLN	3.8002	3.8114	3.4880	3.5760	3.7336	3.7597
CZK/PLN	0.1672	0.1668	0.1655	0.1665	0.1672	0.1673
CAD/PLN	2.8497	2.8488	2.7302	2.7700	2.8502	2.7620

2.4. Information concerning the seasonal or cyclical character of the ORLEN Group's operations in the presented period

There is no significant seasonality or cyclicality to the ORLEN Group's operations.

3. Financial situation and the organization of the ORLEN Group

3.1. Group achievements and factors that have a significant impact on half-year condensed consolidated financial statements

Profit or loss

The increase of sales revenues of the ORLEN Group by PLN 4,532 million (y/y) to PLN 54,474 million reflects mainly increase in volume sales by 2% (y/y) to 20,989 thousand tons in all operating segments. An additional impact on the level of sales revenues had the depreciation of the PLN exchange rate against the foreign currencies. The decrease of crude oil by approximately 5 USD/bbl resulted in decrease of the quotation (y/y) of main products of the ORLEN Group, i.e. fuel by (9%), diesel oil by (4%), light heating oil by (4%) and ethylene by (5%) with a slight increase of heavy heating and propylene by 1%.

The operating expenses increased by PLN (4,897) million (y/y) to PLN (51,542) million. The largest item in this cost structure constitute the costs of materials and energy consumption related mainly to the crude oil and other chemicals used in technological processes. The increase in the costs of materials and energy consumption by 11% (y/y) resulted mainly from the higher crude oil processing in the ORLEN Group by 524 thousand tons and higher share of more expensive low-sulfur crude delivered by sea as a result of contamination with organic chlorides of crude oil sent via the Friendship pipeline and temporary suspension of supply via this pipeline.

The positive result of other operating activities amounted to PLN 93 million and included mainly impact of net positions of valuation and settlement of derivative financial instruments related to operating exposure (non-designated instruments for hedge accounting purposes) in the amount of PLN 50 million and received net penalties and compensations in the amount of PLN 25 million. The result of other operating activities in the 6 month of 2019 was lower by PLN (309) million (y/y) due to lack of compensation received in 2018 related to the accident on installation FCC and recognized compensation for improper execution of the contract of the power plant CCGT in Płock.

Share in profit from investments accounted for using the equity method decreased by PLN (6) million (y/y) to PLN 82 million.

As a result profit from operations amounted to PLN 3,082 million and was lower by PLN (706) million (y/y). An additional comment regarding the main reasons of the change in profit from operations increased by depreciation and amortisation (so-called EBITDA) is presented in point C1.

Net finance income in the described period amounted to PLN 36 million and included net foreign exchange gains in the amount of PLN 56 million, net interest expenses in the amount of PLN (110) million and net positive impact of settlement and valuation of derivatives not designated as hedge accounting in the amount of PLN 100 million.

After the deduction of tax charges in the amount of PLN (667) million, the net profit of the ORLEN Group for the 6 month of 2019 amounted to PLN 2,450 million and was lower by PLN (367) million (y/y).

Statement of financial position

As at 30 June 2019, the total assets of the ORLEN Group amounted to PLN 70,770 million and was higher by PLN 6,629 million in comparison with 31 December 2018.

As at 30 June 2019, the value of non-current assets amounted to PLN 37,275 million and was higher by PLN 3,343 million in comparison with the end of the previous year, mainly due to the recognition of right-of-use asset in the amount of PLN 3,606 million in connection with the implementation from 1 January 2019 new IFRS 16 and decrease in property, plant and equipment and intangible assets by PLN (183) million.

The change in balance of property, plant and equipment and intangible assets comprised mainly investment expenditures in the amount of PLN 1,743 million, for the Construction of the Polyethylene 3 Installation, construction of the boiler house for the Steam Cracker, neutralization of acidic waters and revitalization POX in the Unipetrol Group, Installation of propane-propylene fraction separation (PPF Spliter) in Lithuania and projects in retail and upstream segment, depreciation and amortisation in the amount of PLN (1,679) million.

The value of current assets increased by PLN 3,286 million, mainly as a increase in trade and other receivables by PLN 1,292 million, inventories by PLN 192 million, balance of cash and cash equivalents by PLN 1,976 million with a decrease in settlement of derivatives in the amount of PLN (172) million and decrease in non-current assets classified as held for sale by PLN (180) million mainly due to the sale in the 1st quarter of 2019 of upstream assets in Canada located in the Pouce Coupe area. The increase in trade receivables resulted mainly from higher volume of sales.

As at 30 June 2019, total equity amounted to PLN 36,641 million and was higher by PLN 902 million in comparison with the end of 2018, mainly due to recognition of net profit for the first half of 2019 in the amount of PLN 2,450 million, the inclusion of dividend from the 2018 profit to the total amount of PLN (1,497) million, the impact of exchange differences on translating foreign operations in the amount of PLN 35 million, the negative impact of the change in balance of hedging reserve in the amount PLN (66) million.

The value of trade and other liabilities increased by PLN 3,649 million compared to the end of 2018 mainly due to PKN ORLEN's shareholder dividend liabilities in the amount of PLN 1,497 million, tax liabilities in the amount of PLN 1,051 million and trade liabilities in the amount of PLN 855 million. Trade liabilities include non-financial liability of the Unipetrol Group on the loan of crude oil from the state material reserves because of the suspension of crude oil supplies through the Friendship pipeline in the amount of PLN 440 million.

As at 30 June 2019 the value of provisions amounted to PLN 1,777 million and were lower by PLN (297) million compared to the end of 2018, mainly due to provision balance change of estimated CO_2 emissions and energy certificates in the total amount of PLN 288 million. The change results mainly from the net effect of recognition of provision in the amount of PLN 553 million based on weighted average method price resulting from the status of owned rights on intangible assets and their usage of the provision due to redemption of rights from 2018 in the amount of PLN (811) million.

As at 30 June 2019, net financial indebtedness of the ORLEN Group amounted to PLN 2,417million and was lower by PLN (3,182) million in comparison with the end of 2018. The change in net financial indebtedness included the net repayment of loans, borrowings and bonds in the amount of PLN (1,050) million, an increase in cash balance by PLN (1,976) million and the net impact of positive exchange differences from revaluation and valuation of debt to a total amount of PLN (156) million.

Statement of cash flows

Proceeds of net cash from operating activities for the 6-month period of 2019 amounted to PLN 4,685 million and comprised mainly of profit from operations increased by depreciation and amortisation in the amount of PLN 4,761 million and the positive impact of the decrease in net working capital by PLN 652 million and income taxes paid in the amount of PLN (921) million.

Net cash used in investing activities for the 6-month period of 2019 amounted to PLN (1,341) million and comprised mainly of net expenses for the acquisition and sales of property, plant and equipment, intangible assets and right-of-use asset in the net amount of PLN (1,494) million settlement of derivatives not designated as hedge accounting in the amount of PLN 40 million and proceeds from dividends received in the 2nd quarter of 2019 in the amount of PLN 112 million.

Net outflows of cash from financing activities for the 6-month period of 2019 amounted to PLN (1,338) million and comprised mainly of net outflows of loans and borrowings of PLN (50) million, redemption of retail bonds in the amount of PLN (1,000) million, interest paid in the amount of PLN (217) million, payments of liabilities under finance lease agreements in the amount of PLN (270) million and net cash related to redemption of non-controlling shareholders of UNIPETROL in the amount of PLN 200 million. In accordance with the agreement, bank Ceska Sporitelna a.s. after the Basic Period of settlements with Unipetrol's former shareholders, transferred to PKN ORLEN 90% of unused amount due to former shareholders. The reimbursement of cash is temporary, as PKN ORLEN is obliged to systematically replenish the provisions for subsequent settlements with notifying shareholders, as to maintain safe level above 5% of outstanding amount due to squeeze-out of Unipetrol's shares.

Following inclusion of the revaluation of cash due to exchange differences, the cash balance in the 6-month period of 2019 increased by PLN 1,976 million and as at 30 June 2019 amounted to PLN 6,168 million.

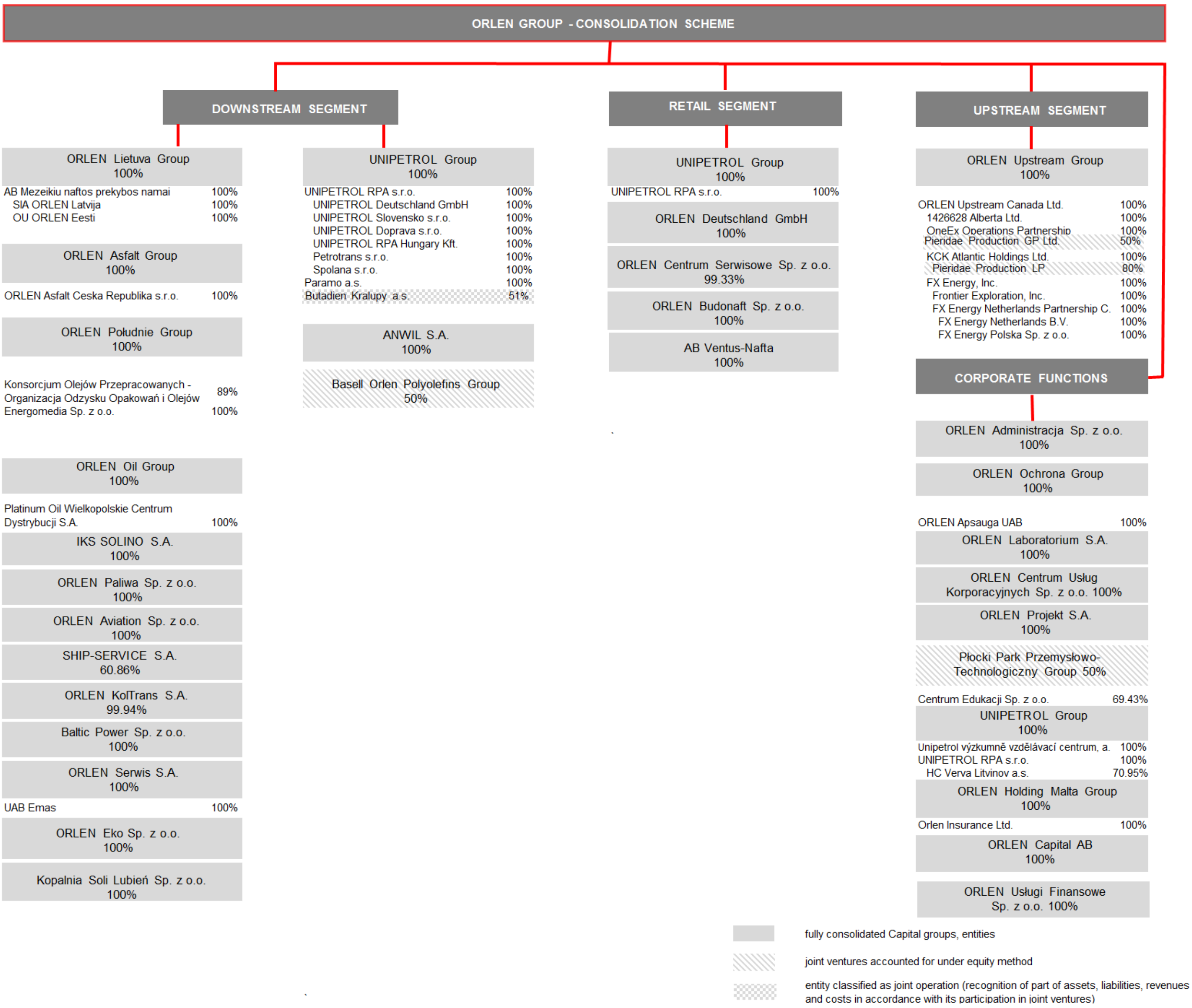
Factors and events which may influence future results

Similar factors as described are likely to influence future financial results.

3.2. Organization of the ORLEN Group

The ORLEN Group includes PKN ORLEN as the Parent Company and entities located in Poland, Germany, Czech Republic, Lithuania, Malta, Sweden, the Netherlands, Slovakia, Hungary, Estonia, Latvia and the USA and Canada.

PKN ORLEN as the Parent Company is a multi-segment entity, appropriately allocated to all operating segments and corporate functions.



3.3. Changes in the structure of the ORLEN Group from 1 January 2019 up to the date of preparation of this report

- On 15 January 2019, the transformation of Platinum Oil Wielkopolskie Centrum Dystrybucji Sp. z o.o. to Platinum Oil Wielkopolskie Centrum Dystrybucji S.A. took place. ORLEN OIL Sp. z o.o. holds 100% of the share capital of Platinum Oil Wielkopolskie Centrum Dystrybucji S.A.;
- On 23 January 2019 the founding act of ORLEN Usługi Finansowe Sp. z o.o. was signed. On 9 May 2019 the company was registered.
- On 1 February 2019 an entry into the merger register of ORLEN Południe SA and Euronaft Trzebinia Sp. z o.o. was made, by transferring all assets of Euronaft Trzebinia Sp. z o.o. as the Acquired Company, to ORLEN Południe S.A. as the Acquiring Company.
- On 1 March 2019 the transformation of ORLEN KolTrans Sp. z o.o. from a limited liability company into a joint-stock company, i.e. into ORLEN KolTrans SA took place.
- On 9 May 2019 the transformation of UAB Mazeikiu naftos prekybos namai from a limited liability company into a joint-stock company took place, i.e. from UAB Mazeikiu naftos prekybos namai into AB Mazeikiu naftos prekybos namai.
- On 3 June 2019 the transfer of UAB EMAS ownership from the ORLEN Lietuva Group to the ORLEN Serwis Group took place as a result of the purchase of all of the company's shares by ORLEN Serwis SA. from AB ORLEN Lietuva. As a result of the transaction ORLEN Serwis S.A. is the sole owner of UAB EMAS (100% share in the share capital).
- On 13 June 2019 PKN ORLEN filed a surcharge to the capital of ORLEN Capital in the total amount of PLN 213 million (representing EUR 50 million).
- On 28 June 2019 the Extraordinary General Meeting of Shareholders of Baltic Power sp. o.o. adopted a resolution regarding the increase of the company's share capital. Share capital of Baltic Power sp. z o.o. increased by PLN 100,000 by creating 1,000 new and indivisible shares with a nominal value of PLN 100 each, which were fully subscribed by the existing sole shareholder of the company, ie. PKN ORLEN, in exchange for a cash contribution of PLN 52.4 million. Surplus of cash contribution over total nominal value of the newly issued shares will increas the company's reserve capital. The cash contribution was made on 1 July 2019. Share capital increase to the amount of PLN 600 000 will take place at the moment of entry into the Register.

HALF-YEAR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in PLN million)

– On 3 July 2019 the share of ORLEN Upstream Canada Ltd. in the capital of Pieridae Energy Limited (Federal) decreased from 4.38% to 4.25% as a result of issue of new shares.

Changes in the Group structure are an element of the ORLEN Group strategy, assuming a focus on core activities and allocating capital for the development of the Group in the most prospective areas.

4. Segment's data

The operations of the ORLEN Group are conducted in:
- the Downstream segment, which includes integrated areas of refining, petrochemical production and sales and operations in the area of energy production,
- the Retail segment, which includes activity carried out at petrol stations,
- the Upstream segment, which includes activity related to exploration and extraction of mineral resources,

and Corporate Functions, which include activities related to management, administration and remaining activities not allocated to separate operating segments i.e. reconciling items.
The allocation of the ORLEN Group's companies to operating segments and Corporate Functions was presented in note 3.2.

Revenues, costs, financial results, investments expenditures

for the 6-month period ended 30 June 2019

	NOTA	Downstream Segment (unaudited)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
External revenues	5.1	35 399	18 733	304	38	-	54 474
Inter-segment revenues		9 045	163	-	212	(9 420)	-
Sales revenues		44 444	18 896	304	250	(9 420)	54 474
Operating expenses		(42 329)	(17 663)	(276)	(694)	9 420	(51 542)
Other operating income	5.4	321	55	16	11	-	403
Other operating expenses	5.4	(207)	(61)	(5)	(37)	-	(310)
(Loss)/reversal of loss due to impairment of financial instruments		(6)	(4)	-	(15)	-	(25)
Share in profit from investments accounted for using the equity method		82	-	-	-	-	82
Profit/(Loss) from operations		**2 305**	**1 223**	**39**	**(485)**	**-**	**3 082**
Net finance income and costs	5.5						36
(Loss)/reversal of loss due to impairment of financial instruments							(1)
Profit before tax							**3 117**
Tax expense							(667)
Net profit							**2 450**
Depreciation and amortisation	5.2	**1 160**	**310**	**136**	**73**	**-**	**1 679**
EBITDA		**3 465**	**1 533**	**175**	**(412)**	**-**	**4 761**
Increases in non-current assets, incl.:		**2 065**	**2 349**	**270**	**375**	**-**	**5 059**
Increases due to right-of-use *		**1 159**	**2 086**	**4**	**298**	**-**	**3 547**

* *the line includes an increase in non-current assets due to rights-of-use in the amount of PLN 3,316 million, recognized as at 1 January 2019 in connection with the implementation of IFRS 16 Leasing. Additional information is presented in note 5.11.1.*

HALF-YEAR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in PLN million)

for the 3-month period ended 30 June 2019

	NOTA	Downstream Segment (unaudited)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
External revenues	5.1	18 881	10 189	141	17	-	29 228
Inter-segment revenues		4 986	101	-	113	(5 200)	-
Sales revenues		23 867	10 290	141	130	(5 200)	29 228
Operating expenses		(22 389)	(9 578)	(136)	(361)	5 200	(27 264)
Other operating income	5.4	200	38	16	8	-	262
Other operating expenses	5.4	(97)	(46)	(5)	(15)	-	(163)
(Loss)/reversal of loss due to impairment of financial instruments		(6)	(2)	-	(7)	-	(15)
Share in profit from investments accounted for using the equity method		38	-	-	-	-	38
Profit/(Loss) from operations		**1 613**	**702**	**16**	**(245)**	**-**	**2 086**
Net finance income and costs	5.5						38
(Loss)/reversal of loss due to impairment of financial instruments							(1)
Profit before tax							**2 123**
Tax expense							(522)
Net profit							**1 601**
Depreciation and amortisation	5.2	**589**	**153**	**66**	**38**	**-**	**846**
EBITDA		**2 202**	**855**	**82**	**(207)**	**-**	**2 932**
Increases in non-current assets, incl.:		**624**	**192**	**119**	**59**	**-**	**994**
Increases due to right-of-use		**42**	**30**	**-**	**8**	**-**	**80**

for the 6-month period ended 30 June 2018

	NOTE	Downstream Segment (unaudited)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
External revenues	5.1	32 483	17 110	310	39	-	49 942
Inter-segment revenues		8 135	117	-	214	(8 466)	-
Sales revenues		40 618	17 227	310	253	(8 466)	49 942
Operating expenses		(37 913)	(16 303)	(273)	(622)	8 466	(46 645)
Other operating income	5.4	745	37	3	73	-	858
Other operating expenses	5.4	(240)	(40)	(59)	(117)	-	(456)
(Loss)/reversal of loss due to impairment of financial instruments		6	(1)	-	(4)	-	1
Share in profit from investments accounted for using the equity method		88	-	-	-	-	88
Profit/(Loss) from operations		**3 304**	**920**	**(19)**	**(417)**	**-**	**3 788**
Net finance income and costs	5.5						(310)
(Loss)/reversal of loss due to impairment of financial instruments							(1)
Profit before tax							**3 477**
Tax expense							(660)
Net profit							**2 817**
Depreciation and amortisation	5.2	**863**	**228**	**157**	**51**	**-**	**1 299**
EBITDA		**4 167**	**1 148**	**138**	**(366)**	**-**	**5 087**
Increases in non-current assets		**1 115**	**287**	**381**	**89**	**-**	**1 872**

HALF-YEAR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in PLN million)

for the 3-month period ended 30 June 2018

	NOTE	Downstream Segment (unaudited)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
External revenues	5.1	17 322	9 191	165	23	-	26 701
Inter-segment revenues		4 525	108	-	106	(4 739)	-
Sales revenues		21 847	9 299	165	129	(4 739)	26 701
Operating expenses		(20 236)	(8 727)	(141)	(331)	4 739	(24 696)
Other operating income	5.4	464	15	3	32	-	514
Other operating expenses	5.4	(64)	(23)	(37)	(70)	-	(194)
(Loss)/reversal of loss due to impairment of financial instruments		(3)	(1)	-	-	-	(4)
Share in profit from investments accounted for using the equity method		53	-	-	-	-	53
Profit/(Loss) from operations		**2 061**	**563**	**(10)**	**(240)**	**-**	**2 374**
Net finance income and costs	5.5						(142)
Profit before tax							**2 232**
Tax expense							(459)
Net profit							**1 773**
Depreciation and amortisation	5.2	**451**	**114**	**82**	**26**	**-**	**673**
EBITDA		**2 512**	**677**	**72**	**(214)**	**-**	**3 047**
Increases in non-current assets		**715**	**159**	**134**	**62**	**-**	**1 070**

EBITDA *– profit/(loss) from operations increased by depreciation and amortisation*
Increase in non-current assets *includes increase of property, plant and equipment, intangible assets, investment property and right-of-use asset together with the capitalisation of borrowing costs and a decrease in received/due penalties for the improper execution of a contract.*

Assets by operating segments

	30/06/2019 (unaudited)	31/12/2018
Downstream Segment	47 696	46 129
Retail Segment	9 430	6 974
Upstream Segment	4 278	4 175
Segment assets	**61 404**	**57 278**
Corporate Functions	9 413	6 914
Adjustments	(47)	(51)
	70 770	**64 141**

Operating segments include all assets except for financial assets, tax assets and cash. Assets used jointly by the operating segments are allocated based on revenues generated by individual operating segments.

5. Other notes

5.1. Sales revenues

PROFESSIONAL JUDGMENT

Based on analyses of contractual clauses in sales contracts, the Group identified the agency model mainly in the area of LPG sales and non-fuel merchandise sales by ORLEN Deutschland to customers network. In other transactions the Group acts as a principal.

The Group has a VITAY loyalty program for retail clients. The loyalty program VITAY liability, arises at the time of sales of goods and services at own and franchise petrol stations for each single sale transaction and in case of purchase by the Group's customers in partner's e-Shops and consists in calculating points entitling to discounts on future purchases. A ratio of 68.5% is adopted to recognise liability taking into account the possibility of its on realisation, based on empirical data of points used compared to those issued to the customer in the last 36 months. The Group assessed, which marketing services provided to suppliers are inseparably linked to the purchase of these merchandise, hence revenues from service reduce costs related to their purchase and release for sale.

HALF-YEAR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in PLN million)

	6 MONTHS ENDED 30/06/2019 (unaudited)	3 MONTHS ENDED 30/06/2019 (unaudited)	6 MONTHS ENDED 30/06/2018 (unaudited)	3 MONTHS ENDED 30/06/2018 (unaudited)
Revenues from sales of finished goods and services, net	45 588	24 349	40 922	21 830
revenue from contracts with customers	*45 470*	*24 285*	*40 816*	*21 773*
excluded from scope of IFRS 15	*118*	*64*	*106*	*57*
Revenues from sales of merchandise and raw materials, net	8 886	4 879	9 020	4 871
revenue from contracts with customers	*8 886*	*4 879*	*9 020*	*4 871*
Sales revenues, incl.:	**54 474**	**29 228**	**49 942**	**26 701**
revenue from contracts with customers	*54 356*	*29 164*	*49 836*	*26 644*

Contracts excluded from the scope of IFRS 15 refer to operating lease contracts

Performance obligations

As part of the contractual obligations , the Group commits to supply mostly refining, petrochemical products and goods, energy, crude oil and gas to its customers. Under the agreements the Group acts as a principal. In existing contracts with customers transaction prices are not restricted.
There are no significant contracts in force in the Group, which allow for obligations to accept returns, pay reimbursements or other similar obligations. There is no significant financing component in contracts with customers. The Group does not identify revenues for which the payment of consideration is contingent.
The guarantees provided under the contracts provide assurance to the customer that the product meets the required specification. They do not rely on the performance of distinct service.
In the Downstream segment deferred payment sales are the norm. In the Retail segment there are both cash sales with the possibility of deferred payments through use of fuel cards entitling customers to the ongoing purchase of fuel in the petrol station network. The settlements with customer takes place in two-week periods (so-called Fleet Cards).
Payment usually becomes due after goods or services have been transferred. In contracts with Downstream and Retail segments' customers, payment dates not exceeding 30 days are used in most cases, whereas in the Upstream segment not exceeding 60 days .

Revenues according to categories taking into account significant economic factors affecting their recognition

Except of revenues according to product type and geographical region presented in notes 5.1.1 and 5.1.2, the Group analyses revenues based on the type of contract, date of transfer, contract duration and sales channels.

Revenues based on a fixed price constitute the majority of revenues in the Group. The customer has the right to discounts, penalties, which in accordance with IFRS 15 constitute an element of variable consideration. The Group recognises revenues in the amount of consideration, to which – in line with expectations- it will be entitled and which will not be reversed in the future. Consequently, the Group adjusts revenues for highly probable discounts and penalties, which recognition are highly probable. The variability of consideration in contracts with customers is largely due to volume rebates. The Group also defers the part of revenue related to the VITAY loyalty program, according to which the customer is entitled to future benefits (i.e. VITAY points).

The transfer of control as the moment of revenue recognition under IFRS 15 is a broader concept than the transfer of risks and rewards. As part of the Downstream segment, in the scope of sales of petrochemical and refinery products, the Group recognises revenue from satisfaction of performance obligation, depending on the terms of delivery (Incoterms) used. In the case of some deliveries the Group is obliged to organize transport and/or insurance. When the control of good passes to the customer before transport is performed, the delivery of goods and transport (and possibly insurance) become separate performance obligations. The delivery of goods is an obligation satisfied at a point in time, while transport is a continuous obligation (satisfied over time). In the case of transport and insurance, the customer simultaneously receives benefits from the service.
In the Retail segment, the moment of satisfied a performance obligation is the moment of transfer of good, excluding sales of fuels using Fleet Cards.
In the case of sales transferred over time the Group recognises revenues at least on a monthly basis, where settlements between parties to the contract take place periodically and reflect the amount of remuneration owing to the Group for the provision of products and services to the customer. Within the Downstream segment revenues mainly relate to the sale of energy and heat, the sale of fuels using Fleet cards within Retail segment and the sale of gas and crude oil within the Upstream segment.

The majority of contracts within the group are short-term. Revenues on services for which start and end dates fall in different reporting periods (long-term contracts) are recognised according to the stage of their completion, if the result of the transaction can be reliably estimated. Long-term contracts that remain unfulfilled in full as at the balance sheet date relate to construction and assembly contracts and energy sales.

The Group sells directly to end customers in the Retail segment, managing a network of close to 2,802 fuel stations, including 2,263 own brand stations and a further 539 stations operated under franchise agreements.
Group sales to customers in the Downstream segment are carried out using a network of complementary infrastructure components - fuel terminals, land transhipment bases, pipeline networks, as well as rail transport and tanker trucks.

HALF-YEAR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in PLN million)

5.1.1. Sales revenues of operating segments according to product type

	6 MONTHS ENDED 30/06/2019 (unaudited)	3 MONTHS ENDED 30/06/2019 (unaudited)	6 MONTHS ENDED 30/06/2018 (unaudited)	3 MONTHS ENDED 30/06/2018 (unaudited)
Downstream Segment				
Revenue from contracts with customers IFRS 15	**35 349**	**18 853**	**32 439**	**17 297**
Light distillates	5 892	3 407	5 748	3 092
Medium distillates	17 225	9 029	15 337	8 546
Heavy fractions	3 245	1 715	3 130	1 770
Monomers	1 869	990	1 714	800
Polymers	1 313	658	1 418	706
Aromas	550	304	611	290
Fertilizers	455	189	379	170
Plastics	737	360	783	400
PTA	995	505	802	420
Other*	3 068	1 696	2 517	1 103
Excluded from scope of IFRS 15	**50**	**28**	**44**	**25**
	35 399	**18 881**	**32 483**	**17 322**
Retail Segment				
Revenue from contracts with customers IFRS 15	**18 676**	**10 159**	**17 058**	**9 164**
Light distillates	7 090	3 990	6 528	3 629
Medium distillates	9 848	5 201	9 078	4 953
Other **	1 738	968	1 452	582
Excluded from scope of IFRS 15	**57**	**30**	**52**	**27**
	18 733	**10 189**	**17 110**	**9 191**
Upstream Segment				
Revenue from contracts with customers IFRS 15	**304**	**141**	**310**	**165**
NGL ***	166	82	174	95
Crude oil	51	27	50	32
Natural Gas	85	31	83	36
Other	2	1	3	2
	304	**141**	**310**	**165**
Corporate Functions				
Revenue from contracts with customers IFRS 15	**27**	**11**	**29**	**18**
Excluded from scope of IFRS 15	**11**	**6**	**10**	**5**
	38	**17**	**39**	**23**
	54 474	**29 228**	**49 942**	**26 701**

** Others include mainly: brine, industrial salt, vacuum distillates, acetone, ammonia, butadiene, phenol, technical gases, caprolactam, soda lye and sulphur. In addition, they include revenues from sale of services and materials.*
*** The line Other in the retail segment mainly includes the sale of non-fuel merchandise*
**** NGL (Natural Gas Liquids)*

In the 6 and 3-month period ended 30 June 2019 and 30 June 2018 no leading Group customers for which revenue would individually exceed 10% of the total sales revenues of the ORLEN Group were identified.

5.1.2. Sales revenues according to geographical region – as per location of customer's headquarters

	6 MONTHS ENDED 30/06/2019 (unaudited)	3 MONTHS ENDED 30/06/2019 (unaudited)	6 MONTHS ENDED 30/06/2018 (unaudited)	3 MONTHS ENDED 30/06/2018 (unaudited)
Revenue from contracts with customers				
Poland	*26 190*	*14 038*	*23 549*	*12 817*
Germany	*8 149*	*4 304*	*7 968*	*3 937*
Czech Republic	*7 234*	*3 948*	*6 207*	*3 419*
Lithuania, Latvia, Estonia	*4 533*	*2 521*	*4 044*	*2 354*
Other countries	*8 250*	*4 353*	*8 068*	*4 117*
	54 356	29 164	49 836	26 644
excluded from scope of IFRS 15				
Poland	*62*	*36*	*56*	*31*
Czech Republic	*55*	*27*	*49*	*25*
Lithuania, Latvia, Estonia	*1*	*1*	*1*	*1*
	118	64	106	57
	54 474	**29 228**	**49 942**	**26 701**

The line other countries comprises mainly sales to customers from Switzerland, Singapore, Ukraine, Slovakia, the United Kingdom and Hungary.

HALF-YEAR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in PLN million)

5.2. Operating expenses

Cost by nature

	6 MONTHS ENDED 30/06/2019 (unaudited)	3 MONTHS ENDED 30/06/2019 (unaudited)	6 MONTHS ENDED 30/06/2018 (unaudited)	3 MONTHS ENDED 30/06/2018 (unaudited)
Materials and energy	(37 234)	(19 351)	(33 668)	(17 210)
Cost of merchandise and raw materials sold	(7 798)	(4 219)	(8 088)	(4 375)
External services	(2 104)	(1 097)	(2 161)	(1 128)
Employee benefits	(1 458)	(738)	(1 311)	(652)
Depreciation and amortisation	(1 679)	(846)	(1 299)	(673)
Taxes and charges	(1 356)	(709)	(703)	(351)
Other	(286)	(160)	(223)	(138)
	(51 915)	**(27 120)**	**(47 453)**	**(24 527)**
Change in inventories	313	(171)	665	(262)
Cost of products and services for own use	60	27	143	93
Operating expenses	**(51 542)**	**(27 264)**	**(46 645)**	**(24 696)**
Distribution expenses	3 011	1 546	2 275	1 140
Administrative expenses	870	449	765	387
Cost of sales	**(47 661)**	**(25 269)**	**(43 605)**	**(23 169)**

In the 6 and 3-months ended 30 June 2019, the position of taxes and charges includes the value of the emission charge effective from 1 January 2019 in the amount of PLN (586) million and PLN (304) million, respectively.

5.3. Impairment allowances of inventories to net realizable value

	6 MONTHS ENDED 30/06/2019 (unaudited)	3 MONTHS ENDED 30/06/2019 (unaudited)	6 MONTHS ENDED 30/06/2018 (unaudited)	3 MONTHS ENDED 30/06/2018 (unaudited)
Increase	(86)	(73)	(35)	(10)
Decrease	204	26	38	19

In the 6 month period ended 30 June 2019 the line decrease mainly includes reversal of inventory impairment allowances to net realizable value made mainly in the 4th quarter of 2018 due to a decrease in crude oil and petroleum product prices.

5.4. Other operating income and expenses

Other operating income

	6 MONTHS ENDED 30/06/2019 (unaudited)	3 MONTHS ENDED 30/06/2019 (unaudited)	6 MONTHS ENDED 30/06/2018 (unaudited)	3 MONTHS ENDED 30/06/2018 (unaudited)
Profit on sale of non-current non-financial assets	14	4	7	3
Reversal of provisions	8	3	5	1
Reversal of impairment allowances of property, plant and equipment and intangible assets and other non-current assets	35	31	20	11
Penalties and compensations	33	15	488	388
Settlement and valuation of derivative financial instruments related to operating exposure	137	115	176	47
Ineffective part related to valuation and settlement of operating exposure	57	19	56	17
Settlement of hedging costs	72	40	-	-
Other, incl.:	47	35	106	47
received/due energy certificates	*14*	*14*	*62*	*13*
	403	**262**	**858**	**514**

HALF-YEAR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in PLN million)

Other operating expenses

	6 MONTHS ENDED 30/06/2019 (unaudited)	3 MONTHS ENDED 30/06/2019 (unaudited)	6 MONTHS ENDED 30/06/2018 (unaudited)	3 MONTHS ENDED 30/06/2018 (unaudited)
Loss on sale of non-current non-financial assets	(26)	(17)	(22)	(8)
Recognition of provisions	(26)	(11)	(8)	(2)
Recognition of impairment allowances of property, plant and equipment and intangible assets and other non-current assets	(62)	(48)	(33)	(27)
Penalties, damages and compensations	(8)	(8)	(9)	(9)
Update of property rights provision	-	-	(23)	(23)
Settlement and valuation of derivative financial instruments related to operating exposure	(87)	(44)	(205)	(57)
Ineffective part related to valuation and settlement of operating exposure	(50)	(19)	(82)	(35)
Other, incl.:	(51)	(16)	(74)	(33)
donations	*(23)*	*(5)*	*(18)*	*(11)*
	(310)	**(163)**	**(456)**	**(194)**

For the 6 and 3-month period ended 30 June 2019 and 30 June 2018 the net positions of valuation and settlement of derivative financial instruments related to operating exposure (non-designated instruments for hedge accounting purposes) amounted to PLN 50 million, PLN 71 million and PLN (29) million, PLN (10) million respectively, and mainly related to commodity swaps hedging time mismatch on crude oil purchases concluded in the 2nd quarter of 2019

In the 6-month period ended 30 June 2019 and in the 6 and 3-month period ended 30 June 2018 the net positions of ineffective part relating to operating exposure amounted to PLN 7 million, PLN (26) million and PLN (18) million, respectively and mainly related to commodity swaps hedging sales of refining products.

5.5. Finance income and costs

Finance income

	6 MONTHS ENDED 30/06/2019 (unaudited)	3 MONTHS ENDED 30/06/2019 (unaudited)	6 MONTHS ENDED 30/06/2018 (unaudited)	3 MONTHS ENDED 30/06/2018 (unaudited)
Interest calculated using the effective interest rate method	26	12	17	7
Net foreign exchange gain	56	59	-	-
Dividends	5	5	4	4
Settlement and valuation of derivative financial instruments	377	136	846	384
Other	19	10	58	27
	483	**222**	**925**	**422**

Finance costs

	6 MONTHS ENDED 30/06/2019 (unaudited)	3 MONTHS ENDED 30/06/2019 (unaudited)	6 MONTHS ENDED 30/06/2018 (unaudited)	3 MONTHS ENDED 30/06/2018 (unaudited)
Interest calculated using the effective interest rate method	(97)	(48)	(94)	(47)
Interest on lease	(39)	(14)	(4)	(2)
Interest on tax liabilities	(3)	(1)	(1)	-
Net foreign exchange loss	-	-	(343)	(333)
Settlement and valuation of derivative financial instruments	(277)	(111)	(730)	(160)
Other	(31)	(10)	(63)	(22)
	(447)	**(184)**	**(1 235)**	**(564)**

In the 6 and 3-month period ended 30 June 2019 and 30 June 2018 the net positions of valuation and settlement of derivative financial instruments (non-designated instruments for hedge accounting purposes) amounted to PLN 100 million, PLN 25 million and PLN 116 million, PLN 224 million, respectively and related mainly to hedging the risk of changes in exchange rates with regard to deposits and payments in foreign currency and to hedging interest rates and payment of bonds interests.
The main impact on the change in valuation and settlement of derivative financial instruments in the 6 and 3-month period ended 30 June 2019 was affected by exchange rates (appreciation of PLN and CZK) and interest rates on financial markets.

Borrowing costs capitalized in the 6 and 3-month period ended 30 June 2019 and 30 June 2018 amounted to PLN (20) million and PLN (10) million, PLN (21) million and PLN (12) million, respectively.

HALF-YEAR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in PLN million)

5.6. Investments accounted for using the equity method

	30/06/2019 (unaudited)	31/12/2018
Joint ventures, incl.:	619	644
Basell ORLEN Polyolefins Sp. z o.o.	*587*	*612*
Associates	6	6
	625	**650**

Condensed financial information of Basell ORLEN Polyolefins Sp. z o.o.:

	30/06/2019 (unaudited)	31/12/2018
Non-current assets	824	835
Current assets	1 303	1 234
cash	*210*	*345*
other current assets	*1 093*	*889*
Total assets	**2 127**	**2 069**
Total equity	**1 225**	**1 269**
Non-current liabilities	62	49
Current liabilities, incl.:	840	751
trade and other liabilities	*819*	*729*
Total liabilities	**902**	**800**
Total equity and liabilities	**2 127**	**2 069**
Net debt	**(210)**	**(345)**
Net assets	1 225	1 269
Group's share in joint ventures (50%)	612	635
Consolidation adjustments	(25)	(23)
Joint ventures investments accounted for under equity method	**587**	**612**

Share in profit from investments accounted for using the equity method

	6 MONTHS ENDED 30/06/2019 (unaudited)	3 MONTHS ENDED 30/06/2019 (unaudited)	6 MONTHS ENDED 30/06/2018 (unaudited)	3 MONTHS ENDED 30/06/2018 (unaudited)
Joint ventures, incl.:	82	38	88	53
Basell ORLEN Polyolefins Sp. z o.o.	*82*	*38*	*88*	*53*
	82	**38**	**88**	**53**

Condensed financial information of Basell ORLEN Polyolefins Sp. z o.o.:

	6 MONTHS ENDED 30/06/2019 (unaudited)	3 MONTHS ENDED 30/06/2019 (unaudited)	6 MONTHS ENDED 30/06/2018 (unaudited)	3 MONTHS ENDED 30/06/2018 (unaudited)
Sales revenues	2 000	995	1 818	905
Cost of sales, incl.:	(1 715)	(855)	(1 551)	(787)
depreciation and amortisation	*(44)*	*(23)*	*(38)*	*(19)*
Gross profit on sales	**285**	**140**	**267**	**118**
Distribution expenses	(54)	(27)	(49)	(25)
Administrative expenses	(11)	(6)	(12)	(6)
Other operating income and expenses, net	(3)	(2)	2	3
Profit from operations	**217**	**105**	**208**	**90**
Net finance income and costs	**(5)**	**(3)**	**15**	**12**
Profit before tax	**212**	**102**	**223**	**102**
Tax expense	(41)	(20)	(43)	(20)
Net profit	**171**	**82**	**180**	**82**
Total net comprehensive income	**171**	**82**	**180**	**82**
Dividends received from joint ventures	**107**	**107**	**162**	**162**
Net profit	171	82	180	82
Group's share in joint ventures (50%)	86	41	90	41
Consolidation adjustments	(4)	(3)	(2)	12
Group's share in result of joint ventures accounted for under equity method	**82**	**38**	**88**	**53**

HALF-YEAR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in PLN million)

5.7. Loans and bonds

	Non-current		Current		Total	
	30/06/2019 (unaudited)	31/12/2018	30/06/2019 (unaudited)	31/12/2018	30/06/2019 (unaudited)	31/12/2018
Loans	1 882	2 151	309	112	2 191	2 263
Bonds	6 290	6 447	104	1 081	6 394	7 528
	8 172	**8 598**	**413**	**1 193**	**8 585**	**9 791**

As at 30 June 2019, indebtedness mainly due to loans relates to a loan reimbursed by PKN ORLEN from a consortium of banks under the Agreement for a multi-currency revolving loan of 25 April 2014 in the amount PLN 2,126 million translated using the exchange rate as at 30 June 2019 (which corresponds to EUR 500 million).
Detailed information on issue/redemption of bonds are presented in the note 5.13.

As at 30 June 2019 and as at 31 December 2018 the maximum possible indebtedness due to loans amounted to PLN 9,599 million and PLN 10,025 million, respectively. As at 30 June 2019 and as at 31 December 2018 PLN 7,344 million and PLN 7,181 million, respectively, remained unused.

In the period covered by this half-year condensed consolidated financial statements, as well as after the reporting date, there were no instances of principal or interest non repayment or loan covenant violations.

5.8. Derivatives and other assets and liabilities

Derivatives and other assets

	Non-current		Current		Total	
	30/06/2019 (unaudited)	31/12/2018	30/06/2019 (unaudited)	31/12/2018	30/06/2019 (unaudited)	31/12/2018
Cash flow hedging instruments	226	143	263	483	489	626
currency forwards	*226*	*143*	*215*	*209*	*441*	*352*
commodity swaps	-	-	*48*	*274*	*48*	*274*
Derivatives not designated as hedge accounting	21	16	81	39	102	55
currency forwards	-	-	*33*	*5*	*33*	*5*
commodity swaps	-	-	*48*	*34*	*48*	*34*
currency interest rate swaps	*21*	*11*	-	-	*21*	*11*
interest rate swaps	-	*5*	-	-	-	*5*
Fair value hedging instruments	7	2	8	2	15	4
commodity swaps	*7*	*2*	*8*	*2*	*15*	*4*
Derivatives	**254**	**161**	**352**	**524**	**606**	**685**
Other financial assets	75	95	370	336	445	431
receivables on settled derivatives	-	-	*284*	*306*	*284*	*306*
financial assets measured at fair value through other comprehensive income	*69*	*86*	-	-	*69*	*86*
hedged item adjustment	*1*	*4*	*3*	*21*	*4*	*25*
other	*5*	*5*	*83*	*9*	*88*	*14*
Other non-financial assets	119	243	-	-	119	243
*investment property **	*99*	*108*	-	-	*99*	*108*
perpetual usufruct of land	-	*115*	-	-	-	*115*
other	*20*	*20*	-	-	*20*	*20*
Other assets	**194**	**338**	**370**	**336**	**564**	**674**

** As at 30 June 2019, the line investment property includes right-of-use asset in the amount of PLN 6 million.*

HALF-YEAR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in PLN million)

Derivatives and other liabilities

	Non-current		Current		Total	
	30/06/2019 (unaudited)	31/12/2018	30/06/2019 (unaudited)	31/12/2018	30/06/2019 (unaudited)	31/12/2018
Cash flow hedging instruments	-	-	152	105	152	105
currency forwards	-	-	-	-	-	-
commodity swaps	-	-	152	105	152	105
Derivatives not designated as hedge accounting	28	38	84	66	112	104
currency forwards	-	-	32	18	32	18
commodity swaps	-	-	52	21	52	21
interest rate swaps	28	38	-	-	28	38
currency interest rate swaps	-	-	-	27	-	27
Fair value hedging instruments	1	4	3	22	4	26
commodity swaps	1	4	3	22	4	26
Derivatives	**29**	**42**	**239**	**193**	**268**	**235**
Other financial liabilities	175	357	20	79	195	436
liabilities on settled derivatives	-	-	3	67	3	67
investment liabilities	105	102	-	-	105	102
finance lease	-	193	-	-	-	193
hedged item adjustment	7	3	8	1	15	4
refund liabilities	-	-	9	11	9	11
other	63	59	-	-	63	59
Other non-financial liabilities	9	9	349	11	358	20
deferred income	9	9	349	11	358	20
Other liabilities	**184**	**366**	**369**	**90**	**553**	**456**

5.9. Provisions

	Non-current		Current		Total	
	30/06/2019 (unaudited)	31/12/2018	30/06/2019 (unaudited)	31/12/2018	30/06/2019 (unaudited)	31/12/2018
Environmental	777	782	54	64	831	846
Jubilee bonuses and post-employment benefits	230	233	47	56	277	289
CO_2 emissions, energy certificates	-	-	496	784	496	784
Other	38	40	135	115	173	155
	1 045	**1 055**	**732**	**1 019**	**1 777**	**2 074**

From 1 January 2019 the Group recognises outgoing of CO_2 emission allowances at weighted average method against FIFO method (First In, First Out) applied until 31 December 2018. The effect of changing the method of outgoing of CO_2 allowances as at 31 December 2018 was immaterial and was recognised in the financial result of the current year and as a change in value of provision for CO_2 emission in the statement of financial position. In the opinion of the Management Board of PKN ORLEN, the change in outgoing method better reflects commercial substance of legal situation and economic conditions in terms of volatility of market prices for CO_2 emission rights.

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

As compared to the previous reporting period the Group did not change the valuation methods concerning financial instruments.
Methods applied in determining the fair value were described in the Consolidated Financial Statements for 2018 in note 10.3.3.
In the item financial assets measured at fair value through other comprehensive income, quoted/unquoted shares not held for trading are included.

Fair value hierarchy

	Carrying amount (unaudited)	Fair value (unaudited)	Fair value hierarchy	
			Level 1	Level 2
Financial assets				
Financial assets measured at fair value through other comprehensive income	69	69	29	40
Derivatives	606	606	-	606
	675	**675**	**29**	**646**
Financial liabilities				
Loans	2 191	2 191	-	2 191
Bonds	6 394	6 778	6 778	-
Derivatives	268	268	-	268
	8 853	**9 237**	**6 778**	**2 459**

The fair value of financial assets and liabilities quoted on active markets is determined based on market quotations (i.e. Level 1). In other cases, the fair value is determined based on other input data which are directly or indirectly observable (i.e. Level 2) or unobservable inputs (i.e. Level 3).
During the reporting period and comparative period there were no reclassifications in the Group between Level 1 and Level 2 of the fair value hierarchy.

HALF-YEAR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in PLN million)

5.11. Lease

5.11.1. Group as a lessee

Change in assets due to right-of-use

	Land	Buildings and constructions	Machinery and equipment	Vehicles and other	Total
Net carrying amount at 01/01/2019 - Impact of IFRS 16 adoption					
Gross carrying amount	1 544	984	95	697	**3 320**
Impairment allowances	-	-	(2)	(2)	**(4)**
	1 544	**984**	**93**	**695**	**3 316**
increases/(decreases), net					
Depreciation	(26)	(65)	(8)	(153)	(252)
Impairment allowances	(28)	(2)	-	-	(30)
Reclassifications *	133	150	19	49	351
Other **	(12)	117	-	116	221
	1 611	**1 184**	**104**	**707**	**3 606**
Net carrying amount at 30/06/2019 (unaudited)					
Gross carrying amount	1 692	1 322	123	877	**4 014**
Accumulated depreciation	(53)	(136)	(17)	(168)	**(374)**
Impairment allowances	(28)	(2)	(2)	(2)	**(34)**
	1 611	**1 184**	**104**	**707**	**3 606**

* *The line reclassification includes gross values, depreciation of property, plant and equipment and perpetual usufruct of land which were recognised as at 31 December 2018 as finance lease under IFRS 17*
** *The line other includes newly concluded contracts, contract modifications and exchange rate differences*

Amounts from lease contracts recognised in the statement of profit or loss and other comprehensive income

		6 MONTHS ENDED 30/06/2019 (unaudited)	3 MONTHS ENDED 30/06/2019 (unaudited)
Costs due to:		**(70)**	**(38)**
interest on lease	Finance costs	(39)	(14)
short-term lease	Cost by nature: External Services	(15)	(9)
lease of low-value assets that are not short-term lease	Cost by nature: External Services	(1)	(1)
variable lease payments not recognised in valuation of lease liabilities	Cost by nature: External Services	(15)	(14)

Reconciliation of future minimum lease payments disclosed as at 31 December 2018 with lease liabilities recognised in the statement of financial position as at 1 January 2019

Value of future minimum lease payments under operating lease	5 675
Value of future minimum lease payments under finance lease	286
Contractual lease liabilities as at 31/12/2018	**5 961**
Discount	(2 380)
Present value of lease liabilities as at 01/01/2019	**3 581**
Present value of contractual finance lease liabilities as at 31/12/2018	(229)
Value of contractual lease liabilities – impact of IFRS 16 adoption as at 01/01/2019	**3 352**

* *The weighted average marginal interest rate of the Group as a lessee applied to the lease liabilities recognised in the statement of financial position as at 1 January 2019 amounted to 2.62%.*

5.11.2. Group as a lessor

Financial lease

The Group as at the starting date, classifies leases as financial or operating lease.
In order to make the above classification the Group assesses whether the entire risk and benefits resulting from ownership of the underlying asset were transferred to a lessee. If the entire risk and benefits were transferred to lessee, the lease is classified as a financial lease, in the opposite situation - as operating lease.

The Group as a lessor in finance lease, recognised on 1 January 2019, in accordance with IFRS 16 subleasing agreements in the Unipetrol Group for which the value of revenues and lease payments due in the 1st half of 2019 was immaterial.

Operating lease

Assets transferred by the Group to other entities for use under an operating lease agreement are classified in the Group's assets. Lease payments under operating leases are recognised on a straight-line basis over the lease period as revenues from the sale of products and services.
Operating lease mainly concerns properties owned by the Group, covered by the lease agreements.
Revenues from operating lease for the 6 and 3-month period ended 30 June of 2019 amounted to PLN 118 million and PLN 64 million.

5.12. Future commitments resulting from signed investment contracts

As at 30 June 2019 and as at 31 December 2018 the value of future commitments resulting from investment contracts signed until that day amounted to PLN 3,441 million and PLN 1,281 million, respectively.

5.13. Issue, redemption and repayment of debt securities

In the first half of 2019 as part of:
- the first public bond issue program, F Series remains open with a nominal value of PLN 100 million
- the second public bond issue program, A-E Series with a total nominal value of PLN 1 billion.

As part of the bond issue program established under the Bond Issue Program Agreement of 27 November 2006 (as amended), in the first half of 2019, PKN ORLEN:
- redeemed long-term bonds with a nominal value of PLN 1 billion issued in 2012;
- issued/redeemed short term bonds in favour of the Group companies as a part of liquidity optimisation in the ORLEN Group. These transactions are eliminated at the ORLEN Group level.

5.14. Distribution of the profit for 2018

The Ordinary General Meeting of Shareholders of PKN ORLEN S.A. on 14 June 2019 distributed the net profit of PKN ORLEN for 2018 in the amount of PLN 5,434,149,842.17 as follows: the amount of PLN 1,496,981,713.50 was allocated as a dividend payment (PLN 3.5 per 1 share) and the remaining amount of net profit of PLN 3,937,168,128.67 as reserve capital. The dividend date was set at 22 July 2019 and the dividend payment date at 5 August 2019.

5.15. Contingent liabilities

Information concerning significant proceedings in front of court, body appropriate for arbitration proceedings or in front of administration bodies in which the companies of the ORLEN Group act as the defendant:

I.P.-95 s.r.o. compensation claim against UNIPETROL RPA s.r.o.
On 23 May 2012, Unipetrol RPA s.r.o. received from the District Court in Ostrava a claim brought by I.P.-95 s.r.o. for compensation related to the filing by Unipetrol RPA s.r.o. a motion for bankruptcy of I.P.-95 s.r.o. in November 2009. The total amount of the claim is approximately PLN 299 million, translated using the exchange rate as at 30 June 2019 (representing CZK 1,789 million). Unipetrol RPA s.r.o. is one of eight defendants which the claim was brought against. At the request of the I.P.-95 s.r.o proceeding is pending concerning the accession to the claim as plaintiff NESTARMO TRADING LIMITED. The court refused the Company permission to enter to the case. In February 2018, the court dismissed in entirety claim ruling in favour of Unipetrol RPA s.r.o. On 3 April 2018, I.P.-95 s.r.o. appealed against the decision of the court of first instance. On 22 May 2018, the District Court in Ostrava obliged I.P. - 95 s.r.o. to pay the appeal fee. On 11 December 2018, the court of second instance dismissed the appeal of I.P.-95 s.r.o. from the judgment of the District Court in Ostrava. The judgment is binding. On 20 March 2019 I.P. - 95 s.r.o. filed a cassation appeal against the judgment of the court of second instance. According to UNIPETROL RPA s.r.o. the claim is without merit.

Claim of Warter Fuels S.A. (before: OBR S.A.) against PKN ORLEN for compensation
On 5 September 2014, OBR S.A. (currently: Warter Fuels S.A.) filled an action against PKN ORLEN with the District Court in Łódź for a claim for payment in respect of an alleged breach by PKN ORLEN of patent rights. The amount of the claim in the lawsuit was estimated by Warter Fuels S.A. in the amount of approximately PLN 83 million. The claim covers the adjudged sum of money from PKN ORLEN for Warter Fuels S.A. in the amount corresponding to the 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 to the lawsuit. By the procedural document from 11 December 2014 the value of the dispute was referred to by the plaintiff in the amount of approximately PLN 247 million. So far, several hearings took place (last on 28 September 2018), during which witnesses submitted by the parties were heard by the court . The PKN ORLEN attorney submitted a request to suspend the proceedings due to parallel proceedings for determining the right to the disputed patent, the outcome of which will have significance for the resolution in the case of breach. The request was not considered yet. In the opinion of PKN ORLEN the above claims are without merit.

Polocktransneft Druzhba claim against AB ORLEN Lietuva
On 21 September 2017, AB ORLEN Lietuva received from the court a claim brought by the Belarusian company Polocktransneft Druzhba (operator of the Belarus section of the Druzhba pipeline) for payment of compensation for crude oil (so-called 'technological oil') which from 1992 was located in Lithuanian section of the Druzhba pipeline and used by ORLEN Lietuva after operation of this section was stopped in 2006. Polocktransneft Druzhba believes that this oil was its property. The value of the claim is approximately PLN 314 million, translated using the exchange rate as at 30 June 2019 (representing USD 84 million). The claim also includes a request for procedural interest and litigation cost. ORLEN Lietuva responded to the claim. On 15 March 2018 a hearing took place. On 29 March 2018, the court dismissed the plaintiff's claim. Polocktransneft Druzhba appealed against the judgment dismissing the claim. ORLEN Lietuva responded to the appeal. The hearing took place on 6 May 2019. The witness, the former chief representative of the Druzhba Polocktransneft in Lithuania, was heard. The next date of hearing was set on 6 August 2019. According to ORLEN Lietuva, the above claim is without merit.

Except of described above proceedings, the Group has not identified any other significant contingent liabilities.

HALF-YEAR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in PLN million)

5.16. Related parties transactions

5.16.1. Transactions of the key executive personnel and their relatives with related parties of the ORLEN Group

As at 30 June 2019 and as at 31 December 2018 and in the 6 and 3-month period ended 30 June 2019 and 30 June 2018, on the basis of submitted declarations, there were no transactions of related parties with Members of the Management Board and the Supervisory Board of the Parent Company.

In the 6 and 3-month period ended 30 June 2019 on the basis of submitted declarations transactions of close relatives with the other key executive personnel of the Parent Company and key executive personnel of the ORLEN Group companies with related parties were not significant and not exceed PLN 0.1 million and related to the hotel service sale.

In the 6 and 3-month period ended 30 June 2018 on the basis of submitted declarations, there were transactions of close relatives with the other key executive personnel of the Parent Company and key executive personnel of the ORLEN Group companies with related parties in the amount of PLN 0.2 million and PLN 0.1 million, respectively; included the main amounts regarded purchase of legal services and marketing services.

As at 30 June 2019 there were no trade and other liabilities due to the above transactions and as at 31 December 2018 balance of liabilities was not significant.

5.16.2. Remuneration of key executive personnel of the Parent Company and ORLEN Group companies

	6 MONTHS ENDED 30/06/2019 (unaudited)	3 MONTHS ENDED 30/06/2019 (unaudited)	6 MONTHS ENDED 30/06/2018 (unaudited)	3 MONTHS ENDED 30/06/2018 (unaudited)
Parent Company				
Short-term employee benefits	20.9	10.4	20.4	9.3
Termination benefits	1.7	0.8	7.6	3.0
Subsidiaries				
Short-term employee benefits	69.2	31.5	70.1	39,8
Post-employment benefits	-	-	0.1	0.1
Other long term employee benefits	0.6	0.1	-	-
Termination benefits	4.6	3.1	3.6	2.1
	97.0	**45.9**	**101.8**	**52.1**

The above table presents remuneration paid and due or potentially due to the key management personnel of the Parent Company and subsidiaries in the reporting period.

5.16.3. ORLEN Group companies' transactions and balances of settlements with related parties

	Sales				Purchases			
	6 MONTHS ENDED 30/06/2019 (unaudited)	3 MONTHS ENDED 30/06/2019 (unaudited)	6 MONTHS ENDED 30/06/2018 (unaudited)	3 MONTHS ENDED 30/06/2018 (unaudited)	6 MONTHS ENDED 30/06/2019 (unaudited)	3 MONTHS ENDED 30/06/2019 (unaudited)	6 MONTHS ENDED 30/06/2018 (unaudited)	3 MONTHS ENDED 30/06/2018 (unaudited)
Jointly-controlled entities	**1 621**	**846**	**1 534**	**735**	**(73)**	**(40)**	**(72)**	**(35)**
joint ventures	*1 545*	*805*	*1 447*	*689*	*(27)*	*(15)*	*(21)*	*(10)*
joint operations	*76*	*41*	*87*	*46*	*(46)*	*(25)*	*(51)*	*(25)*
	1 621	**846**	**1 534**	**735**	**(73)**	**(40)**	**(72)**	**(35)**

	Trade and other receivables		Trade and other liabilities	
	30/06/2019 (unaudited)	31/12/2018	30/06/2019 (unaudited)	31/12/2018
Jointly-controlled entities	**671**	**614**	**25**	**16**
joint ventures	*651*	*593*	*15*	*5*
joint operations	*20*	*21*	*10*	*11*
	671	**614**	**25**	**16**

The above transactions with related parties include mainly sales and purchases of refinery and petrochemicals products and services.
In the 6 and 3-month period ended 30 June 2019 and 30 June 2018 there were no related parties transactions within the Group concluded on other than an arm's length basis.

5.16.4. Transactions with entities related to the State Treasury

As at 30 June 2019 and 31 December 2018, the State Treasury owns 27.52% of the Parent Company's shares - PKN ORLEN and has ability to exert a significant influence on it.
The Group identified transactions with related parties with the State Treasury on the basis of "The Council of Ministers Regulation of 3 January 2017 on the list of companies in which the rights of the State Treasury shares carry other than the President Council of Ministers members of the Council of Ministers', Government Plenipotentiaries or state legal entities" with subsequent updates .

HALF-YEAR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (in PLN million)

In the 6 and 3-month period ended 30 June 2019 and 30 June 2018 and as at 30 June 2019 and 31 December 2018, the Group identified the following transactions:

	6 MONTHS ENDED 30/06/2019 (unaudited)	3 MONTHS ENDED 30/06/2019 (unaudited)	6 MONTHS ENDED 30/06/2018 (unaudited)	3 MONTHS ENDED 30/06/2018 (unaudited)
Sales	926	504	942	487
Purchases	(2 219)	(1 145)	(2 445)	(1 320)

	30/06/2019 (unaudited)	31/12/2018
Trade and other receivables	333	230
Trade and other liabilities	530	189

Above transactions were concluded on an arm's length basis, were related to the ORLEN Group current operating activities and concerned mainly fuel sales, purchase and sales of natural gas, energy, transport and storage services.
Additionally, there were also financial transactions (bank fees, commission) with Bank PKO BP, Bank Pekao S.A. and Bank Gospodarstwa Krajowego.

5.17. Guarantees

Excise tax guarantees and excise tax on goods and merchandise under the excise tax suspension procedure as at 30 June 2019 and as at 31 December 2018 amounted to PLN 2,679 million and PLN 2,626 million, respectively.

5.18. Events after the end of the reporting period

After the end of the reporting period there were no events required to be included in this half-year condensed consolidated financial statements.

HALF-YEAR CONDENSED SEPARATE FINANCIAL STATEMENTS

FOR THE 6 AND 3-MONTH PERIOD ENDED 30 JUNE 2019

PREPARED IN ACCORDANCE WITH INTERNATIONAL
FINANCIAL REPORTING STANDARDS
AS ADOPTED BY THE EUROPEAN UNION

HALF-YEAR CONDENSED SEPARATE FINANCIAL STATEMENTS (in PLN million)

B. HALF-YEAR CONDENSED SEPARATE FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION

Separate statement of profit or loss and other comprehensive income

	NOTE	6 MONTHS ENDED 30/06/2019 (unaudited)	3 MONTHS ENDED 30/06/2019 (unaudited)	6 MONTHS ENDED 30/06/2018 (unaudited)	3 MONTHS ENDED 30/06/2018 (unaudited)
Sales revenues	5.1	43 058	22 768	39 206	20 883
revenues from sales of finished goods and services		*24 234*	*13 273*	*21 189*	*11 388*
revenues from sales of merchandise and raw materials		*18 824*	*9 495*	*18 017*	*9 495*
Cost of sales	5.2	(38 336)	(19 860)	(34 991)	(18 491)
cost of finished goods and services sold		*(20 197)*	*(10 707)*	*(17 600)*	*(9 320)*
cost of merchandise and raw materials sold		*(18 139)*	*(9 153)*	*(17 391)*	*(9 171)*
Gross profit on sales		**4 722**	**2 908**	**4 215**	**2 392**
Distribution expenses		(2 067)	(1 059)	(1 370)	(695)
Administrative expenses		(459)	(242)	(395)	(205)
Other operating income	5.3	264	144	385	198
Other operating expenses	5.3	(208)	(104)	(120)	(59)
(Loss)/reversal of loss due to impairment of financial instruments		(14)	(5)	(9)	(3)
Profit from operations		**2 238**	**1 642**	**2 706**	**1 628**
Finance income	5.4	996	731	1 802	1 217
Finance costs	5.4	(559)	(298)	(1 359)	(657)
Net finance income and costs		**437**	**433**	**443**	**560**
(Loss)/reversal of loss due to impairment of financial instruments		8	1	6	1
Profit before tax		**2 683**	**2 076**	**3 155**	**2 189**
Tax expense		(489)	(393)	(436)	(258)
current tax		*(390)*	*(267)*	*(451)*	*(267)*
deferred tax		*(99)*	*(126)*	*15*	*9*
Net profit		**2 194**	**1 683**	**2 719**	**1 931**
Other comprehensive income:					
which will not be reclassified subsequently into profit or loss		**2**	**-**	**(5)**	**(5)**
gains/(losses) on investments in equity instruments at fair value through other comprehensive income		*2*	*-*	*(6)*	*(6)*
deferred tax		*-*	*-*	*1*	*1*
which will be reclassified into profit or loss		**(25)**	**-**	**(184)**	**(153)**
hedging instruments		*(117)*	*9*	*(277)*	*(207)*
hedging costs		*86*	*(9)*	*50*	*18*
deferred tax		*6*	*-*	*43*	*36*
		(23)	**-**	**(189)**	**(158)**
Total net comprehensive income		**2 171**	**1 683**	**2 530**	**1 773**
Net profit and diluted net profit per share (in PLN per share)		5.13	3.93	6.36	4.51

The accompanying notes disclosed on pages 36 – 52 are an integral part of this half-year condensed separate financial statements.

HALF-YEAR CONDENSED SEPARATE FINANCIAL STATEMENTS (in PLN million)

Separate statement of financial position

	NOTE	30/06/2019 (unaudited)	31/12/2018
ASSETS			
Non-current assets			
Property, plant and equipment		15 173	15 611
Intangible assets		825	755
Right-of-use asset	5.9.1	2 171	-
Shares in related parties		15 172	15 090
Derivatives	5.6	210	118
Long-term lease receivables		22	-
Other assets	5.6	1 055	1 016
		34 628	**32 590**
Current assets			
Inventories		9 741	9 889
Trade and other receivables		8 900	7 709
Current tax assets		2	8
Cash		5 243	3 461
Non-current assets classified as held for sale		44	149
Derivatives	5.6	410	450
Short-term lease receivables		1	-
Other assets	5.6	517	541
		24 858	**22 207**
Total assets		**59 486**	**54 797**
EQUITY AND LIABILITIES			
EQUITY			
Share capital		1 058	1 058
Share premium		1 227	1 227
Hedging reserve		178	203
Revaluation reserve		(4)	(6)
Retained earnings		29 849	29 152
Total equity		**32 308**	**31 634**
LIABILITIES			
Non-current liabilities			
Loans, borrowings and bonds	5.5	8 139	8 641
Provisions	5.7	520	520
Deferred tax liabilities		827	734
Derivatives	5.6	90	84
Lease liabilities		1 817	-
Other liabilities	5.6	130	257
		11 523	**10 236**
Current liabilities			
Trade and other liabilities		11 601	8 853
Lease liabilities		307	-
Liabilities from contracts with customers		238	213
Loans, borrowings and bonds	5.5	565	1 122
Provisions	5.7	311	376
Current tax liabilities		82	376
Derivatives	5.6	309	324
Other liabilities	5.6	2 242	1 663
		15 655	**12 927**
Total liabilities		**27 178**	**23 163**
Total equity and liabilities		**59 486**	**54 797**

The accompanying notes disclosed on pages 36 – 52 are an integral part of this half-year condensed separate financial statements.

HALF-YEAR CONDENSED SEPARATE FINANCIAL STATEMENTS (in PLN million)

Separate statement of changes in equity

	Share capital and share premium	Hedging reserve	Revaluation reserve	Retained earnings	Total equity
01/01/2019	2 285	203	(6)	29 152	31 634
Net profit	-	-	-	2 194	2 194
Items of other comprehensive income	-	(25)	2	-	(23)
Total net comprehensive income	**-**	**(25)**	**2**	**2 194**	**2 171**
Dividends	-	-	-	(1 497)	(1 497)
30/06/2019	**2 285**	**178**	**(4)**	**29 849**	**32 308**
(unaudited)					
01/01/2018 (approved data)	2 285	253	-	25 027	27 565
Impact of IFRS 9 adoption	-	-	-	(24)	(24)
01/01/2018 (converted data)	2 285	253	-	25 003	27 541
Net profit	-	-	-	2 719	2 719
Items of other comprehensive income	-	(184)	(5)	-	(189)
Total net comprehensive income	**-**	**(184)**	**(5)**	**2 719**	**2 530**
Dividends	-	-	-	(1 283)	(1 283)
30/06/2018	**2 285**	**69**	**(5)**	**26 439**	**28 788**
(unaudited)					

The accompanying notes disclosed on pages 36 – 52 are an integral part of this half-year condensed separate financial statements.

HALF-YEAR CONDENSED SEPARATE FINANCIAL STATEMENTS (in PLN million)

Separate statement of cash flows

	6 MONTHS ENDED 30/06/2019 (unaudited)	3 MONTHS ENDED 30/06/2019 (unaudited)	6 MONTHS ENDED 30/06/2018 (unaudited)	3 MONTHS ENDED 30/06/2018 (unaudited)
Cash flows from operating activities				
Profit before tax	**2 683**	**2 076**	**3 155**	**2 189**
Adjustments for:				
Depreciation and amortisation	848	430	663	346
Foreign exchange (gain)/loss	(86)	(90)	347	270
Net interest	126	61	125	82
Dividends	(465)	(465)	(840)	(837)
(Profit)/Loss on investing activities	48	90	(96)	(189)
Change in provisions	240	82	101	44
Change in working capital	48	427	(2 222)	(1 265)
inventories	*150*	*623*	*(1 249)*	*(778)*
receivables	*(1 166)*	*(182)*	*(1 603)*	*(1 798)*
liabilities	*1 064*	*(14)*	*630*	*1 311*
Other adjustments, incl.:	(238)	(312)	(115)	(41)
rights received free of charge	*(140)*	*(73)*	*(127)*	*(43)*
Income tax (paid)	(678)	(237)	(278)	(122)
Net cash from operating activities	**2 526**	**2 062**	**840**	**477**
Cash flows from investing activities				
Acquisition of property, plant and equipment, intangible assets and right-of-use asset	(580)	(263)	(839)	(377)
Acquisition of shares	(1)	-	(3 757)	(226)
Outflows from additional payments to equity	(213)	(213)	-	-
Disposal of property, plant and equipment, intangible assets and right-of-use asset	166	110	157	105
Interest received	31	20	15	8
Dividends received	459	459	476	473
Expenses from non-current loans granted	(141)	(89)	(35)	(35)
Proceeds from non-current loans granted	3	2	3	3
Proceeds/(Expenses) from current loans granted	1	1	(60)	(61)
Change in cash related to purchase of non-controlling interest of UNIPETROL, a.s.	200	(12)	-	-
Proceeds/(Outflows) from cash pool facility	149	(23)	289	104
Settlement of derivatives not designated as hedge accounting	20	18	110	225
Other	(5)	(6)	(1)	-
Net cash from/(used in) investing activities	**89**	**4**	**(3 642)**	**219**
Cash flows from financing activities				
Proceeds from loans received	-	-	2 075	-
Bonds issued	509	314	749	634
Redemption of bonds	(1 399)	(342)	(510)	(313)
Interest paid from loans, borrowings, bonds and cash pool	(203)	(169)	(198)	(167)
Interest paid on lease	(25)	(17)	(3)	(2)
Proceeds/(Outflows) from cash pool facility	453	568	(220)	243
Payments of liabilities under lease agreements	(148)	(112)	(13)	(7)
Other	-	-	-	1
Net cash from/(used in) financing activities	**(813)**	**242**	**1 880**	**389**
Net increase/(decrease) in cash	**1 802**	**2 308**	**(922)**	**1 085**
Effect of changes in exchange rates	(20)	(22)	50	32
Cash, beginning of the period	3 461	2 957	5 477	3 488
Cash, end of the period	**5 243**	**5 243**	**4 605**	**4 605**
including restricted cash	*48*	*48*	-	-

The accompanying notes disclosed on pages 36 – 52 are an integral part of this half-year condensed separate financial statements.

HALF-YEAR CONDENSED SEPARATE FINANCIAL STATEMENTS (in PLN million)

EXPLANATORY NOTES TO THE HALF-YEAR CONDENSED SEPARATE FINANCIAL STATEMENTS

1. Principal activity of PKN ORLEN

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

The core business of the Company is the processing of crude oil and the 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.
Since 26 November 1999 PKN ORLEN shares are quoted on the main market of the Warsaw Stock Exchange in the continuous trading system.

2. Information on principles adopted in the preparation of the half-year condensed separate financial statements

2.1. Statement of compliance and general principles of preparation

This half-year condensed separate financial statements were prepared in accordance with requirements of IAS 34 "Interim financial reporting" and in the scope required under the Minister of Finance Regulation of 29 March 2018 on current and periodical information provided by issuers of securities and terms of deeming information required by the regulations of a non-member state equivalent (Official Journal 2018, item 757) ("Regulation") and present the PKN ORLEN S.A. ("Company", "Parent Company", "PKN ORLEN") financial position as at 30 June 2019 and as at 31 December 2018, financial results and cash flows for the 6 and 3-month period ended 30 June 2019 and 30 June 2018.

This half-year condensed separate financial statements were prepared assuming that the Company will continue to operate as a going concern in the foreseeable future. As at the date of approval of this half-year condensed separate financial statements there is no evidence indicating that the Company will not be able to continue its operations as a going concern.

The duration of the Company is unlimited.

This half-year condensed separate financial statements, except for the separate statement of cash flows, were prepared using the accrual basis of accounting.

2.2. Accounting principles and amendments to International Financial Reporting Standards (IFRS)

2.2.1. Accounting principles

In this half-year condensed separate financial statements, the significant accounting policies applied by PKN ORLEN and significant values based on judgments and estimates were the same as described in separate explanatory notes in the Financial Statements for 2018, except for the adopted new IFRS 16 – Lease described in note 2.2.2.

Selected accounting principles	Note	Page
Operating segments	7.1	13
Sales revenues	8.1.1	15
Costs	8.1.8	18
Income tax expenses (tax expense)	8.1.13	20
Property, plant and equipment	8.2.1	21
Intangible assets	8.2.2	22-23
Investments in related parties	8.2.3	24
Impairment of property, plant and equipment	8.2.4	24
Inventories	8.2.5.1	26
Trade and other receivables	8.2.5.2	27
Trade and other liabilities	8.2.5.3	28
Net debt	8.2.6	29
Equity	8.2.7	31
Provisions	8.2.9	33-34
Financial instruments	8.3	36
Fair value measurement	8.3	36
Lease	8.4.3	47
Contingent assets and liabilities	8.4.5	48

2.2.2. Amendments to International Financial Reporting Standards (IFRS)

➢ **IFRS 16 Lease (IFRS 16)**

Selected accounting principles

IFRS 16 Lease issued on 13 January 2016 was adopted by the European Union on 31 October 2017.

Since 1 January 2019, the Company has applied the new Standard in the recognition, measurement, and presentation of lease agreements. The application of the new Standard was made in accordance with the transitional provisions contained in IFRS 16.
Implementation of IFRS 16 within the Company was carried out using the modified retrospective approach, and therefore, comparative data for the year 2018 was not converted and any cumulative effect of the first application of the new Standard was included as an adjustment to the opening balance of retained earnings on the first day of application.

As at 1 January 2019 the Company recognised the right-of-use asset and lease liability at an equal amount of PLN 2,012 million, what was not cause the difference in value to be included in retained earnings position.

The Company as a lessee

Identifying a lease

The Company applies new guidelines for identifying a lease only for contracts that it has concluded (or amended) on the day of its first application, i.e. 1 January 2019 or after that date. Thereby, for all contracts concluded before 1 January 2019, the Company applied the practical exemption provided for in IFRS 16, according to which the entity is not required to reassess whether the contract is a lease or contains a lease on the date of first application. As at 1 January 2019 the Company applies IFRS 16 to contracts that were previously identified as leases in accordance with IAS 17 and IFRIC 4.
At the time of concluding a new contract, the Company assesses whether the contract is a lease or whether it contains a lease. An agreement is a lease or contains a lease if it transfers the right to control the use of an identified asset for a given period in exchange for remuneration. In order to assess if an agreement transfers the right to control the use of an identified asset for a given period, the Company shall determine whether throughout the entire period of use the customer enjoys the following rights:
a) the right to obtain substantially all economic benefits from the use of the identified asset and
b) the right to manage the use of the identified asset.

Should the Company have the right to control the use of an identified asset for part of the duration of an agreement only, the agreement contains a lease in respect of this part of the period.

Rights resulting from lease, rental, hire or other agreements which meet the definition of a lease as per IFRS 16 are recognised as right-of-use underlying assets within the framework of non-current assets with a corresponding lease liabilities.

Initial recognition and measurement

The Company recognises the right-of-use asset as well as the lease liability on the date of commencement of the lease.

On the date of commencement the Company measured the right-of-use asset at cost.

The cost of the right-of-use asset is inclusive of the following:
a) the amount of the initial measurement of the lease liability,
b) all lease payments made on or before the date of commencement, less any lease incentives received,
c) all initial costs directly incurred by the lessee, and
d) estimated costs to be incurred by the lessee in connection with the dismantling and removal of underlying assets, the refurbishment of premises within which they were located, or the refurbishment of underlying assets to the condition required by the terms and conditions of the lease, unless these costs are incurred with the aim of creating stocks.

Lease payments included in the evaluation of lease liability include:
- fixed lease payments;
- variable lease payments, which depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts that are expected to be paid by the lessee as part of the guaranteed residual value;
- the call exercise price, should it be assumed with reasonable certainty that the Company shall decide to exercise the call option;
- penalty payments for termination of a lease, unless it can be assumed with reasonable certainty that the Company shall not terminate the lease.

Variable payments, which do not depend on an index or a rate should not be taken into account when calculating lease liability. Such payments are recognised in the profit or loss in the period of the occurrence which renders them payable.

The lease liability on the commencement date shall be calculated on the basis of the current lease payments that are payable by that date and discounted by the marginal interest rates of the lessee.

The Company does not discount lease liabilities by the lease interest rate as the calculation of such rates requires information known only to the lessor (the non-guaranteed final value of the leased asset as well as the direct costs incurred by the lessor).

Determining the lessee's marginal interest rate
Marginal interest rates were specified as the sum of:
a) the risk free rate, based on the Interest Rate Swap (IRS) in accordance with the maturity of the discount rate, and the relevant basic rate for the given currency, as well as
b) the Company's credit risk premium based on the credit margin calculated inclusive of the credit risk segmentation of all companies which have entered into lease agreements.

Subsequent measurement

After the commencement date, the lessee measures the right-of-use asset applying the cost model.

In applying the cost model, the lessee shall measure the cost of the right-of-use asset:
a) less any accumulated depreciation and accumulated impairment losses; and
b) adjusted in respect of any updates to the measurement of lease liability not resulting in the necessity for recognition of a separate asset.

After the date of commencement the lessee shall measure the lease liability by:
a) increasing the carrying amount to reflect interest on the lease liability,
b) decreasing the carrying amount to reflect any lease payments made, and
c) remeasuring the carrying amount to reflect any reassessment or lease modifications or to revise in-substance fixed lease payments.

The Company shall remeasure the lease liability in cases where there is a change in future lease payments as a result of a change in the index or rate used to determine lease payments (e.g. a change in payment associated with the right of perpetual use), in cases where there is a change in the amount expected by the Company to be payable under the residual amount guarantee, or if the Company reassesses the likelihood of the exercise of the call option, or the extension or termination of the lease.

Updating the lease liability also adjusts the value of the right-of-use asset. In a situation where the carrying amount of the right-of-use asset has been reduced to zero, further reductions in the measurement of the lease liability shall be recognised by the Company as profit or loss.

Depreciation
The right-of-use asset is depreciated linearly over the shorter of the following two periods: the period of lease or the useful life of the underlying asset. However in cases where the Company can be reasonably sure that it will regain ownership of the asset prior to the end of the lease term, right-of-use shall be depreciated from the day of commencement of the lease until the end of the useful life of the asset.
The useful life of right-of-use asset is determined in the same manner as for property, plant and equipment.

The Company has leases agreements regarding mainly:
a) Land, including:
  - perpetual usufruct of land for a fixed period of up to 99 years,
  - land for petrol stations and motorway service areas concluded for a specified period up to 30 years and for an indefinite period.
b) Buildings and construction, including petrol stations, storage tank, office spaces for a fixed period up to 30 years.
c) Vehicles and other, including:
  - railway tank concluded for a specified period of 3 to 10 years,
  - cars for a fixed period up to 3 years,
  - locomotives for a fixed period up to 3 years.

Impairment
The Company applies IAS 36 Impairment of Assets to determine whether the right-of-use asset is impaired and to account for any impairment loss identified.

Exemptions, simplifications and practical solutions in the application of IFRS 16

Exemptions
Agreements not included within the scope of IFRS 16:
- lease for the exploration or use of natural resources,
- licences granted and recognised in accordance with IFRS 15 - Revenue from Contracts with Customers, and
- rights received under licence in accordance with IAS 38 - Intangible Assets.

The Company does not apply IFRS 16 to lease agreements or similar for intangible assets.

Simplifications and practical solutions

Short-term lease

The Company applies a practical solution to short-term lease contracts, which are characterised by a maximum possible contract term of up to 12 months, including any options to extend.

Simplifications regarding these contracts involve the settlement of lease payments as costs:
- on a straight-line basis, for the duration of the lease agreement, or
- another systematic method, if it better reflects the way of spreading the benefits gained by the user in time.

Leases of low-value assets
The Company does not apply the rules concerning recognition, measurement and presentation outlined in IFRS 16 to lease agreements of low-value assets.

Low-value assets are considered to be those which have a value when new not higher than PLN 18,799 translated at the exchange rate of the first day of application, i.e. 1 January 2019 (representing USD 5,000) or the equivalent value in another currency as per the average closing rate of exchange of the National Bank of Poland at the moment of initial recognition of a contract.
Simplifications in respect of such contracts are due to the settlement of costs on:
- a straight-line basis for the term of the lease contract; or
- another systematic method basis should it be more representative of the time pattern of the user's benefit.

An asset covered by a lease must not be counted as a low-value asset if the asset would typically not be of low value when new. As low-value items, the Company includes for example: gas cylinders, coffee machines, and small items of furniture.

The underlying asset may have a low-value only if:
a) the lessee may benefit from use of the underlying asset itself or in conjunction with other resources which are readily available to him, and
b) the underlying asset is not highly dependent on or related to other assets.

If the lessee transfers asset into subleasing or expects the asset to be transferred to subleasing, then the main lease does not qualify as lease of a low-value asset.

Determining the lease term: indefinite contracts

When establishing the term for indefinite leases contracts, the Company makes a professional judgment taking into account:
- expenditure incurred in connection with the contract or

- potential costs connected with the termination of the lease contract, including the costs involved in obtaining a new lease contracts, such as negotiation costs; reallocation costs, costs of identifying other underlying asset suitable for the lessee's needs; costs of integrating a new asset into the lessee's operations; or termination penalties and similar costs, including costs associated with returning the underlying asset in a contractually specified condition or to a contractually specified location.

In case where the costs connected with the termination of the lease contract are substantial, the lease term adopted is equal to that adopted for the depreciation period of a similar fixed asset with parameters similar to the subject of the lease.

Although the costs connected with the termination of the lease agreement may be reliably measured, it is necessary to determine a lease term during which there are no justifiable grounds for termination.

In cases where expenditure incurred in connection with the contract is substantial, the lease term adopted is equal to that of the expected period of economic benefits derived from the incurred expenses.

The value of the incurred expenses represents a separate asset to the right-of-use asset.

In case of the lack of expenses incurred in connection with the contract in question, or the lack or insignificance of costs connected with its termination, the termination period of the lease is adopted as the lease term.

PROFESSIONAL JUDGEMENT

Separating non-lease components
The Company assesses whether the contract contains lease and non- lease components. Non-lease components are removed from contracts containing a lease component, for example service for assets covered by the contract.
However, in cases where a contract includes non-lease components considered by the Company to be immaterial within the context of the contract as a whole, the Company uses simplification which allows lease and non-lease components to be treated a single lease component.

Determining the lease term
In determining the lease term, the Company consider in all important facts and events behind the economic incentives to make use of the option to extend the lease or not to exercise the option of its termination. An assessment of a lease term is carried out on the date of commencement of the lease. A reassessment is made upon the occurrence of either a significant event or a significant change in circumstances, that the lessee controls, that impact such an assessment.

Estimations

The useful life of right-of-use asset
The estimated useful life of right-of-use asset is determined in the same manner as for property, plant and equipment.

2.3. Functional currency and presentation currency of financial statements

The functional currency and presentation currency of this half-year condensed separate financial statements is the Polish Zloty (PLN). The data is presented in PLN million in the separate financial statements, unless otherwise stated.

2.4. Information concerning the seasonal or cyclical character of the Company's operations in the presented period

There is no significant seasonality or cyclicality to the PKN ORLEN operations.

3. Financial situation of PKN ORLEN and changes in the structure of shares in related parties

3.1. PKN ORLEN achievements and factors that have a significant impact on half-year condensed separate financial statements

Profit or loss

In the 6-month period of 2019 PKN ORLEN recorded an increase in sales revenues by PLN 3,852 million (y/y) to PLN 43,058 million. Increase of revenues is mainly effect of higher volume sales, mainly of fuel and olefins and depreciation of the PLN exchange rate against the foreign currencies, which caused an increase of product prices expressed in PLN. The observed decrease in crude oil prices by approximately 5 USD/ bbl resulted in a decrease (y/y) of the quotation (y/y) of main products of the ORLEN Group, i.e. fuel by (9%), diesel oil by (4%), light heating oil by (4%) and ethylene by (5%).

The operating expenses increased by PLN (4,106) million (y/y) to PLN (40,862) million. The largest item in this cost structure constitute the costs of materials and energy consumption related mainly to the crude oil and other chemicals used in technological processes. The increase in the costs of materials and energy consumption by 13% (y/y) resulted mainly from the higher crude oil processing in PKN ORLEN by 93 thousand tons and higher share of more expensive low-sulfur crude delivered by sea as a result of contamination with organic chlorides of crude oil sent via the Friendship pipeline and temporary suspension of supply via this pipeline.

Result of other operating activities amounted to PLN 56 million and included mainly impact of net derivatives including inter alia valuation and settlement of derivative financial instruments and ineffective part concerned operating exposure as well as the settlement of the instruments hedging costs in the total amount PLN 73 million. Result of other operating activities in the 6-month period of 2019 was lower by (209) million as a result of lack of penalties for improper execution of the contract of the power plant CCGT in Płock.

As a result profit from operations for the 6 months of 2018 amounted to PLN 2,238 million and was lower by PLN (468) million (y/y).

Net finance income in the described period amounted to PLN 437 million and included mainly dividend income in the amount of PLN 465 million settlement and valuation of net financial instruments in the amount of PLN 97 million and foreign exchange gains in the amount of PLN 126 million, net interest expenses in the amount of PLN (114) million and recognition of impairment allowances of ORLEN Capital shares in the amount of PLN (133) million.

After the deduction of tax charges in the amount of PLN (489) million, the net profit of the ORLEN Group for the 6 months of 2019 amounted to PLN 2,194 million and was lower by PLN (525) million (y/y).

Statement of financial position

As at 30 June 2019 the total assets of PKN ORLEN amounted to PLN 59,486 million and was higher by PLN 4,689 million in comparison with 31 December 2018.

As at 30 June 2019, the value of non-current assets amounted to PLN 34,628 million and was higher by PLN 2,038 million in comparison with the end of the previous year, mainly due to the recognition of right-of-use asset in the amount of PLN 2,171 million in connection with the implementation from 1 January 2019 new IFRS 16.

The value of current assets increased by PLN 2,651 million, mainly due to increase of trade and other receivables by PLN 1,191 million, increase in the balance of cash by PLN 1,782 million, decrease of inventories by PLN (148) million and decrease of non-current assets classified as held for sale by PLN (105) million mainly as a result of sale of rights. The increase in trade receivables results mainly from higher volume sales.

As at 30 June 2019, total equity amounted to PLN 32,308 million and was higher by PLN 674 million in comparison with the end of 2018, mainly as a result of net profit for the 6 months of 2019 in the amount of PLN 2,194 million with consideration of dividends from the profit of the 2018 in the amount PLN (1,497) million and negative impact of change of balance of hedging reserve in the amount PLN (25) million.

The value of trade and other liabilities increased by PLN 2,748 million compared to the end of 2018 mainly due to PKN ORLEN's shareholder dividend liabilities in the amount of PLN 1,497 million, tax liabilities in the amount of PLN 583 million and trade liabilities in the amount of PLN 522 million.

As at 30 June 2019 net financial indebtedness of PKN ORLEN amounted to PLN 3,461million and was lower by PLN (2,841) million in comparison with the end of 2018. Change of net financial indebtedness included redemption of bonds in the amount of PLN (890) million, increase of cash balance by PLN (1,782) million and the net impact of positive exchange differences from revaluation and indebtedness valuation and interests in total amount of PLN (169) million.

Statement of cash flows

Proceeds of net cash from operating activities for the 6-month period of 2019 amounted to PLN 2,526 million and comprised mainly profit from operations increased by depreciation and amortisation in the amount of PLN 3,086 million, the positive impact of decrease in a net working capital by PLN 48 million and paid income taxes in the amount of PLN (678) million.

Net cash from investing activities for the 6-month period of 2019 amounted to PLN 89 million and comprised mainly net expenses for the acquisition of property, plant and equipment, intangible assets and right-of-use asset in the amount of PLN (414) million, expenses related to capital contributions in the amount of (213) million for ORLEN Capital, dividends received in the amount of PLN 459 million, proceeds from cash pool facility in the ORLEN Group in the amount of PLN 149 million and net cash related to redemption of non-controlling shareholders of UNIPETROL in the amount of PLN 200 million. In accordance with the agreement, bank Ceska Sporitelna a.s. after the Basic Period of settlements with Unipetrol's former shareholders, transferred to PKN ORLEN 90% of unused amount due to former shareholders. The reimbursement of cash is temporary, as PKN ORLEN is obliged to systematically replenish the provisions for subsequent settlements with notifying shareholders, as to maintain safe level above 5% of outstanding amount due to squeeze-out of Unipetrol's shares.

Net outflows of cash used in financing activities for the 6-month period of 2018 amounted to PLN (813) million and comprised mainly the net redemption of bonds in the amount of PLN (1,399) million, issue of retail bonds in the amount of PLN 509 million and interest paid in the amount of PLN (228) million, liabilities under lease agreements in the amount of PLN (148) and proceeds from cash pool facility in the amount of PLN 453 million.

Following inclusion of the revaluation of cash due to exchange differences, the cash balance in the 6-month period of 2019 increased by PLN 1,782 million and as at 30 June 2019 amounted to PLN 5,243 million.

Factors and events which may influence future results

Similar factors as described above will have influence on future financial results.

3.2. Changes of shares of PKN ORLEN from 1 January 2018 up to the date of preparation of this report

- On 13 June 2019, the PKN ORLEN filed a surcharge to the capital of ORLEN Capital AB in the total amount of PLN 213 (representing EUR 50 million).
- On 28 June 2019 the Extraordinary General Meeting of Shareholders of Baltic Power sp. o.o. adopted a resolution regarding the increase of the company's share capital. Share capital of Baltic Power sp. z o.o. increased by PLN 100,000 by creating 1,000 new and indivisible shares with a nominal value of PLN 100 each, which were fully subscribed by the existing sole shareholder of the company, ie. PKN ORLEN, in exchange for a cash contribution of PLN 52.4 million. Surplus of cash contribution over total nominal value of the newly issued shares will increase the company's reserve capital. The cash contribution was made on 1 July 2019. Share capital increase to the amount of PLN 600 000 will take place at the moment of entry into the Register.

HALF-YEAR CONDENSED SEPARATE FINANCIAL STATEMENTS (in PLN million)

4. Segment's data

The operations of the Company are conducted in:
- the Downstream segment, which includes integrated areas of refining, petrochemical production and sales and operations in the area of energy production,
- the Retail segment, which includes activity carried out at petrol stations,

and Corporate Functions, which include activities related to management, administration and remaining activities not allocated to separate operating segments i.e. reconciling items.

Revenues, costs, financial results, investments expenditures

for the 6-month period ended 30 June 2019

	NOTE	Downstream Segment (unaudited)	Retail Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
External revenues	5.1	32 478	10 539	41	-	43 058
Inter-segment revenues		7 092	-	44	(7 136)	-
Sales revenues		39 570	10 539	85	(7 136)	43 058
Operating expenses		(37 944)	(9 571)	(483)	7 136	(40 862)
Other operating income	5.3	221	35	8	-	264
Other operating expenses	5.3	(127)	(50)	(31)	-	(208)
(Loss)/reversal of loss due to impairment of financial instruments		-	(3)	(11)	-	(14)
Profit/(Loss) from operations		**1 720**	**950**	**(432)**	**-**	**2 238**
Net finance income and costs	5.4					437
(Loss)/reversal of loss due to impairment of financial instruments						8
Profit before tax						**2 683**
Tax expense						(489)
Net profit						**2 194**
Depreciation and amortisation	5.2	**619**	**177**	**52**	**-**	**848**
EBITDA		**2 339**	**1 127**	**(380)**	**-**	**3 086**
Increases in non-current assets, incl.:		**997**	**1 264**	**291**	**-**	**2 552**
Increases due to right-of-use *		**703**	**1 144**	**235**	**-**	**2 082**

* *the line includes an increase in non-current assets due to rights-of-use in the amount of PLN 2,012 million, recognized as at 1 January 2019 in connection with the implementation of IFRS 16 Leasing. Additional information is presented in note 5.9.1.*

for the 3-month period ended 30 June 2019

	NOTE	Downstream Segment (unaudited)	Retail Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
External revenues	5.1	16 967	5 777	24	-	22 768
Inter-segment revenues		3 913	-	24	(3 937)	-
Sales revenues		20 880	5 777	48	(3 937)	22 768
Operating expenses		(19 579)	(5 253)	(266)	3 937	(21 161)
Other operating income	5.3	109	29	6	-	144
Other operating expenses	5.3	(51)	(41)	(12)	-	(104)
(Loss)/reversal of loss due to impairment of financial instruments		-	(2)	(3)	-	(5)
Profit/(Loss) from operations		**1 359**	**510**	**(227)**	**-**	**1 642**
Net finance income and costs	5.4					433
(Loss)/reversal of loss due to impairment of financial instruments						1
Profit before tax						**2 076**
Tax expense						(393)
Net profit						**1 683**
Depreciation and amortisation	5.2	**317**	**86**	**27**	**-**	**430**
EBITDA		**1 676**	**596**	**(200)**	**-**	**2 072**
Increases in non-current assets, incl.:		**243**	**33**	**42**	**-**	**318**
Increases due to right-of-use		**26**	**7**	**1**	**-**	**34**

HALF-YEAR CONDENSED SEPARATE FINANCIAL STATEMENTS (in PLN million)

for the 6-month period ended 30 June 2018

	NOTE	Downstream Segment (unaudited)	Retail Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
External revenues	5.1	29 838	9 332	36	-	39 206
Inter-segment revenues		6 385	-	39	(6 424)	-
Sales revenues		36 223	9 332	75	(6 424)	39 206
Operating expenses		(34 219)	(8 586)	(375)	6 424	(36 756)
Other operating income	5.3	292	21	72	-	385
Other operating expenses	5.3	(11)	(34)	(75)	-	(120)
(Loss)/reversal of loss due to impairment of financial instruments		5	-	(14)	-	(9)
Profit/(Loss) from operations		**2 290**	**733**	**(317)**	**-**	**2 706**
Net finance income and costs	5.4					443
(Loss)/reversal of loss due to impairment of financial instruments						6
Profit before tax						**3 155**
Tax expense						(436)
Net profit						**2 719**
Depreciation and amortisation	5.2	**484**	**143**	**36**	**-**	**663**
EBITDA		**2 774**	**876**	**(281)**	**-**	**3 369**
Increases in non-current assets		**392**	**145**	**68**	**-**	**605**

for the 3-month period ended 30 June 2018

	NOTE	Downstream Segment (unaudited)	Retail Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
External revenues	5.1	15 647	5 216	20	-	20 883
Inter-segment revenues		3 569	-	20	(3 589)	-
Sales revenues		19 216	5 216	40	(3 589)	20 883
Operating expenses		(18 006)	(4 771)	(203)	3 589	(19 391)
Other operating income	5.3	154	12	32	-	198
Other operating expenses	5.3	(6)	(21)	(32)	-	(59)
(Loss)/reversal of loss due to impairment of financial instruments		(3)	-	-	-	(3)
Profit/(Loss) from operations		**1 355**	**436**	**(163)**	**-**	**1 628**
Net finance income and costs	5.4					560
(Loss)/reversal of loss due to impairment of financial instruments						1
Profit before tax						**2 189**
Tax expense						(258)
Net profit						**1 931**
Depreciation and amortisation	5.2	**257**	**70**	**19**	**-**	**346**
EBITDA		**1 612**	**506**	**(144)**	**-**	**1 974**
Increases in non-current assets		**243**	**75**	**47**	**-**	**365**

EBITDA *– profit/(loss) from operations increased by depreciation and amortisation*
Increase of non-current assets includes *increase of property, plant and equipment, intangible assets, investment property and right-of-use asset together with the capitalisation of borrowing costs and a decrease in received/due penalties for the improper execution of a contract*

Assets by operating segments

	30/06/2019 (unaudited)	31/12/2018
Downstream Segment	30 166	29 226
Retail Segment	5 362	3 997
Segment assets	**35 528**	**33 223**
Corporate Functions	23 958	21 574
	59 486	**54 797**

Operating segments include all assets except for financial assets, tax assets and cash. Assets used jointly by the operating segments are allocated based on revenues generated by individual operating segments.

HALF-YEAR CONDENSED SEPARATE FINANCIAL STATEMENTS (in PLN million)

5. Other notes

5.1. Sales revenues

PROFESSIONAL JUDGMENT

Based on analyses of contractual clauses in sales contracts, the Company identified the agency model mainly in the area of natural gas and LPG sales. In other transactions, including sales of crude oil to the ORLEN Group subsidiaries, the Company acts as a principal.
The Company has a VITAY loyalty program for retail clients. The loyalty program VITAY liability, arises at the time of sales of goods and services at own and franchise petrol stations for each single sale transaction and in case of purchase by the Company's customers in partner's e-Shops and consists in calculating points entitling to discounts on future purchases. A ratio of 68.5% is adopted to recognise liability taking into account the possibility of its on realisation, based on empirical data of points used compared to those issued to the customer in the last 36 months.
The Company assessed, which marketing services provided to suppliers are inseparably linked to the purchase of these merchandise, hence revenues from service reduce costs related to their purchase and release for sale.

	6 MONTHS ENDED 30/06/2019 (unaudited)	3 MONTHS ENDED 30/06/2019 (unaudited)	6 MONTHS ENDED 30/06/2018 (unaudited)	3 MONTHS ENDED 30/06/2018 (unaudited)
Revenues from sales of finished goods and services, net	24 234	13 273	21 189	11 388
revenue from contracts with customers	*24 170*	*13 239*	*21 130*	*11 356*
excluded from scope of IFRS 15	*64*	*34*	*59*	*32*
Revenues from sales of merchandise and raw materials, net	18 824	9 495	18 017	9 495
revenue from contracts with customers	*18 824*	*9 495*	*18 017*	*9 495*
Sales revenues, incl.:	**43 058**	**22 768**	**39 206**	**20 883**
revenue from contracts with customers	*42 994*	*22 734*	*39 147*	*20 851*

Contracts excluded from the scope of IFRS 15 refer to operating lease contracts

Performance obligations

As part of the contractual obligations, the Company commits to supply mostly refining, petrochemical products and goods, energy, crude oil and gas to its customers. Under the agreements, the Company acts as a principal.

In existing contracts with customers transaction prices are not restricted. Contracts existing in the Company do not provide for obligations to accept returns, pay reimbursements or other similar obligations. There is no significant financing component in contracts with customers. The Company does not identify revenues for which the payment of consideration is contingent. The guarantees provided under the contracts provide assurance to the customer that the good meets the required specification. They do not rely on the performance of distinct service.

In the Downstream segment deferred payment sales are the norm. In the Retail segment there are both cash sales with the possibility of deferred payments through use of fuel cards entitling customers to the ongoing purchase of fuel in the petrol station network. The settlements with customers takes place in two-week periods (so-called Fleet Cards).
Payment usually becomes due after goods or service have been transferred. In Downstream and Retail contracts with customers payment dates usually do not exceed 30 days.

Revenues according to categories taking into account significant economic factors affecting their recognition

Except of revenues according to product type and geographical region presented in notes 5.1.1 and 5.1.2, the Company analyses revenues based on the type of contract, date of transfer, contract duration and sales channels. Revenues based on a fixed price constitute the majority of revenues in the Company. The customer has the right to discounts, penalties, which in accordance with IFRS 15 constitute an element of variable consideration. The Company recognises revenues in the amount of consideration, to which – in line with expectations- it will be entitled and which will not be reversed in the future. Consequently, the Company adjusts revenues for highly probable discounts and penalties, which recognition are highly probable. The variability of consideration in contracts with customers is largely due to volume rebates. The Company also defers the part of revenue related to the VITAY loyalty program, according to which the customer is entitled to future benefits (i.e. VITAY points).

The transfer of control as the moment of revenue recognition under IFRS 15 is a broader concept than the transfer of risks and rewards. As part of the Downstream segment, in the scope of sales of petrochemical and refinery products, the Company recognises revenue from satisfaction of performance obligation, depending on the terms of delivery (Incoterms) used. In the case of some deliveries the Company is obliged to organize transport and/or insurance. When the control of good passes to the customer before transport is performed, the delivery of goods and transport (and possibly insurance) become separate performance obligations. The delivery of goods is an obligation satisfied at a point in time, while transport is a continuous obligation (satisfied over time). In the case of transport and insurance, the customer simultaneously receives benefits from the service.
In the Retail segment, a performance obligation is fulfilled following provision of good, except in the case on fuel sales using Fleet Cards.
In the case of sales transferred over time the Company recognises revenues at least on a monthly basis, where settlements between parties to the contract take place periodically and reflect the amount of remuneration owing to the Company for the provision of goods and services to the customer. Within the Downstream segment revenues mainly relate to the sale of energy and heat and the sale of fuels using Fleet cards within Retail segment.

The majority of contracts within the Company are short-term. Revenues on services for which start and end dates fall in different reporting periods (long-term contracts) are recognised according the stage of their completion, if the result of the transaction can be reliably estimated. Long-term contracts that remain unfulfilled in full as at the balance sheet date relate to sales of energy.

HALF-YEAR CONDENSED SEPARATE FINANCIAL STATEMENTS (in PLN million)

The Company sells directly to end customers in the retail segment managing a network of close to 1,779 fuel stations including 1,343 own brand stations and a further 436 stations operated under franchise agreement.
Company's sales to customers in the Downstream segment are carried out using a network of complementary infrastructure components: fuel terminals, land transshipment bases, pipeline networks, as well as rail transport and tanker trucks.

5.1.1. Sales revenues of operating segments according to product type

	6 MONTHS ENDED 30/06/2019 (unaudited)	3 MONTHS ENDED 30/06/2019 (unaudited)	6 MONTHS ENDED 30/06/2018 (unaudited)	3 MONTHS ENDED 30/06/2018 (unaudited)
Downstream Segment				
Revenue from contracts with customers IFRS 15	**32 432**	**16 942**	**29 796**	**15 623**
Crude oil	15 043	7 713	14 027	7 252
Medium distillates	9 350	4 831	8 331	4 583
Light distillates	1 982	1 136	1 938	1 058
Monomers	1 766	943	1 601	749
Heavy fractions	1 432	685	1 565	885
PTA	995	505	802	420
Aromas	296	166	274	126
Other*	1 568	963	1 258	550
Excluded from scope of IFRS 15	**46**	**25**	**42**	**24**
	32 478	**16 967**	**29 838**	**15 647**
Retail Segment				
Revenue from contracts with customers IFRS 15	**10 527**	**5 771**	**9 319**	**5 210**
Medium distillates	5 635	3 005	5 024	2 789
Light distillates	3 287	1 870	2 962	1 655
Other**	1 605	896	1 333	766
Excluded from scope of IFRS 15	**12**	**6**	**13**	**6**
	10 539	**5 777**	**9 332**	**5 216**
Corporate Functions				
Revenue from contracts with customers IFRS 15	**35**	**21**	**32**	**18**
Excluded from scope of IFRS 15	**6**	**3**	**4**	**2**
	41	**24**	**36**	**20**
	43 058	**22 768**	**39 206**	**20 883**

** Other mainly includes: butadien, acetone, phenol, glycols and revenues from sale of services, materials and energy*
*** The line other in retail segment includes mainly sale of non-fuel merchandise*

In the 6 and 3-month period ended 30 June 2019 and 30 June 2018 the Company generated sales revenues from three customers of downstream segment finished goods and merchandise in the total amount of PLN 25,253 million and PLN 23,089 million respectively, which individually exceeded 10% of total revenues from sale. These customers were entities related to PKN ORLEN.

5.1.2. Sales revenues according to geographical region – as per location of customer's headquarters

	6 MONTHS ENDED 30/06/2019 (unaudited)	3 MONTHS ENDED 30/06/2019 (unaudited)	6 MONTHS ENDED 30/06/2018 (unaudited)	3 MONTHS ENDED 30/06/2018 (unaudited)
Poland	25 259	13 686	22 455	12 246
Germany	633	314	577	309
Czech Republic	6 758	3 386	6 410	3 419
Lithuania, Latvia, Estonia	8 551	4 491	7 985	4 016
Other countries	1 793	857	1 720	861
	42 994	**22 734**	**39 147**	**20 851**
excluded from scope of IFRS15 - Poland	64	34	59	32
	43 058	**22 768**	**39 206**	**20 883**

The line other countries comprises mainly sales to customers from Switzerland, United Kingdom and Ireland.

HALF-YEAR CONDENSED SEPARATE FINANCIAL STATEMENTS (in PLN million)

5.2. Operating expenses

Cost by nature

	6 MONTHS ENDED 30/06/2019 (unaudited)	3 MONTHS ENDED 30/06/2019 (unaudited)	6 MONTHS ENDED 30/06/2018 (unaudited)	3 MONTHS ENDED 30/06/2018 (unaudited)
Materials and energy	(19 026)	(10 016)	(16 883)	(8 926)
Cost of merchandise and raw materials sold	(18 139)	(9 153)	(17 391)	(9 171)
External services	(1 295)	(673)	(1 292)	(668)
Employee benefits	(480)	(234)	(427)	(207)
Depreciation and amortisation	(848)	(430)	(663)	(346)
Taxes and charges	(1 215)	(591)	(534)	(263)
Other	(152)	(89)	(96)	(62)
	(41 155)	**(21 186)**	**(37 286)**	**(19 643)**
Change in inventories	215	(10)	382	158
Cost of products and services for own use	78	35	148	94
Operating expenses	**(40 862)**	**(21 161)**	**(36 756)**	**(19 391)**
Distribution expenses	2 067	1 059	1 370	695
Administrative expenses	459	242	395	205
Cost of sales	**(38 336)**	**(19 860)**	**(34 991)**	**(18 491)**

In the 6 and 3-months ended 30 June 2019, the position of taxes and charges includes the value of the emission charge effective from 1 January 2019 in the amount of PLN (586) million and PLN (304) million, respectively.

5.3. Other operating income and expenses

Other operating income

	6 MONTHS ENDED 30/06/2019 (unaudited)	3 MONTHS ENDED 30/06/2019 (unaudited)	6 MONTHS ENDED 30/06/2018 (unaudited)	3 MONTHS ENDED 30/06/2018 (unaudited)
Profit on sale of non-current non-financial assets	19	8	16	13
Reversal of provisions	1	-	2	-
Reversal of impairment allowances of property, plant and equipment and intangible assets and other non-current assets	26	26	11	10
Penalties and compensations	15	6	214	119
Settlement and valuation of derivative financial instruments related to operating exposure	101	44	41	15
Ineffective part related to valuation and settlement of operating exposure	25	12	16	9
Settlement of hedging costs	51	28	-	-
Other, incl.:	26	20	85	32
received/due energy certificates	*12*	*12*	*62*	*13*
	264	**144**	**385**	**198**

Other operating expenses

	6 MONTHS ENDED 30/06/2019 (unaudited)	3 MONTHS ENDED 30/06/2019 (unaudited)	6 MONTHS ENDED 30/06/2018 (unaudited)	3 MONTHS ENDED 30/06/2018 (unaudited)
Loss on sale of non-current non-financial assets	(17)	(12)	(14)	(7)
Recognition of provisions	(2)	(1)	(7)	(1)
Recognition of impairment allowances of property, plant and equipment and intangible assets and other non-current assets	(42)	(38)	(13)	(13)
Penalties, damages and compensations	(6)	(3)	(5)	(3)
Settlement and valuation of derivative financial instruments related to operating exposure	(77)	(25)	(28)	(1)
Ineffective part related to valuation and settlement of operating exposure	(27)	(14)	(25)	(15)
Other, incl.:	(37)	(11)	(28)	(19)
donations	*(18)*	*(3)*	*(12)*	*(8)*
	(208)	**(104)**	**(120)**	**(59)**

In the 6 and 3-month period ended 30 June 2019 and 30 June 2018 the net positions of valuation and settlement of derivative financial instruments related to operating exposure (non-designated instruments for hedge accounting purposes) amounted to PLN 24 million, PLN 19 million and PLN 13 million, PLN 14 million, respectively and mainly related to commodity swaps hedging time mismatch on crude oil purchases concluded in the 2nd quarter of 2019 and additionally settlement of intercompany transactions hedging purchases of crude oil, while net positions of ineffective part relating to operating exposure amounted to PLN (2) million, PLN (2) million and PLN (9) million, PLN (6) million respectively and mainly related to commodity swaps hedging sales of refining products.

HALF-YEAR CONDENSED SEPARATE FINANCIAL STATEMENTS (in PLN million)

5.4. Finance income and costs

Finance income

	6 MONTHS ENDED 30/06/2019 (unaudited)	3 MONTHS ENDED 30/06/2019 (unaudited)	6 MONTHS ENDED 30/06/2018 (unaudited)	3 MONTHS ENDED 30/06/2018 (unaudited)
Interest calculated using the effective interest rate method	31	10	26	12
Net foreign exchange gain	126	117	-	-
Dividends	465	465	840	836
Settlement and valuation of derivative financial instruments	351	128	781	340
Other	23	11	155	29
	996	**731**	**1 802**	**1 217**

Finance costs

	6 MONTHS ENDED 30/06/2019 (unaudited)	3 MONTHS ENDED 30/06/2019 (unaudited)	6 MONTHS ENDED 30/06/2018 (unaudited)	3 MONTHS ENDED 30/06/2018 (unaudited)
Interest calculated using the effective interest rate method	(116)	(56)	(138)	(88)
Interest on lease	(27)	(10)	(3)	(2)
Interest on tax liabilities	(2)	(1)	-	-
Net foreign exchange loss	-	-	(367)	(380)
Settlement and valuation of derivative financial instruments	(254)	(90)	(700)	(168)
Recognition of impairment allowances of shares in related parties	(133)	(133)	-	-
Other	(27)	(8)	(151)	(19)
	(559)	**(298)**	**(1 359)**	**(657)**

In the 6 and 3-month period ended 30 June 2019 and 30 June 2018 the net positions of valuation and settlement of derivative financial instruments (non-designated instruments for hedge accounting purposes instruments within risk related to financing activities exposure) amounted to PLN 97 million, PLN 38 million and PLN 81 million, PLN 172 million and related mainly to hedging the risk of changes in exchange rates with regard to deposits and payments in foreign currency and to hedging interest rates and payment of bonds interests.
The main impact on the change in valuation and settlement of derivative financial instruments in the 6 and 3-month period ended 30 June 2019 was affected by exchange rates (appreciation of PLN and CZK) and interest rates on financial markets.

The line Other in finance income and finance costs mainly includes transaction differences in currency purchases and additionally in 2018 settlement of intercompany financial transactions.

Borrowing costs capitalized in the 6 and 3-month period ended 30 June 2019 and 30 June 2018 amounted to PLN (6) million and PLN (2) million, PLN (29) million and PLN (17) million, respectively.

5.5. Loans, borrowings and bonds

	Non-current		Current		Total	
	30/06/2019 (unaudited)	31/12/2018	30/06/2019 (unaudited)	31/12/2018	30/06/2019 (unaudited)	31/12/2018
Loans	1 882	2 151	244	-	2 126	2 151
Borrowings	5 254	5 386	-	-	5 254	5 386
Bonds	1 003	1 104	321	1 122	1 324	2 226
	8 139	**8 641**	**565**	**1 122**	**8 704**	**9 763**

As at 30 June 2019, indebtedness due to loans relates to a loan reimbursed by PKN ORLEN from a consortium of banks under the Agreement for a multi-currency revolving loan of 25 April 2014 in the amount of PLN 2,126 million translated using the exchange rate as at 30 June 2019 (which corresponds to EUR 500 million).

Detailed information on issue/redemption of bonds are presented in the note 5.11.

As at 30 June 2019 and as at 31 December 2018 the maximum possible indebtedness due to loans amounted to PLN 13,009 million and PLN 13,496 million, respectively. As at 30 June 2019 and as at 31 December 2018 PLN 5,627 million and PLN 5,664 million, respectively, remained unused.

In the period covered by this half-year condensed separate financial statements, as well as after the reporting date, there were no instances of principal or interest non repayment or loan covenant violations.

HALF-YEAR CONDENSED SEPARATE FINANCIAL STATEMENTS (in PLN million)

5.6. Derivatives and other assets and liabilities

Derivatives and other assets

	Non-current		Current		Total	
	30/06/2019 (unaudited)	31/12/2018	30/06/2019 (unaudited)	31/12/2018	30/06/2019 (unaudited)	31/12/2018
Cash flow hedging instruments	122	59	130	278	252	337
currency forwards	*122*	*59*	*128*	*149*	*250*	*208*
commodity swaps	*-*	*-*	*2*	*129*	*2*	*129*
Derivatives not designated as hedge accounting	21	15	58	40	79	55
currency forwards	*-*	*-*	*33*	*5*	*33*	*5*
currency interest rate swaps	*21*	*10*	*-*	*-*	*21*	*10*
commodity swaps	*-*	*-*	*25*	*35*	*25*	*35*
interest rate swaps	*-*	*5*	*-*	*-*	*-*	*5*
Derivatives under centralization	60	42	214	131	274	173
commodity swaps	*-*	*-*	*197*	*124*	*197*	*124*
currency forwards	*60*	*42*	*17*	*7*	*77*	*49*
Fair value hedging instruments	7	2	8	1	15	3
commodity swaps	*7*	*2*	*8*	*1*	*15*	*3*
Derivatives	**210**	**118**	**410**	**450**	**620**	**568**
Other financial assets	1 055	916	517	541	1 572	1 457
loans granted	*994*	*831*	*9*	*8*	*1 003*	*839*
cash pool	*-*	*-*	*145*	*297*	*145*	*297*
receivables on settled derivatives	*-*	*-*	*181*	*105*	*181*	*105*
receivables on settled derivatives under centralization	*-*	*-*	*106*	*111*	*106*	*111*
financial assets measured at fair value through other comprehensive income	*60*	*59*	*-*	*-*	*60*	*59*
hedged item adjustment	*1*	*4*	*3*	*20*	*4*	*24*
finance lease	*-*	*22*	*-*	*-*	*-*	*22*
deposits	*-*	*-*	*73*	*-*	*73*	*-*
Other non-financial assets	-	100	-	-	-	100
perpetual usufruct of land	*-*	*100*	*-*	*-*	*-*	*100*
Other assets	**1 055**	**1 016**	**517**	**541**	**1 572**	**1 557**

Derivatives and other liabilities

	Non-current		Current		Total	
	30/06/2019 (unaudited)	31/12/2018	30/06/2019 (unaudited)	31/12/2018	30/06/2019 (unaudited)	31/12/2018
Cash flow hedging instruments	-	-	62	96	62	96
commodity swaps	*-*	*-*	*62*	*96*	*62*	*96*
Derivatives not designated as hedge accounting	28	38	24	60	52	98
interest rate swaps	*28*	*38*	*-*	*-*	*28*	*38*
currency interest rate swaps	*-*	*-*	*-*	*27*	*-*	*27*
currency forwards	*-*	*-*	*22*	*12*	*22*	*12*
commodity swaps	*-*	*-*	*2*	*21*	*2*	*21*
Derivatives under centralization	61	42	220	147	281	189
commodity swaps	*-*	*-*	*203*	*140*	*203*	*140*
currency forwards	*61*	*42*	*17*	*7*	*78*	*49*
Fair value hedging instruments	1	4	3	21	4	25
commodity swaps	*1*	*4*	*3*	*21*	*4*	*25*
Derivatives	**90**	**84**	**309**	**324**	**399**	**408**
Other financial liabilities	122	257	2 106	1 657	2 228	1 914
liabilities on settled derivatives	*-*	*-*	*-*	*7*	*-*	*7*
liabilities on settled derivatives under centralization	*-*	*-*	*107*	*115*	*107*	*115*
investment liabilities	*98*	*96*	*-*	*-*	*98*	*96*
finance lease	*-*	*138*	*-*	*-*	*-*	*138*
cash pool	*-*	*-*	*1 991*	*1 534*	*1 991*	*1 534*
hedged item adjustment	*7*	*2*	*8*	*1*	*15*	*3*
donations	*17*	*21*	*-*	*-*	*17*	*21*
Other non-financial liabilities	8	-	136	6	144	6
deferred income	*8*	*-*	*136*	*6*	*144*	*6*
Other liabilities	**130**	**257**	**2 242**	**1 663**	**2 372**	**1 920**

HALF-YEAR CONDENSED SEPARATE FINANCIAL STATEMENTS (in PLN million)

5.7. Provisions

	Non-current		Current		Total	
	30/06/2019 (unaudited)	31/12/2018	30/06/2019 (unaudited)	31/12/2018	30/06/2019 (unaudited)	31/12/2018
Environmental	403	403	26	34	429	437
Jubilee bonuses and post-employment benefits	117	117	28	28	145	145
CO_2 emissions, energy certificates	-	-	172	229	172	229
Other	-	-	85	85	85	85
	520	**520**	**311**	**376**	**831**	**896**

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

As compared to the previous reporting period the Company did not change valuation methods concerning derivative instruments.
Methods applied in determining the fair value were described in the Separate Financial Statements for 2018 in note 8.3.3.
In the item financial assets at fair value through other comprehensive income, quoted/unquoted shares not held for trading are included.

Fair value hierarchy

	Carrying amount (unaudited)	Fair value (unaudited)	Fair value hierarchy Level 1	Level 2
Financial assets				
Financial assets measured at fair value through other comprehensive income	60	60	20	40
Loans granted	1 003	1 014	-	1 014
Derivatives, incl.:	620	620	-	620
derivatives under centralization	*274*	*274*	-	*274*
	1 683	**1 694**	**20**	**1 674**
Financial liabilities				
Loans	2 126	2 126	-	2 126
Borrowings	5 254	5 261	-	5 261
Bonds	1 324	1 340	1 120	220
Derivatives, incl.:	399	399	-	399
derivatives under centralization	*281*	*281*	-	*281*
	9 103	**9 126**	**1 120**	**8 006**

The fair value of financial assets and liabilities quoted on active markets is determined based on market quotations (i.e. Level 1). In other cases, the fair value is determined based on other input data which are directly or indirectly observable (i.e. Level 2) or unobservable inputs (i.e. Level 3).
During the reporting period and comparative period there were no reclassifications in the Company between Level 1 and Level 2 of the fair value hierarchy.

HALF-YEAR CONDENSED SEPARATE FINANCIAL STATEMENTS (in PLN million)

5.9. Lease

5.9.1. Company as a lessee

Change in assets due to right-of-use

	Land	Buildings and constructions	Machinery and equipment	Vehicles and other	Total
Net carrying amount at 01/01/2019 - Impact of IFRS 16 adoption					
Gross carrying amount	1 305	271	-	436	**2 012**
	1 305	**271**	**-**	**436**	**2 012**
increases/(decreases), net					
Depreciation	(25)	(31)	(2)	(87)	(145)
Impairment allowances	(26)	(4)	-	-	(30)
Reclassifications *	108	125	18	14	265
Other **	(30)	17	-	82	69
	1 332	**378**	**16**	**445**	**2 171**
Net carrying amount at 30/06/2019 (unaudited)					
Gross carrying amount	1 400	472	28	540	**2 440**
Accumulated depreciation	(42)	(90)	(12)	(95)	**(239)**
Impairment allowances	(26)	(4)	-	-	**(30)**
	1 332	**378**	**16**	**445**	**2 171**

* *The line reclassification includes gross values, depreciation of property, plant and equipment and perpetual usufruct of land which were recognised as at 31 December 2018 as finance lease under IFRS 17*
** *The line other includes newly concluded contracts, contract modifications and exchange rate differences*

Amounts from lease contracts recognised in the statement of profit or loss and other comprehensive income

		6 MONTHS ENDED 30/06/2019 (unaudited)	3 MONTHS ENDED 30/06/2019 (unaudited)
Costs due to:		**(53)**	**(30)**
interest on lease	Finance costs	(27)	(10)
short-term lease	Cost by nature: External Services	(11)	(6)
variable lease payments not recognised in valuation of lease liabilities	Cost by nature: External Services	(15)	(14)

Reconciliation of future minimum lease payments disclosed as at 31 December 2018 with lease liabilities recognised in the statement of financial position as at 1 January 2019

Value of future minimum lease payments under operating lease	3 790
Value of future minimum lease payments under finance lease	196
Contractual lease liabilities as at 31/12/2018	**3 986**
Discount	(1 810)
Present value of lease liabilities as at 01/01/2019	**2 176**
Present value of contractual finance lease liabilities as at 31/12/2018	**(164)**
Value of contractual lease liabilities – impact of IFRS 16 adoption as at 01/01/2019	**2 012**

* *The weighted average marginal interest rate of the Company as a lessee applied to the lease liabilities recognised in the statement of financial position as at 1 January 2019 amounted to 3.28%.*

5.9.2. Company as a lessor

Financial lease

The Company as at the starting date, classifies leases as financial or operating lease.
In order to make the above classification the Company assesses whether the entire risk and benefits resulting from ownership of the underlying asset were transferred to a lessee. If the entire risk and benefits were transferred to lessee, the lease is classified as a financial lease, in the opposite situation - as operating lease.

HALF-YEAR CONDENSED SEPARATE FINANCIAL STATEMENTS (in PLN million)

Operating lease

Assets transferred by the Company to other entities for use under an operating lease agreement are classified in the Company's assets. Lease payments under operating leases are recognised on a straight-line basis over the lease period as revenues from the sale of products and services.
Operating lease mainly concerns properties owned by the Company, covered by the lease agreements.
Revenues from operating lease for the 6 and 3-month period ended 30 June of 2019 amounted to PLN 64 million and PLN 34 million.

5.10. Future commitments resulting from signed investment contracts

As at 30 June 2019 and as at 31 December 2018 the value of future commitments resulting from investment contracts signed until that day amounted to PLN 1,044 million and PLN 596 million, respectively.

5.11. Issue, redemption and repayment of debt securities

In the first half of 2019 as part of:
- the first public bond issue program, F Series remains open with a nominal value of PLN 100 million
- the second public bond issue program, A-E Series with a total nominal value of PLN 1 billion.

As part of the bond issue program established under the Bond Issue Program Agreement of 27 November 2006 (as amended), in the first half of 2019, PKN ORLEN redeemed long-term bonds with a nominal value of PLN 1 billion issued in 2012;

Additionally, in the 6 and 3-month period ended 30 June 2019 and 30 June 2018 PKN ORLEN issued and redeemed short-terms bonds in favour of the Group companies as a part of liquidity optimisation in the Group in the amounts: issue: PLN 509 million, PLN 314 million and PLN 349 million, PLN 234 million, respectively; redemption: PLN 399 million, PLN 342 million and PLN 310 million, PLN 113 million, respectively.

5.12. Distribution of the profit for 2018

The Ordinary General Meeting of Shareholders of PKN ORLEN S.A. on 14 June 2019 distributed the net profit of PKN ORLEN for 2018 in the amount of PLN 5,434,149,842.17 as follows: the amount of PLN 1,496,981,713.50 was allocated as a dividend payment (PLN 3.5 per 1 share) and the remaining amount of net profit of PLN 3,937,168,128.67 as reserve capital. The dividend date was set at 22 July 2019 and the dividend payment date at 5 August 2019.

5.13. Contingent liabilities

Information concerning significant proceedings in front of court, body appropriate for arbitration proceedings or in front of administration bodies in which the PKN ORLEN act as the defendant:

Claim of Warter Fuels S.A. (before: OBR S.A.) for compensation
On 5 September 2014, OBR S.A. (currently: Warter Fuels S.A.) filled an action against PKN ORLEN with the District Court in Łódź for a claim for payment in respect of an alleged breach by PKN ORLEN of patent rights. The amount of the claim in the lawsuit was estimated by Warter Fuels S.A. in the amount of approximately PLN 83 million. The claim covers the adjudged sum of money from PKN ORLEN for Warter Fuels S.A. in the amount corresponding to the 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 to the lawsuit. By the procedural document from 11 December 2014 the value of the dispute was referred to by the plaintiff in the amount of approximately PLN 247 million. So far, several hearings took place (last on 28 September 2018), during which witnesses submitted by the parties were heard by the court . The PKN ORLEN attorney submitted a request to suspend the proceedings due to parallel proceedings for determining the right to the disputed patent, the outcome of which will have significance for the resolution in the case of breach. The request was not considered yet. In the opinion of PKN ORLEN the above claims are without merit.

Except of described above proceedings, PKN ORLEN has not identified any other significant contingent liabilities.

5.14. Related parties transactions

5.14.1. Related parties transactions of the ORLEN Group

As at 30 June 2019 and 31 December 2018 and in the 6 and 3-month period ended 30 June 2019 and 30 June 2018 there were no transactions of related parties with Members of the Management Board and the Supervisory Board of the Company, other key executive personnel of the Company and their relatives.

5.14.2. Remuneration of key executive personnel of the Company

	6 MONTHS ENDED 30/06/2019 (unaudited)	3 MONTHS ENDED 30/06/2019 (unaudited)	6 MONTHS ENDED 30/06/2018 (unaudited)	3 MONTHS ENDED 30/06/2018 (unaudited)
Short-term employee benefits	20.9	10.4	20.4	9.3
Termination benefits	1.7	0.8	7.6	3.0
	22.6	**11.2**	**28.0**	**12.3**

The above table presents remuneration paid and due or potentially due to the key management personnel of PKN ORLEN in the reporting period.

HALF-YEAR CONDENSED SEPARATE FINANCIAL STATEMENTS (in PLN million)

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

	Subsidiaries		Jointly- controlled entities		Total	
	6 MONTHS ENDED 30/06/2019 (unaudited)	3 MONTHS ENDED 30/06/2019 (unaudited)	6 MONTHS ENDED 30/06/2019 (unaudited)	3 MONTHS ENDED 30/06/2019 (unaudited)	6 MONTHS ENDED 30/06/2019 (unaudited)	3 MONTHS ENDED 30/06/2019 (unaudited)
Sales	22 615	11 670	1 546	802	24 161	12 472
Revenues under centralization of derivative financial instruments	689	205	-	-	689	205
Purchases	(3 398)	(1 706)	(21)	(12)	(3 419)	(1 718)
Costs under centralization of derivative financial instruments	(461)	(231)	-	-	(461)	(231)
Finance income, incl.:	374	360	107	107	481	467
Dividends	*353*	*353*	*107*	*107*	*460*	*460*
Finance costs	(81)	(39)	-	-	(81)	(39)

	Subsidiaries		Jointly- controlled entities		Total	
	6 MONTHS ENDED 30/06/2018 (unaudited)	3 MONTHS ENDED 30/06/2018 (unaudited)	6 MONTHS ENDED 30/06/2018 (unaudited)	3 MONTHS ENDED 30/06/2018 (unaudited)	6 MONTHS ENDED 30/06/2018 (unaudited)	3 MONTHS ENDED 30/06/2018 (unaudited)
Sales	20 792	10 928	1 440	685	22 232	11 613
Revenues under centralization of derivative financial instruments	534	334	-	-	534	334
Purchases	(2 772)	(1 399)	(15)	(7)	(2 787)	(1 406)
Costs under centralization of derivative financial instruments	(431)	(275)	-	-	(431)	(275)
Finance income, incl.:	788	680	162	162	950	842
Dividends	*674*	*671*	*162*	*162*	*836*	*833*
Finance costs	(221)	(85)	-	-	(221)	(85)

	Subsidiaries		Jointly- controlled entities		Total	
	30/06/2019 (unaudited)	31/12/2018	30/06/2019 (unaudited)	31/12/2018	30/06/2019 (unaudited)	31/12/2018
Trade and other receivables	3 663	3 089	648	585	4 311	3 674
Other assets	1 150	1 199	-	-	1 150	1 199
Loans granted	*1 003*	*839*	-	-	*1 003*	*839*
Cash pool	*145*	*297*	-	-	*145*	*297*
Receivables on settled derivatives under centralization	*2*	*41*	-	-	*2*	*41*
Finance lease	-	*22*	-	-	-	*22*
Lease receivables	23	-	-	-	23	-
Derivatives under centralization	150	17	-	-	150	17
Trade and other liabilities	755	600	11	4	766	604
Borrowings and bonds	5 474	5 496	-	-	5 474	5 496
Liabilities from contracts with customers	41	-	-	-	41	-
Other liabilities	2 105	1 611	-	-	2 105	1 611
Cash pool	*1 991*	*1 534*	-	-	*1 991*	*1 534*
Liabilities on settled derivatives under centralization	*105*	*74*	-	-	*105*	*74*
Finance lease	-	*3*	-	-	-	*3*
Deferred income	*9*	-	-	-	*9*	-
Lease liabilities	98	-	7	-	105	-
Derivatives under centralization	70	173	-	-	70	173

The above transactions with related parties include mainly sales and purchases of refinery and petrochemicals products and services.
In 6 and 3-month period ended 30 June 2019 and 30 June 2018, there were no related parties transaction in the Company concluded on other than as arm's length basis.

HALF-YEAR CONDENSED SEPARATE FINANCIAL STATEMENTS (in PLN million)

5.14.4. Transactions with entities related to the State Treasury

As at 30 June 2019 and 31 December 2018, the State Treasury owns 27.52% of PKN ORLEN shares and has ability to exert a significant influence on it.
The Company identified transactions with related parties with the State Treasury on the basis of "The Council of Ministers Regulation of 3 January 2017 on the list of companies in which the rights of the State Treasury shares carry other than the President Council of Ministers members of the Council of Ministers', Government Plenipotentiaries or state legal entities" with subsequent updates.

In the 6 and 3-month period ended 30 June 2019 and 30 June 2018, the Company identified the following transactions:

	6 MONTHS ENDED 30/06/2019 (unaudited)	3 MONTHS ENDED 30/06/2019 (unaudited)	6 MONTHS ENDED 30/06/2018 (unaudited)	3 MONTHS ENDED 30/06/2018 (unaudited)
Sales	720	381	804	416
Purchases	(1 785)	(926)	(2 028)	(1 126)

	30/06/2019 (unaudited)	31/12/2018
Trade and other receivables	275	192
Trade and other liabilities	481	119

Above transactions were concluded on an arm's length basis and were related to the Company's current operating activities, concerned mainly fuel sales, purchase and sales of natural gas, energy, transport and storage services.
Additionally, there were also financial transactions (bank fees, commissions) with Bank PKO BP, Bank Pekao S.A. and Bank Gospodarstwa Krajowego.

5.15. Guarantees

Excise tax guarantees and excise tax on goods and merchandise under the excise tax suspension procedure as at 30 June 2019 and as at 31 December 2018 amounted to PLN 2,321 million and PLN 2,231 million, respectively.

5.16. Events after the end of the reporting period

After the end of the reporting period there were no events required to be included in this half-year condensed separate financial statements.

MANAGEMENT BOARD REPORT ON THE OPERATIONS OF THE GROUP

FOR THE 1st HALF 2019

C. MANAGEMENT BOARD REPORT ON THE OPERATIONS OF THE GROUP

1. Financial situation

1.1. Major factors affecting EBITDA LIFO (profit on operations increased by depreciation and amortisation by LIFO method of inventory valuation)

Profit from operations increased by depreciation and amortisation (so-called EBITDA) amounted to PLN 4,761 million and was lower by PLN (326) million (y/y).

The ORLEN Group's inventories are valued in the financial statements in accordance with International Financial Reporting Standards at weighted average cost or purchase price method. Therefore, an increase in crude oil prices (by weighted average cost in comparison to the valuation of crude oil according to LIFO method) has a positive effect and decrease has a negative impact on the reported results.

The positive impact of changes of crude oil prices on inventory valuation recognised in EBITDA result was lower by PLN (1,038) million and amounted to PLN 42 million.
As a result, profit from operations increased by depreciation and amortisation before consideration of impact of changes in crude oil prices on inventory valuation (so-called EBITDA LIFO) amounted to PLN 4,719 million and was higher by PLN 712 million (y/y).

Changes in macroeconomic factors increased the ORLEN Group results by PLN 102 million (y/y). The positive impact of improvement in margins on medium distillates, heavy refinery fractions and petrochemical products (olefins, polyolefins, PTA, fertilizers) as well as depreciation of the PLN exchange rate against the foreign currencies was compensated by the effect of a lower (1.5) USD/bbl (y/y) Ural/Bret differential and lower margins on light distillates and PVC.

The volume sales increased by 2% (y/y) to PLN 20,989 thousand tons and was higher in all operating segments, which affected the positive volume effect in the amount of PLN 525 million (y/y).

The positive impact of the other factors amounted to PLN 85 million (y/y) and included mainly:

- PLN 134 million (y/y) - impact of reversal of impairment on inventories (net realisable value) due to growing crude oil prices, refinery and petrochemical products quotation at the beginning of 2019,
- PLN (309) million (y/y) - negative impact of change in the balance of other operating activities, mainly related to the lack of compensation due to the steam cracker unit accident from August 2015 in the Unipetrol Group and recognised compensation for improper execution of the contract of the power plant CCGT in Płock,
- PLN 260 million (y/y) - other elements, including mainly higher impact of trade margins in wholesale and retail with higher general and labor costs.

1.2. The most significant events in the period from 1 January 2019 up to the date of preparation of this report

FEBRUARY 2019

Changes in the composition of the Supervisory Board
Mr Mateusz Henryk Bochacik resigned with effect from 15 February 2019 from the position of PKN ORLEN Supervisory Board Member. Mr Bochacik justified his resignation by personal reasons that prevent him from continuing to effectively carry out the Company's Supervisory Board member mandate.

Information on Metathesis Unit building investment
On 20 February 2019 PKN ORLEN announced that the currently under-construction metathesis unit in the Płock Production Plant is in the final stage of the commissioning phase. Following the completion of all steps within the commissioning procedures, loading up of the unit and the stabilization of the process parameters, process adjustment and a guarantee measurements will be conducted and the investment process will be completed. PKN ORLEN will announce the completion of the investment process in a separate regulatory announcement.

APRIL 2019

PKN ORLEN submitted an offer to Ruch S.A.
PKN ORLEN announced that on 11 April of the current year it submitted an offer to provide financing in connection with the intention to acquire 100% of Ruch S.A. shares. The decision was preceded by a due diligence investigation of the company. The investor foresees the opportunity for restructuring and exploitation synergies between the Ruch's existing business model and the dynamically developing retail segment of PKN ORLEN. The finalization of the offer will depend, among others, on the decisions of Ruch's creditors and obtaining the consent of the Antitrust Authority to acquire the company's shares.

Agreement regarding building of "Research and Development Centre in Płock"
PKN ORLEN announced that on 24 April 2019 the Company's Management Board decided to invest in a "Research and Development Centre in Płock" ("RDC") and the Company's Supervisory Board gave consent for PKN ORLEN to assume liabilities under the agreement on the building of the RDC, which was followed by the conclusion of an agreement with Budimex S.A. for its construction. The maximum value of the agreement will amount to approximately PLN 167 million and the total cost of the investment will amount to approximately PLN 184 million. The finalization of the investment is planned by the end of 2020.
The RDC in Płock is a necessary part of the PKN ORLEN Program of the Petrochemical Segment Development ("Program") and completion of the research infrastructure of the ORLEN Group. It will function as a facility to carry out research and to support the other projects included in the Program as well as the further extension of the value chain of petrochemical production announced as part of the PKN ORLEN Strategy. It will also be a place to undertake research in the other areas of the ORLEN Group's activity.

Agreement for building a nitric acid and neutralization installation by ANWIL S.A.
PKN ORLEN announced that on 24 April 2019 ANWIL S.A. signed an agreement with Thyssenkrupp Industrial Solutions AG for the design, deliveries and building "in turn key" formula of a nitric acid and neutralization installation in ANWIL S.A. in Wloclawek.
The building of a nitric acid and neutralization installation is a key stage in the realization of investment into the the extension of the fertilizer production capacities of ANWIL S.A. The agreement signed with Thyssenkrupp Industrial Solutions AG is the first of three most important

contracts to be concluded in relation to the extension of the fertilizer production capacities of ANWIL S.A.

The project assumes an annual increase of fertilizers production capacities of 495 thousand tons, i.e. to the level of 1,461 thousand tons annually. The estimated total cost of the investment amounts to approximately PLN 1.3 billion. The finalization of the investment is planned by the close of the first half of 2022. After realization of the project it is estimated that the operating profit increased by depreciation and amortization (EBITDA) of ANWIL S.A. may increase by approximately EUR 57 million annually.

Temporary suspension of crude oil deliveries via the „Friendship" pipeline to the Production Unit in Płock

PKN ORLEN announced that on 24 April 2019 at 22:36 it received from PERN SA. information regarding the suspension of crude oil deliveries via the „Friendship" pipeline to the Production Unit in Płock. The reason of the suspension was the significant decline in the quality of crude oil supplied to the Adamowo Depot, where the crude oil is received from the East before being forwarded to Miszewko Strzałkowskie Depot, near Płock.

The above situation neither beared influence on the level of crude oil throughput in the refinery in Płock nor the economics of the production. PKN ORLEN is prepared to receive alternative crude oil supplies. For the last two years PKN ORLEN has consistently realized a policy of crude oil supply diversification, thanks to which currently almost 50% of crude oil supplied to the Production Unit in Płock comes from supply directions other than Russian, i.e. from Norway, Angola, Nigeria and Saudi Arabia. Additionally, PKN ORLEN has sufficient crude oil inventories to allow for production to continue. As a result there is currently no risk of production limitation due to the suspension of the raw material deliveries via the „Friendship" pipeline.

Temporary suspension of crude oil deliveries via the „Friendship" pipeline to the refinery in Litvinov

PKN ORLEN announced that on 26 April 2019 UNIPETROL a.s. received from the local operator information regarding the suspension of crude oil deliveries via the „Friendship" pipeline to the refinery in Litvinov, belonging to the ORLEN Group. The reason of the suspension was the significant decline in the quality of crude oil supplied via the „Friendship" pipeline.

The above situation has not influence the level of crude oil throughput in the UNIPETROL a.s. refineries. As a result there is currently no risk of production limitation due to suspension of the raw material deliveries via the „Friendship" pipeline. The crude ouil throughput at ORLEN Lietuva is not currently affected.

Metathesis Unit building investment completed

PKN ORLEN announced that on 30 April 2019 it signed a certificate with Elektrobudowa S.A. on the basis of which the realisation of the investment process of the Metathesis Unit building at the production plan in Płock has been completed. The total investment expenditures spent by the Company for the project of the Metathesis Unit building amounted to approximately PLN 400 million.

MAY 2019

Resumption of crude oil deliveries via the „Friendship" pipeline to the refinery in Litvinov

PKN ORLEN announced that UNIPETROL a.s. received from the local operator information regarding the resumption of good quality crude oil supplies via the „Friendship" pipeline to the refinery in Litvinov, belonging to the ORLEN Group.

The suspension of crude oil deliveries via the „Friendship" pipeline, which lasted from 26 April 2019, did not influence the level of crude oil throughput in the UNIPETROL a.s. refineries.

JUNE 2019

Resumption of crude oil deliveries via the „Friendship" pipeline to the Production Unit in Płock

PKN ORLEN announced that on 9 June 2019 it received from PERN SA. an information about resumption of deliveries of crude oil with contractual quality, via the „Friendship" pipeline to the Production Unit in Płock. The suspension of crude oil deliveries via the „Friendship" pipeline, which lasted from 24 April 2019, did not influence the level of crude oil throughput in Płock refinery.

Changes in the composition of the Supervisory Board

PKN ORLEN announced that Mr Radosław Kwaśnicki resigned with the effect from 14 June 2019 from the position of the PKN ORLEN Supervisory Board Member (and at the same time from the position of the Deputy Chairman of the PKN ORLEN Supervisory Board). Mr Radosław Kwaśnicki indicated that reasons of his resignation are issues not connected with the Company. The Ordinary General Meeting of Shareholders on 14 June 2019 appointed Members of the PKN ORLEN Supervisory Board for a new term of office as follows:

- Izabela Felczak-Poturnicka – Chairwoman of the Company's Supervisory Board,
- Barbara Jarzembowska – Member of the Company's Supervisory Board,
- Andrzej Kapała – Member of the Company's Supervisory Board,
- Michał Klimaszewski – Member of the Company's Supervisory Board,
- Jadwiga Lesisz – Member of the Company's Supervisory Board,
- Małgorzata Niezgoda – Member of the Company's Supervisory Board,
- Anna Sakowicz-Kacz – Member of the Company's Supervisory Board,
- Andrzej Szumański – Member of the Company's Supervisory Board,
- Anna Wójcik – Member of the Company's Supervisory Board.

Agreement for building a granulation unit by ANWIL S.A.

PKN ORLEN announced that on 28 June 2019 ANWIL S.A. signed an agreement with Tecnimont S.p.A. for design, deliveries and building "in turn key" formula a granulation unit in ANWIL S.A. in Wloclawek ("Agreement").

The agreement signed today with Tecnimont S.p.A. is the second of the three most important contracts to be concluded within the frames of the extension of fertilizers production capacities in ANWIL S.A.

The project assumes increase of fertilizers production capacities by 495 thousand tons annually, ie. to the level of 1,461 thousand tons annually. Estimated total cost of the investment amounts to approximately PLN 1.3 billion. The finalization of the investment is planned by the half of 2022. After realization of the project it is estimated that the operating profit EBITDA of ANWIL S.A. may increase by approximately EUR 57 million annually. PKN ORLEN holds 100% of shares in the share capital in Anwil S.A.

Submission to the European Commission a notification for concentration regarding the planned taking capital control directly or indirectly over Grupa LOTOS S.A. by PKN ORLEN

PKN ORLEN announced that on 3 July 2019 it submitted to the European Commission a notification for concentration ("Notification") regarding the planned taking capital control directly or indirectly over Grupa LOTOS S.A. with headquarters in Gdansk ("Transaction"). Notification submitted by the Company, initiates the formal proceedings regarding control of concentration.

Notification includes, apart from the description of the parties and Transaction assumptions, description of parties activity on the certain markets and presents arguments on the influence of the Transaction on the competition on that markets. There has been enclosed a set of internal documents of both companies, that should allow the European Commission to verify the accuracy of the presented arguments.

MANAGEMENT BOARD REPORT ON THE OPERATIONS OF THE GROUP (in PLN million)

JULY 2019

Dismissal of shareholder's appeal against the statement of claim for repealing of the resolutions of Ordinary General Meeting
PKN ORLEN hereby informed that on 17 July 2019 the Appeal Court in Lodz I Civil Division has dismissed in whole a shareholder's appeal against verdict of court of first resort dismissing in whole the shareholder's statement of claim for repealing of the following resolutions of PKN ORLEN Ordinary General Meeting dated 26 June 2018:
- to receive the Directors' Report on the activities of the ORLEN Group and PKN ORLEN S.A. for the year ended December 31st 2017,
- to receive the financial statements of PKN ORLEN S.A. for the year ended December 31st 2017,
- to grant discharge to Management Board members for performance of their duties for the year ended December 31st 2017,
- to grant discharge to the Chairman of the Supervisory Board for performance of her duties for the year ended December 31st 2017.

1.3. Significant risk factors influencing current and future financial results

As part of its operations the ORLEN Group monitors and assesses risk and undertakes activities in order to minimise their impact on the financial situation on an ongoing basis.
The ORLEN Group applies a consistent set of rules for managing the financial risk defined in the policy for risk management and under the control and supervision of the Financial Risk Committee, the Management Board and the Supervisory Board.
Main financial risks in respect of the ORLEN Group`s operations include:
- market risk: commodity risk, exchange rates risk and interest rates risk;
- credit and liquidity risk.

The above risks are described detailed in the Consolidated Financial Statements for 2018 in note 9.3.5 and in point 3.3 of the Management Board Report on the Operations of the Group for 2018.
(http://www.orlen.pl/EN/InvestorRelations/FinancialData/Pages/FinancialResults.aspx)

1.4. Hedge accounting

As part of hedging strategies, the ORLEN Group mainly hedges its cash flows from sales of the Group's products and purchase of crude oil and also changes in operating inventories.

Net carrying amount of financial instruments hedging cash flows

Type of instrument / type of risk	*Hedging strategies within the cash flows hedge related to exposure to:*	30/06/2019 (unaudited)	31/12/2018
currency forwards / risk of exchange rates changes	*operating and investing activities, sales of finished goods and purchase of crude oil*	441	352
commodity swaps / commodity risk	*time mismatch occurring on purchases of crude oil, refinery margin volatility and prices of raw materials or finished goods constituting oversized operating inventories*	(104)	169
		337	**521**

Net carrying amount of instruments hedging fair value

Type of instrument / type of risk	*Hedging strategies within the cash flows hedge related to exposure to:*	30/06/2019 (unaudited)	31/12/2018
commodity swaps / commodity risk	*offers for which pricing formulas are based on fixed price*	11	(22)
		11	**(22)**

2. Forecasted development of the ORLEN Group

The development directions of the ORLEN Group are consistent with the update of the ORLEN Group Strategy for 2019-2022, adopted on 20 December 2018, in which Value Creation, People and Financial Strength remain the pillars of growth until 2022. An essential part of the strategy is also the attitude towards innovations that create value among others through the development of innovation and cooperation with startups, the building of the Research and Development Center, as a platform for cooperation between PKN ORLEN and scientific world and business, as well as efforts put in its own technologies.
The vision for Concern growth set out in the new strategy fits well with global trends in the use of primary energy sources, technological progress and social processes, which are bound to create new consumer behaviours and expectations. PKN ORLEN will concentrate on strengthening its market position, focus on the customer and use an integrated value chain, taking into account the growing role of petrochemicals as well as cautious continuation in the Upstream segment.
The dynamics of the market environment forces the Group to adjust its planning perspective - therefore the new strategy features goals and aspirations in the way presented previously. Strategic directions were set for the next four years while specific financial and operational targets were presented for 2019-2020 only, due to volatility of the macroeconomic parameters.

Main targets of ORLEN Group strategy in 2019-2020:
- average annual LIFO-based EBITDA (before impairment losses) of PLN 10.3 billion,
- average annual investments expenditures of PLN 6.8 billion,
- financial leverage below 30%,

MANAGEMENT BOARD REPORT ON THE OPERATIONS OF THE GROUP (in PLN million)

- regular dividend payments per share taking into account the financial position.

Detailed description of the ORLEN Group Strategy in particular areas and the main parameters of financial operations are presented on the PKN ORLEN website: https://www.orlen.pl/EN/Company/Pages/Strategy.aspx

3. Other information

3.1. Composition of the Management Board and the Supervisory Board

On the date of preparation of this half-year condensed consolidated financial statements, the composition of the management and supervisory bodies of PKN ORLEN is as follows:

Management Board

Daniel Obajtek – President of the Management Board, General Director
Armen Konrad Artwich – Member of the Management Board, Corporate Affairs
Patrycja Klarecka – Member of the Management Board, Retail Sales
Zbigniew Leszczyński – Member of the Management Board, Development
Wiesław Protasewicz – Member of the Management Board, Chief Financial Officer
Michał Róg – Member of the Management Board, Wholesale and International Trades
Józef Węgrecki – Member of the Management Board, Operations

Supervisory Board

Izabela Felczak-Poturnicka – Chairwoman of the Supervisory Board
Andrzej Szumański – Deputy Chairman of the Supervisory Board, Independent Member of the Supervisory Board
Anna Wójcik – Secretary of the Supervisory Board
Barbara Jarzembowska – Independent Member of the Supervisory Board
Andrzej Kapała – Independent Member of the Supervisory Board
Michał Klimaszewski – Independent Member of the Supervisory Board
Jadwiga Lesisz – Member of the Supervisory Board
Małgorzata Niezgoda – Member of the Supervisory Board
Anna Sakowicz-Kacz – Independent Member of the Supervisory Board

3.2. Shareholders holding directly or indirectly via related parties at least 5% of total votes at the Parent's General Shareholders' Meeting to the submission date of this report

	Percentage share in total voting rights at Shareholder's Meeting as at submission date			Number of shares as at submission date		
Shareholder	foregoing quarterly report*	change p.p.	previous quarterly report**	foregoing quarterly report*	change	previous quarterly report**
State Treasury	27.52%	-	27.52%	117 710 196	-	117 710 196
Nationale-Nederlanden OFE*	7.61%	0.59%	7.01%	32 544 000	2 544 000	30 000 000
Aviva OFE*	5.85%	-0.76%	6.60%	25 000 000	(3 240 000)	28 240 000
Other	59.02%	0.15%	58.87%	252 454 865	696 000	251 758 865
	100.00%	**-**	**100.00%**	**427 709 061**	**-**	**427 709 061**

* according to the information from the Ordinary General Shareholders' Meeting of PKN ORLEN of 14 June 2019
** according to the information from the Ordinary General Shareholders' Meeting of PKN ORLEN convened for 26 June 2018, continuing the Meeting on 17 July 2018

3.3. Changes in the number of the Parent Company's shares held by the Management Board and the Supervisory Board Members

As at the date of preparation of this half-year condensed consolidated financial statements, Members of the Management Board and the Supervisory Board did not hold any shares in PKN ORLEN.
In the period covered by this half-year condensed consolidated financial statements, there were no changes in the ownership of PKN ORLEN shares held by Members of the Management Board and the Supervisory Board.

(in PLN million)

3.4. Information on loan sureties or guarantees granted by the Parent Company or its subsidiaries to one entity or its subsidiary where the total value of existing sureties or guarantees is significant

PKN ORLEN is the guarantor of the 2 tranches of Eurobonds issued by an irrevocable and unconditional guarantees issued to the bondholders. The guarantees were granted for the duration of the Eurobond issue, i.e., to 30 June 2021 and 7June 2023, respectively.

	Nominal value					Value of guarantee issued	
	EUR	PLN	Subscription date	Expiration date	Rating	EUR	PLN
Eurobonds	750	3 318 **	7.06.2016	7.06.2023	BBB-, Baa2	1 100	4 677
Eurobonds	500	2 131 *	30.06.2014	30.06.2021	BBB-, Baa2	1 000	4 252
	1 250	**5 449**				**2 100**	**8 929**

The bonds have a fixed interest rate of 2.5%.
* translated using exchange rate as at 31 December 2014
** translated using exchange rate as at 31 December 2016
The value of guarantees granted was translated using the exchange rate as at 30 June 2019

Moreover, as at 30 June 2019 and 31 December 2018, the Group granted sureties and guarantees to subsidiaries for third parties of PLN 1,528 million and PLN 1,540 million, respectively, and mainly related to the timely payment of liabilities by subsidiaries.

3.5. Statement of the Management Board regarding the possibility to realize previously published forecasts of current year results

The ORLEN Group did not publish forecasts of its results for a particular year.

4. Information on the application of corporate governance rules

PKN ORLEN applies a set of principles of the "Best Practices of Companies Listed on the Stock Exchange 2016" ("Code of Best Practice"), valid on the Warsaw Stock Exchange ("Stock Exchange"). The Code is available on the Stock Exchange's website https://www.gpw.pl/best-practice and on the corporate website of PKN ORLEN, in the section dedicated to the Company's shareholders https://www.orlen.pl/EN/InvestorRelations/ShareholderServicesTools/Pages/WSEBestPractice.aspx

In the 1st half of 2019 PKN ORLEN applied all the obligatory corporate governance rules contained in the "Code of Best Practice".

Statements of the Management Board

In respect of the reliability of preparation of the half-year condensed consolidated and separate financial statements
The Management Board of PKN ORLEN hereby declares that to the best of its knowledge this half-year condensed consolidated and separate financial statements and comparative data were prepared in compliance with the accounting principles applicable to the ORLEN Group and PKN ORLEN in force and that they reflect true and fair view of the economic condition, financial position and financial result of the ORLEN Group and PKN ORLEN.

In respect of the half-year Management Board Report on the operations of the ORLEN Group
The Management Board of PKN ORLEN herby declares that this half-year Management Board Report on the operations of the ORLEN Group gives a true view of the ORLEN Group development, achievements and position, and includes a description of key threats and risks.

This half-year report was approved by the Management Board of the Parent Company on 18 July 2019.

Signature Not Verified
Dokument podpisany przez Daniel Obajtek; PKN Orlen S.A.
Data: 2019.07.18 13:20:06 CEST
....
Daniel Obajtek
President of the Board

Signature Not Verified
Dokument podpisany przez ARMEN KONRAD ARTWICH; POLSKI KONCERN NAFTOWY ORLEN S.A.
Data: 2019.07.18 13:41:34 CEST
....
Armen Artwich
Member of the Board

Signature Not Verified
Dokument podpisany przez Patrycja Klarecka
Data: 2019.07.18 14:12:06 CEST
....
Patrycja Klarecka
Member of the Board

Signature Not Verified
Dokument podpisany przez ZBIGNIEW MARIUSZ LESZCZYŃSKI; POLSKI KONCERN NAFTOWY ORLEN S.A.
Data: 2019.07.18 15:06:36 CEST
....
Zbigniew Leszczyński
Member of the Board

Signature Not Verified
Dokument podpisany przez Wiesław Protasewicz; PKN Orlen S.A.
Data: 2019.07.18 12:52:25 CEST
....
Wiesław Protasewicz
Member of the Board

Signature Not Verified
Dokument podpisany przez MICHAŁ MAREK RÓG; POLSKI KONCERN NAFTOWY ORLEN S.A.
Data: 2019.07.18 15:51:31 CEST
....
Michał Róg
Member of the Board

Signature Not Verified
Dokument podpisany przez Józef Węgrecki
Data: 2019.07.18 13:32:06 CEST
....
Józef Węgrecki
Member of the Board