



**ORLEN**

**Polski Koncern Naftowy ORLEN**  
Spółka Akcyjna

# ORLEN GROUP

CONSOLIDATED HALF-YEAR REPORT

**FOR THE 1<sup>st</sup> HALF**

**2016**

**ORLEN GROUP - SELECTED DATA**

	PLN million		EUR million	
	6 MONTHS ENDED 30/06/2016	6 MONTHS ENDED 30/06/2015	6 MONTHS ENDED 30/06/2016	6 MONTHS ENDED 30/06/2015
Sales revenues	35 568	44 781	8 120	10 223
Profit from operations increased by depreciation and amortisation (EBITDA)	3 992	4 289	911	979
Profit from operations (EBIT)	2 969	3 373	678	770
Profit before tax	2 470	2 985	564	681
Net profit attributable to equity owners of the parent	1 945	2 123	444	485
Net profit	2 128	2 417	486	552
Total net comprehensive income attributable to equity owners of the parent	2 035	2 450	465	559
Total net comprehensive income	2 265	2 727	517	623
Net cash from operating activities	4 691	3 659	1 071	835
Net cash (used) in investing activities	(2 455)	(1 318)	(560)	(301)
Net cash (used) in financing activities	(498)	(2 143)	(114)	(489)
Net increase in cash and cash equivalents	1 738	198	397	45
Net profit and diluted net profit per share attributable to equity owners of the parent (in PLN/EUR per share)	4.55	4.96	1.04	1.13
	<b>30/06/2016</b>	<b>31/12/2015</b>	<b>30/06/2016</b>	<b>31/12/2015</b>
Non-current assets	28 780	27 362	6 503	6 183
Current assets	23 029	20 775	5 204	4 694
Total assets	51 809	48 137	11 707	10 877
Share capital	1 058	1 058	239	239
Equity attributable to owners of the parent	23 352	22 173	5 277	5 010
Total equity	25 592	24 244	5 783	5 478
Non-current liabilities	10 188	10 227	2 302	2 311
Current liabilities	16 029	13 666	3 622	3 088
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)	54.60	51.84	12.34	11.71

**PKN ORLEN – SELECTED DATA**

	PLN million		EUR million	
	6 MONTHS ENDED 30/06/2016	6 MONTHS ENDED 30/06/2015	6 MONTHS ENDED 30/06/2016	6 MONTHS ENDED 30/06/2015
Sales revenues	23 418	30 853	5 346	7 043
Profit from operations increased by depreciation and amortisation (EBITDA)	1 717	2 075	392	474
Profit from operations (EBIT)	1 158	1 532	264	350
Profit before tax	2 232	1 508	510	344
Net profit	2 074	1 224	473	279
Total net comprehensive income	1 879	1 557	429	355
Net cash from operating activities	2 146	1 000	490	228
Net cash from/(used in) investing activities	(450)	477	(103)	109
Net cash (used) in financing activities	(485)	(2 131)	(111)	(486)
Net increase/(decrease) in cash and cash equivalents	1 211	(654)	276	(149)
Net profit and diluted net profit per share (in PLN/EUR per share)	4.85	2.86	1.11	0.65
	<b>30/06/2016</b>	<b>31/12/2015</b>	<b>30/06/2016</b>	<b>31/12/2015</b>
Non-current assets	23 182	23 146	5 238	5 230
Current assets	15 634	13 835	3 533	3 126
Total assets	38 816	36 981	8 771	8 356
Share capital	1 058	1 058	239	239
Total equity	18 870	17 846	4 264	4 033
Non-current liabilities	9 290	9 459	2 099	2 137
Current liabilities	10 656	9 676	2 408	2 186
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)	44.12	41.72	9.97	9.43

The above data for the 6 month period of 2016 and 2015 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 published by the National Bank of Poland as of the last day of the month during the reporting period: from 1 January to 30 June 2016 – 4.3805 EUR/PLN;
- items of assets, equity and liabilities – by the average exchange rate published by the National Bank of Poland as at 30 June 2016 – 4.4255 EUR/PLN.

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**HALF-YEAR CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS**

**FOR THE 6 AND 3 MONTH PERIOD ENDED 30 JUNE**

**2016**

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

**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 30/06/2016 (unaudited)	3 MONTHS ENDED 30/06/2016 (unaudited)	6 MONTHS ENDED 30/06/2015 (unaudited)	3 MONTHS ENDED 30/06/2015 (unaudited)
Sales revenues		35 568	19 355	44 781	24 776
<i>revenues from sales of finished goods and services</i>		26 044	14 051	35 071	19 833
<i>revenues from sales of merchandise and raw materials</i>		9 524	5 304	9 710	4 943
Cost of sales	3.1	(30 797)	(16 223)	(38 403)	(20 880)
<i>cost of finished goods and services sold</i>		(21 955)	(11 343)	(29 468)	(16 407)
<i>cost of merchandise and raw materials sold</i>		(8 842)	(4 880)	(8 935)	(4 473)
<b>Gross profit on sales</b>		<b>4 771</b>	<b>3 132</b>	<b>6 378</b>	<b>3 896</b>
Distribution expenses		(2 005)	(1 004)	(1 920)	(986)
Administrative expenses		(732)	(370)	(790)	(402)
Other operating income	3.4	916	718	197	116
Other operating expenses	3.4	(165)	(84)	(596)	(534)
Share in profit from investments accounted for under equity method		184	99	104	73
<b>Profit from operations</b>		<b>2 969</b>	<b>2 491</b>	<b>3 373</b>	<b>2 163</b>
Finance income	3.5	99	54	159	70
Finance costs	3.5	(598)	(509)	(547)	(282)
<b>Net finance income and costs</b>		<b>(499)</b>	<b>(455)</b>	<b>(388)</b>	<b>(212)</b>
<b>Profit before tax</b>		<b>2 470</b>	<b>2 036</b>	<b>2 985</b>	<b>1 951</b>
Tax expense		(342)	(244)	(568)	(402)
<i>current tax</i>		(109)	(49)	(188)	(138)
<i>deferred tax</i>		(233)	(195)	(380)	(264)
<b>Net profit</b>		<b>2 128</b>	<b>1 792</b>	<b>2 417</b>	<b>1 549</b>
<b>Other comprehensive income:</b>					
<b>which will be reclassified into profit or loss</b>		<b>137</b>	<b>257</b>	<b>310</b>	<b>210</b>
<i>hedging instruments</i>		(344)	(213)	324	28
<i>foreign exchange differences on subsidiaries from consolidation</i>		416	430	48	188
<i>deferred tax</i>		65	40	(62)	(6)
		<b>137</b>	<b>257</b>	<b>310</b>	<b>210</b>
<b>Total net comprehensive income</b>		<b>2 265</b>	<b>2 049</b>	<b>2 727</b>	<b>1 759</b>
<b>Net profit attributable to</b>		<b>2 128</b>	<b>1 792</b>	<b>2 417</b>	<b>1 549</b>
<i>equity owners of the parent</i>		1 945	1 608	2 123	1 367
<i>non-controlling interest</i>		183	184	294	182
<b>Total net comprehensive income attributable to</b>		<b>2 265</b>	<b>2 049</b>	<b>2 727</b>	<b>1 759</b>
<i>equity owners of the parent</i>		2 035	1 781	2 450	1 521
<i>non-controlling interest</i>		230	268	277	238
Net profit and diluted net profit per share attributable to equity owners of the parent (in PLN per share)		4.55	3.76	4.96	3.19

The accompanying notes disclosed on pages 8 – 16 are an integral part of the foregoing the half-year condensed consolidated financial statements.

**Consolidated statement of financial position**

	NOTE	30/06/2016 (unaudited)	31/12/2015
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		26 136	24 536
Intangible assets		1 176	1 298
Investments accounted for under equity method	3.6	780	774
Deferred tax assets		376	365
Other financial assets	3.7	59	147
Other assets		253	242
		<b>28 780</b>	<b>27 362</b>
<b>Current assets</b>			
Inventories		10 646	10 715
Trade and other receivables		7 857	6 641
Other financial assets	3.7	422	974
Cash and cash equivalents		4 094	2 348
Non-current assets classified as held for sale		10	97
		<b>23 029</b>	<b>20 775</b>
<b>Total assets</b>		<b>51 809</b>	<b>48 137</b>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
Share capital		1 058	1 058
Share premium		1 227	1 227
Hedging reserve		(330)	(80)
Foreign exchange differences on subsidiaries from consolidation		877	537
Retained earnings		20 520	19 431
<b>Equity attributable to owners of the parent</b>		<b>23 352</b>	<b>22 173</b>
<b>Non-controlling interests</b>		<b>2 240</b>	<b>2 071</b>
<b>Total equity</b>		<b>25 592</b>	<b>24 244</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Loans, borrowings and bonds	3.8	7 892	8 131
Provisions	3.9	759	710
Deferred tax liabilities		853	674
Other financial liabilities	3.10	684	712
		<b>10 188</b>	<b>10 227</b>
<b>Current liabilities</b>			
Trade and other liabilities		13 552	10 820
Loans and borrowings	3.8	1 273	1 027
Provisions	3.9	406	749
Deferred income		233	128
Other financial liabilities	3.10	565	870
Liabilities directly associated with assets classified as held for sale		-	72
		<b>16 029</b>	<b>13 666</b>
<b>Total liabilities</b>		<b>26 217</b>	<b>23 893</b>
<b>Total equity and liabilities</b>		<b>51 809</b>	<b>48 137</b>

The accompanying notes disclosed on pages 8 – 16 are an integral part of the foregoing the half-year condensed consolidated financial statements.

**Consolidated statement of changes in equity**

	Equity attributable to owners of the parent						Total equity
	Share capital and share premium	Hedging reserve	Foreign exchange differences on subsidiaries from consolidation	Retained earnings	Total	Non-controlling interests	
01/01/2016	2 285	(80)	537	19 431	22 173	2 071	24 244
Net profit	-	-	-	1 945	1 945	183	2 128
Items of other comprehensive income	-	(250)	340	-	90	47	137
<b>Total net comprehensive income</b>	-	<b>(250)</b>	<b>340</b>	<b>1 945</b>	<b>2 035</b>	<b>230</b>	<b>2 265</b>
Change in the structure of non-controlling interest	-	-	-	(1)	(1)	(1)	(2)
Dividends	-	-	-	(855)	(855)	(60)	(915)
<b>30/06/2016</b>	<b>2 285</b>	<b>(330)</b>	<b>877</b>	<b>20 520</b>	<b>23 352</b>	<b>2 240</b>	<b>25 592</b>
(unaudited)							
01/01/2015	2 285	(1 319)	509	17 296	18 771	1 615	20 386
Net profit	-	-	-	2 123	2 123	294	2 417
Items of other comprehensive income	-	289	38	-	327	(17)	310
<b>Total net comprehensive income</b>	-	<b>289</b>	<b>38</b>	<b>2 123</b>	<b>2 450</b>	<b>277</b>	<b>2 727</b>
Dividends	-	-	-	(706)	(706)	-	(706)
<b>30/06/2015</b>	<b>2 285</b>	<b>(1 030)</b>	<b>547</b>	<b>18 713</b>	<b>20 515</b>	<b>1 892</b>	<b>22 407</b>
(unaudited)							

The accompanying notes disclosed on pages 8 – 16 are an integral part of the foregoing the half-year condensed consolidated financial statements.



**Consolidated statement of cash flows**

	6 MONTHS ENDED 30/06/2016 (unaudited)	3 MONTHS ENDED 30/06/2016 (unaudited)	6 MONTHS ENDED 30/06/2015 (unaudited)	3 MONTHS ENDED 30/06/2015 (unaudited)
<b>Cash flows from operating activities</b>				
<b>Profit before tax</b>	<b>2 470</b>	<b>2 036</b>	<b>2 985</b>	<b>1 951</b>
Adjustments for:				
Share in profit from investments accounted for under equity method	(184)	(99)	(104)	(73)
Depreciation and amortisation	1 023	508	916	464
Foreign exchange (profit)/loss	279	238	(62)	156
Interest, net	128	78	105	51
Dividends	(5)	(5)	(2)	(2)
(Profit)/Loss on investing activities	(44)	(1)	601	488
Change in provisions	49	19	198	142
Change in working capital	1 053	(713)	(790)	(371)
<i>inventories</i>	182	(1 295)	(771)	(437)
<i>receivables</i>	(898)	(930)	(1 547)	(1 215)
<i>liabilities</i>	1 769	1 512	1 528	1 281
Other adjustments	48	(259)	(83)	(109)
Income tax (paid)	(126)	(38)	(105)	(18)
<b>Net cash from operating activities</b>	<b>4 691</b>	<b>1 764</b>	<b>3 659</b>	<b>2 679</b>
<b>Cash flows from investing activities</b>				
Acquisition of property, plant and equipment, intangible assets and perpetual usufruct of land	(2 804)	(1 271)	(1 245)	(629)
Acquisition of shares adjusted for received cash	(2)	(2)	(35)	(35)
Disposal of property, plant and equipment, intangible assets and perpetual usufruct of land	83	22	54	11
Sale of subsidiary	74	3	1	1
Dividends received	182	182	3	3
Proceeds from loans granted	-	-	1	1
Other	12	10	(97)	(102)
<b>Net cash (used) in investing activities</b>	<b>(2 455)</b>	<b>(1 056)</b>	<b>(1 318)</b>	<b>(750)</b>
<b>Cash flows from financing activities</b>				
Proceeds from loans and borrowings received	4 115	1 985	375	304
Bonds issued	3 258	3 258	-	-
Repayments of loans and borrowings	(7 699)	(5 316)	(2 353)	(1 078)
Interest paid	(151)	(99)	(152)	(98)
Payments of liabilities under finance lease agreements	(15)	(8)	(13)	(6)
Other	(6)	(7)	-	-
<b>Net cash (used) in financing activities</b>	<b>(498)</b>	<b>(187)</b>	<b>(2 143)</b>	<b>(878)</b>
<b>Net increase in cash and cash equivalents</b>	<b>1 738</b>	<b>521</b>	<b>198</b>	<b>1 051</b>
Effect of exchange rate changes	8	106	5	(1)
Cash and cash equivalents, beginning of the period	2 348	3 467	3 937	3 090
<b>Cash and cash equivalents, end of the period</b>	<b>4 094</b>	<b>4 094</b>	<b>4 140</b>	<b>4 140</b>

Beginning with the 1<sup>st</sup> quarter of 2016, the Group presents cash flows from operating activities starting from the profit before tax.

The accompanying notes disclosed on pages 8 – 16 are an integral part of the foregoing the half-year condensed consolidated financial statements.

**EXPLANATORY NOTES TO THE HALF-YEAR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**1. Information on principles adopted for the preparation of the half-year condensed consolidated financial statements**
**1.1. Statement of compliance and general principles for preparation**

The foregoing half-year condensed consolidated financial statements ("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 19 February 2009 on current and periodic information provided by issuers of securities and conditions of recognition as equivalent information required by the law of a non member state (consolidated text: Official Journal 2014, item 133, as amended Official Journal 2016, item 860) ("Regulation") and present the Polski Koncern Naftowy ORLEN S.A. Capital Group's ("Group", "ORLEN Group") financial position as at 30 June 2016 and as at 31 December 2015, financial results and cash flows for the 6 and 3 month period ended 30 June 2016 and 30 June 2015.

The foregoing 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 the foregoing 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.

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

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

In the foregoing half-year condensed consolidated financial statements, the significant assumptions made by the Management Board regarding adoption by the Group of accounting principles and main uncertainties were the same as those presented in note 8.6 and 8.7 in the Consolidated Financial Statements for the year 2015.

The Group intends to adopt IFRS amendments, published but not effective as at the date of publication of the foregoing half-year condensed consolidated financial statements, in accordance with their effective date. An estimate of the impact of changes and new IFRS on future consolidated financial statements was presented in the Consolidated Financial Statements for the year 2015 in note 8.6.1.

**1.3. Functional currency and presentation currency of financial statements and methods applied to translation of financial data**
**1.3.1. Functional currency and presentation currency**

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

**1.3.2. Methods applied to translation of financial data**

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.

Foreign exchange differences resulting from the above recalculations are recognized in equity as foreign exchange differences on subsidiaries from consolidation.

CURRENCY	Average exchange rate for the reporting period				Exchange rate as at the end of the reporting period	
	6 MONTHS ENDED	3 MONTHS ENDED	6 MONTHS ENDED	3 MONTHS ENDED	30/06/2016	31/12/2015
	30/06/2016	30/06/2016	30/06/2015	30/06/2015		
EUR/PLN	4.3694	4.3713	4.1420	4.0888	4.4255	4.2615
USD/PLN	3.9167	3.8708	3.7132	3.7015	3.9803	3.9011
CZK/PLN	0.1616	0.1617	0.1506	0.1494	0.1636	0.1577
CAD/PLN	2.9412	3.0024	3.0067	3.0103	3.0733	2.8102

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

The ORLEN Group does not report any material seasonal or cyclical character of its operations.

**2. Segment reporting**

The operations of the Group is conducted in:

- the Downstream segment, which includes integrated areas of refining and petrochemical production and sales and operations in the energy production activity,
  - the Retail segment, which includes sales at the petrol stations,
  - the Upstream segment, which include the activity related to exploration and extraction of mineral resources,
- and Corporate Functions, which include activities related to management and administration, support functions and remaining activities not allocated to separate operating segments.

The allocation of the ORLEN Group's companies to operating segments and corporate functions was presented in the Management Board Report on the Operations of the Group in note C.2.

**Financial results by operating segments**  
**for the 6 month period ended 30 June 2016**

	NOTE	Downstream Segment (unaudited)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
External revenues		21 493	13 852	189	34	-	35 568
Inter-segment revenues		4 872	151	-	138	(5 161)	-
Sales revenues		26 365	14 003	189	172	(5 161)	35 568
Operating expenses		(24 442)	(13 455)	(263)	(535)	5 161	(33 534)
Other operating income	3.4	853	36	-	27	-	916
Other operating expenses	3.4	(87)	(38)	(2)	(38)	-	(165)
Share in profit from investments accounted for under equity method		184	-	-	-	-	184
<b>Profit/(Loss) from operations</b>		<b>2 873</b>	<b>546</b>	<b>(76)</b>	<b>(374)</b>	<b>-</b>	<b>2 969</b>
Net finance income and costs	3.5						(499)
<b>Profit before tax</b>							<b>2 470</b>
Tax expense							(342)
<b>Net profit</b>							<b>2 128</b>

ADDITIONAL INFORMATION	Downstream Segment (unaudited)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
<b>Depreciation and amortisation</b>	<b>636</b>	<b>196</b>	<b>143</b>	<b>48</b>	<b>-</b>	<b>1 023</b>
<b>EBITDA</b>	<b>3 509</b>	<b>742</b>	<b>67</b>	<b>(326)</b>	<b>-</b>	<b>3 992</b>
<b>CAPEX</b>	<b>1 741</b>	<b>148</b>	<b>306</b>	<b>55</b>	<b>-</b>	<b>2 250</b>

**for the 3 month period ended 30 June 2016**

	NOTE	Downstream Segment (unaudited)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
External revenues		11 655	7 588	97	15	-	19 355
Inter-segment revenues		2 767	108	-	73	(2 948)	-
Sales revenues		14 422	7 696	97	88	(2 948)	19 355
Operating expenses		(12 790)	(7 351)	(127)	(277)	2 948	(17 597)
Other operating income	3.4	690	22	-	6	-	718
Other operating expenses	3.4	(36)	(24)	(2)	(22)	-	(84)
Share in profit from investments accounted for under equity method		99	-	-	-	-	99
<b>Profit/(Loss) from operations</b>		<b>2 385</b>	<b>343</b>	<b>(32)</b>	<b>(205)</b>	<b>-</b>	<b>2 491</b>
Net finance income and costs	3.5						(455)
<b>Profit before tax</b>							<b>2 036</b>
Tax expense							(244)
<b>Net profit</b>							<b>1 792</b>

ADDITIONAL INFORMATION	Downstream Segment (unaudited)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
<b>Depreciation and amortisation</b>	<b>312</b>	<b>99</b>	<b>72</b>	<b>25</b>	<b>-</b>	<b>508</b>
<b>EBITDA</b>	<b>2 697</b>	<b>442</b>	<b>40</b>	<b>(180)</b>	<b>-</b>	<b>2 999</b>
<b>CAPEX</b>	<b>957</b>	<b>76</b>	<b>180</b>	<b>35</b>	<b>-</b>	<b>1 248</b>



## for the 6 month period ended 30 June 2015

NOTE	Downstream Segment (unaudited)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
	29 444	15 182	113	42	-	44 781
	6 360	34	-	97	(6 491)	-
	35 804	15 216	113	139	(6 491)	44 781
	(32 206)	(14 769)	(159)	(470)	6 491	(41 113)
3.4	143	23	-	31	-	197
3.4	(93)	(25)	(429)	(49)	-	(596)
	104	-	-	-	-	104
	<b>3 752</b>	<b>445</b>	<b>(475)</b>	<b>(349)</b>	-	<b>3 373</b>
3.5						(388)
						<b>2 985</b>
						(568)
						<b>2 417</b>

ADDITIONAL INFORMATION	Downstream Segment (unaudited)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
Depreciation and amortisation	624	181	73	38	-	916
EBITDA	4 376	626	(402)	(311)	-	4 289
CAPEX	854	150	97	64	-	1 165

## for the 3 month period ended 30 June 2015

NOTE	Downstream Segment (unaudited)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
	16 564	8 132	61	19	-	24 776
	3 544	19	-	53	(3 616)	-
	20 108	8 151	61	72	(3 616)	24 776
	(17 652)	(7 894)	(87)	(251)	3 616	(22 268)
3.4	83	9	-	24	-	116
3.4	(54)	(13)	(429)	(38)	-	(534)
	73	-	-	-	-	73
	<b>2 558</b>	<b>253</b>	<b>(455)</b>	<b>(193)</b>	-	<b>2 163</b>
3.5						(212)
						<b>1 951</b>
						(402)
						<b>1 549</b>

ADDITIONAL INFORMATION	Downstream Segment (unaudited)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
Depreciation and amortisation	314	90	39	21	-	464
EBITDA	2 872	343	(416)	(172)	-	2 627
CAPEX	453	82	21	26	-	582

CAPEX - increases of non-current assets together with the capitalisation of borrowing costs

## Assets by operating segments

	30/06/2016 (unaudited)	31/12/2015 (unaudited)
Downstream Segment	35 985	34 282
Retail Segment	5 943	5 683
Upstream Segment	3 798	3 380
<b>Segment assets</b>	<b>45 726</b>	<b>43 345</b>
Corporate Functions	6 181	4 995
Adjustments	(98)	(203)
	<b>51 809</b>	<b>48 137</b>

**3. Other notes**
**3.1. Operating expenses**
**Cost by nature**

	6 MONTHS ENDED 30/06/2016 (unaudited)	3 MONTHS ENDED 30/06/2016 (unaudited)	6 MONTHS ENDED 30/06/2015 (unaudited)	3 MONTHS ENDED 30/06/2015 (unaudited)
Materials and energy	(19 213)	(10 123)	(27 691)	(15 724)
Cost of merchandise and raw materials sold	(8 842)	(4 880)	(8 935)	(4 473)
External services	(1 965)	(1 007)	(2 142)	(1 089)
Employee benefits	(1 133)	(566)	(1 070)	(536)
Depreciation and amortisation	(1 023)	(508)	(916)	(464)
Taxes and charges	(544)	(270)	(572)	(289)
Other	(411)	(216)	(801)	(650)
	<b>(33 131)</b>	<b>(17 570)</b>	<b>(42 127)</b>	<b>(23 225)</b>
Change in inventories	(731)	(216)	294	395
Cost of products and services for own use	163	105	124	28
<b>Operating expenses</b>	<b>(33 699)</b>	<b>(17 681)</b>	<b>(41 709)</b>	<b>(22 802)</b>
Distribution expenses	2 005	1 004	1 920	986
Administrative expenses	732	370	790	402
Other operating expenses	165	84	596	534
<b>Cost of sales</b>	<b>(30 797)</b>	<b>(16 223)</b>	<b>(38 403)</b>	<b>(20 880)</b>

**3.2. Impairment allowances of inventories to net realizable value**

	6 MONTHS ENDED 30/06/2016 (unaudited)	3 MONTHS ENDED 30/06/2016 (unaudited)	6 MONTHS ENDED 30/06/2015 (unaudited)	3 MONTHS ENDED 30/06/2015 (unaudited)
Increase	(105)	(25)	(56)	(21)
Decrease	220	73	850	35

**3.3. Impairment allowances of assets**

	6 MONTHS ENDED 30/06/2016 (unaudited)	3 MONTHS ENDED 30/06/2016 (unaudited)	6 MONTHS ENDED 30/06/2015 (unaudited)	3 MONTHS ENDED 30/06/2015 (unaudited)
<b>Property, plant and equipment</b>				
Recognition	(21)	(14)	(463)	(445)
Reversal	10	10	8	1
<b>Receivables</b>				
Recognition	(16)	(7)	(25)	(16)
Reversal	9	5	11	4

**3.3.1. Impairment allowances of non-current assets**

As at 30 June 2016 the ORLEN Group did not identify other impairment indications of non-current assets.

In the 2<sup>nd</sup> quarter of 2015 as part of the Upstream segment ORLEN Upstream Group has determined, based on the gathered data of previous work, the most promising areas for further exploration of hydrocarbon in Poland. Narrowing the search area influenced the partial impairment of assets related to exploration and recognition of mineral resources in the amount of PLN (429) million.

The fair value of assets due to exploration and evaluation of mineral resources has been established in accordance with IAS 36 "Impairment of assets" and results from the analysis of future cash flows, which take into account the current and forecasted hydrocarbon prices, expected changes in the regulatory environment, probability of success/failure and long-term production forecasts. Net cash flow projections used for the purposes of estimating the fair value of the assets were discounted to their present value using a discount rate at 8.99%, which reflects current market assessment of the time value of money and the risks specific to the respective assets on the Polish market.

**Sensitivity analysis of the ORLEN Upstream assets value in use within an impairment test performed as at 30 June 2015**

PLN million		HYDROCARBONS PRICES		
DISCOUNT RATE	change	-5% *	0%	5%
	- 0.5 p.p.	<i>increase in allowance</i> (25)	<i>decrease in allowance</i> 12	<i>decrease in allowance</i> 51
	0.0 p.p.	<i>increase in allowance</i> (25)	-	<i>decrease in allowance</i> 37
	+ 0.5 p.p.	<i>increase in allowance</i> (25)	<i>increase in allowance</i> (11)	<i>decrease in allowance</i> 24

\* while lowering prices by 5% the entire value of the tested assets is impaired, with each of the analyzed discount rates

**3.4. Other operating income and expenses**
**Other operating income**

	6 MONTHS ENDED 30/06/2016 (unaudited)	3 MONTHS ENDED 30/06/2016 (unaudited)	6 MONTHS ENDED 30/06/2015 (unaudited)	3 MONTHS ENDED 30/06/2015 (unaudited)
Profit on sale of subsidiaries	60	3	-	-
Profit on sale of non-current non-financial assets	37	17	11	6
Gain on bargain purchase of shares	-	-	63	63
Reversal of provisions	14	4	6	3
Reversal of receivables impairment allowances	7	3	9	3
Reversal of impairment allowances of property, plant and equipment and intangible assets	10	10	8	1
Penalties and compensation	698	662	24	13
Other	90	19	76	27
	<b>916</b>	<b>718</b>	<b>197</b>	<b>116</b>

The line penalties and compensation includes mainly recognized in the 2<sup>nd</sup> quarter of 2016 received advances from insurers related to the steam cracker unit accident in the Unipetrol Group in August 2015 in the amount of PLN 635 million. Detailed information was presented in note 3.16.

**Other operating expenses**

	6 MONTHS ENDED 30/06/2016 (unaudited)	3 MONTHS ENDED 30/06/2016 (unaudited)	6 MONTHS ENDED 30/06/2015 (unaudited)	3 MONTHS ENDED 30/06/2015 (unaudited)
Loss on sale of non-current non-financial assets	(20)	(7)	(12)	(5)
Recognition of provisions	(21)	(10)	(37)	(32)
Recognition of receivables impairment allowances	(14)	(5)	(23)	(15)
Recognition of impairment allowances of property, plant and equipment and intangible assets	(21)	(14)	(463)	(445)
Penalties, damages and compensation	(34)	(14)	(15)	(7)
Other	(55)	(34)	(46)	(30)
	<b>(165)</b>	<b>(84)</b>	<b>(596)</b>	<b>(534)</b>

In the 6 and 3 month period ended 30 June 2015 the line recognition of impairment allowances of property, plant and equipment and intangible assets included mainly impairment allowances of ORLEN Upstream Group's exploration assets in Poland. Additional information was presented in note 3.3.1.

**3.5. Finance income and costs**
**Finance income**

	6 MONTHS ENDED 30/06/2016 (unaudited)	3 MONTHS ENDED 30/06/2016 (unaudited)	6 MONTHS ENDED 30/06/2015 (unaudited)	3 MONTHS ENDED 30/06/2015 (unaudited)
Interest	27	13	37	19
Dividends	5	5	2	2
Settlement and valuation of derivative financial instruments	51	30	97	30
Reversal of receivables impairment allowances	2	2	2	2
Other	14	4	21	17
	<b>99</b>	<b>54</b>	<b>159</b>	<b>70</b>

**Finance costs**

	6 MONTHS ENDED 30/06/2016 (unaudited)	3 MONTHS ENDED 30/06/2016 (unaudited)	6 MONTHS ENDED 30/06/2015 (unaudited)	3 MONTHS ENDED 30/06/2015 (unaudited)
Interest	(134)	(84)	(109)	(56)
Foreign exchange loss, net	(389)	(388)	(111)	(81)
Settlement and valuation of derivative financial instruments	(54)	(26)	(304)	(137)
Recognition of receivables impairment allowances	(2)	(2)	(2)	(2)
Other	(19)	(9)	(21)	(6)
	<b>(598)</b>	<b>(509)</b>	<b>(547)</b>	<b>(282)</b>

Borrowing costs capitalized in the 6 and 3 month period ended 30 June 2016 and 30 June 2015 amounted to PLN (30) million and PLN (14) million, PLN (27) million and PLN (14) million, respectively.

**3.6. Investments accounted for under equity method**

	30/06/2016 (unaudited)	31/12/2015
Joint ventures, incl.:	773	767
<i>Basell ORLEN Polyolefins Sp. z o.o. (BOP)</i>	696	693
Associates	7	7
	<b>780</b>	<b>774</b>

Selected condensed financial information on joint ventures - Basell ORLEN Polyolefins Sp. z o.o.:

	30/06/2016 (unaudited)	31/12/2015
Non-current assets	848	874
Current assets, incl.:	1 470	1 376
<i>cash</i>	383	394
<b>Total assets</b>	<b>2 318</b>	<b>2 250</b>
Total equity	1 450	1 415
Non-current liabilities	34	36
Current liabilities, incl.:	834	799
<i>loans</i>	-	1
Total liabilities	868	835
<b>Total equity and liabilities</b>	<b>2 318</b>	<b>2 250</b>
<b>Net debt</b>	<b>(383)</b>	<b>(393)</b>
Net assets	1 450	1 415
Group's share in joint ventures (50%)	725	708
Consolidation adjustments	(29)	(15)
<b>Investments accounted for under equity method</b>	<b>696</b>	<b>693</b>

**Share in profit from investments accounted for under equity method**

	6 MONTHS ENDED 30/06/2016 (unaudited)	3 MONTHS ENDED 30/06/2016 (unaudited)	6 MONTHS ENDED 30/06/2015 (unaudited)	3 MONTHS ENDED 30/06/2015 (unaudited)
Joint ventures	184	99	104	73
	<b>184</b>	<b>99</b>	<b>104</b>	<b>73</b>

	6 MONTHS ENDED 30/06/2016 (unaudited)	3 MONTHS ENDED 30/06/2016 (unaudited)	6 MONTHS ENDED 30/06/2015 (unaudited)	3 MONTHS ENDED 30/06/2015 (unaudited)
Sales revenues	1 874	946	1 945	1 054
Cost of sales, incl.:	(1 321)	(661)	(1 585)	(810)
<i>depreciation and amortisation</i>	(50)	(25)	(50)	(24)
<b>Gross profit on sales</b>	<b>553</b>	<b>285</b>	<b>360</b>	<b>244</b>
Distribution expenses	(51)	(25)	(58)	(30)
Administrative expenses	(12)	(6)	(11)	(5)
Net other operating income and expenses	-	-	1	1
<b>Profit from operations</b>	<b>490</b>	<b>254</b>	<b>292</b>	<b>210</b>
<b>Net finance income and costs</b>	<b>2</b>	<b>7</b>	<b>(2)</b>	<b>6</b>
<b>Profit before tax</b>	<b>492</b>	<b>261</b>	<b>290</b>	<b>216</b>
Tax expense	(94)	(50)	(53)	(41)
<b>Net profit</b>	<b>398</b>	<b>211</b>	<b>237</b>	<b>175</b>
Group's share in joint ventures (50%)	199	106	119	88
Consolidation adjustments	(15)	(7)	(15)	(15)
<b>Group's share in result of joint ventures accounted for under equity method</b>	<b>184</b>	<b>99</b>	<b>104</b>	<b>73</b>

**3.7. Other financial assets**

	Non-current		Current		Total	
	30/06/2016 (unaudited)	31/12/2015	30/06/2016 (unaudited)	31/12/2015	30/06/2016 (unaudited)	31/12/2015
Cash flows hedging instruments	33	135	362	797	395	932
<i>currency forwards</i>	6	45	33	78	39	123
<i>commodity swaps</i>	27	90	329	719	356	809
Derivatives not designated as hedge accounting	-	-	8	8	8	8
<i>currency forwards</i>	-	-	8	2	8	2
<i>commodity swaps</i>	-	-	-	6	-	6
Embedded derivatives	-	-	-	1	-	1
<i>currency swaps</i>	-	-	-	1	-	1
Receivables on cash flows settled hedging instruments	-	-	52	159	52	159
Other	26	12	-	9	26	21
	<b>59</b>	<b>147</b>	<b>422</b>	<b>974</b>	<b>481</b>	<b>1 121</b>

**3.8. Loans, borrowings and bonds**

	Non-current		Current		Total	
	30/06/2016 (unaudited)	31/12/2015	30/06/2016 (unaudited)	31/12/2015	30/06/2016 (unaudited)	31/12/2015
Loans	786	3 975	860	1 025	1 646	5 000
Borrowings	1	1	2	2	3	3
Bonds	7 105	4 155	411	-	7 516	4 155
	<b>7 892</b>	<b>8 131</b>	<b>1 273</b>	<b>1 027</b>	<b>9 165</b>	<b>9 158</b>

In the period covered by the foregoing 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.

**3.9. Provisions**

	Non-current		Current		Total	
	30/06/2016 (unaudited)	31/12/2015	30/06/2016 (unaudited)	31/12/2015	30/06/2016 (unaudited)	31/12/2015
Environmental	492	450	19	39	511	489
Jubilee bonuses and post-employment benefits	224	217	37	36	261	253
CO <sub>2</sub> emissions, energy certificates	-	-	179	466	179	466
Other	43	43	171	208	214	251
	<b>759</b>	<b>710</b>	<b>406</b>	<b>749</b>	<b>1 165</b>	<b>1 459</b>

**3.10. Other financial liabilities**

	Non-current		Current		Total	
	30/06/2016 (unaudited)	31/12/2015	30/06/2016 (unaudited)	31/12/2015	30/06/2016 (unaudited)	31/12/2015
Cash flows hedging instruments	265	239	420	764	685	1 003
<i>currency forwards</i>	65	-	33	11	98	11
<i>interest rate swaps</i>	-	92	-	-	-	92
<i>commodity swaps</i>	42	48	373	753	415	801
<i>currency interest rate swaps</i>	158	99	14	-	172	99
Derivatives not designated as hedge accounting	127	-	1	1	128	1
<i>currency forwards</i>	-	-	1	1	1	1
<i>interest rate swaps</i>	127	-	-	-	127	-
Embedded derivatives	-	-	3	2	3	2
<i>currency swaps</i>	-	-	3	2	3	2
Liabilities on cash flows settled hedging instruments	-	-	141	103	141	103
Investment liabilities	118	300	-	-	118	300
Finance lease	138	140	-	-	138	140
Other	36	33	-	-	36	33
	<b>684</b>	<b>712</b>	<b>565</b>	<b>870</b>	<b>1 249</b>	<b>1 582</b>

**3.11. 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 derivative instruments. Methods applied in determining the fair value were described in the Consolidated Financial Statements for the year 2015 in note 8.6.3.19.



**Fair value hierarchy**

	30/06/2016 (unaudited)	31/12/2015
	<b>LEVEL 2</b>	
<b>Financial assets</b>		
Embedded derivatives and hedging	403	941
	<b>403</b>	<b>941</b>
<b>Financial liabilities</b>		
Embedded derivatives and hedging	816	1 006
	<b>816</b>	<b>1 006</b>

The fair value of financial assets and liabilities quoted on active markets is determined based on market quotations (so called Level 1). In other cases, the fair value is determined based on other input data which are directly or indirectly observable (so called Level 2) or unobservable inputs (so called 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.

**3.12. Finance lease payments**

As at 30 June 2016 and as at 31 December 2015 the Group possessed as a lessee the finance lease agreements, concerning mainly buildings, technical equipment and machinery and means of transportation.

	30/06/2016 (unaudited)	31/12/2015
Value of future minimum lease payments	221	222
Present value of future minimum lease payments	166	166

**3.13. Future commitments resulting from signed investment contracts**

As at 30 June 2016 and as at 31 December 2015 the value of future commitments resulting from investment contracts signed until that day amounted to PLN 2,610 million and PLN 3,054 million, respectively.

**3.14. Issue, redemption and repayment of debt securities**

On 7 June 2016 was made the issue of debt securities with a 7-year period of redemption by the ORLEN Capital AB - a special purpose entity. The value of the issue amounted to PLN 3,319 million translated using the exchange rate as at 30 June 2016 (representing EUR 750 million). Additional information is presented in the Management Board Report on the operations of the Group in note C.7.3.

In the period covered by the foregoing half-year condensed consolidated financial statements, short term bonds were issued in favour of the Group companies as a part of liquidity optimisation in the ORLEN Group.

**3.15. Distribution of the profit for 2015, the information concerning the payment of dividends in 2016**

The Ordinary General Meeting of PKN ORLEN S.A. as of 3 June 2016 decided to distribute the net profit of PKN ORLEN for the year 2015 of PLN 1,047,519,491.84 as follows: PLN 855,418,122 will be allocated as a dividend payment (PLN 2 per 1 share) and the remaining amount of net profit of PLN 192,101,369.84 as reserve capital. The dividend date was set at 15 July 2015 and the dividend payment date at 5 August 2016.

**3.16. Contingent assets and liabilities**
**Contingent assets**

On 13 August 2015 the steam cracker unit accident in Unipetrol Group took place. Based on the insurance policies Unipetrol Group expects insurers to cover reconstruction costs of repair, which estimated on 30 June 2016 at approximately PLN 667 million translated using the exchange rate as at 30 June 2016 (representing CZK 4.1 billion), as well as lost business profits, which from the accident to the end of the 2<sup>nd</sup> quarter of 2016 estimated in the amount of approximately PLN 1,073 million translated using the exchange rate as at 30 June 2016 (representing CZK 6.6 billion).

In the 2<sup>nd</sup> quarter of 2016 Unipetrol Group recognized in other operating income the amount of PLN 635 million translated using the average exchange rate of June 2016 (representing CZK 3,904 million) due to received advance payments from insurers on account of the above damage.

On 17 May 2016, following the failure on installation FCC (Fluid Catalytic Cracking) in the Kralupy refinery, crude oil processing was suspended. Based on the insurance policies and the estimates made at the end of June 2016, Unipetrol Group expects insurers to cover reconstruction costs of repair which estimated at approximately PLN 60 million translated using the exchange rate as at 30 June 2016 (representing CZK 370 million).

**Contingent liabilities**

Spolana a.s. currently produces chlorine using mercury electrolysis. In the event that production is terminated, the company is required to present a reclamation program after it stops using its fixed assets. On 9 September 2013, as a result of administrative proceedings, Spolana a.s. received a consent of the Mid-Czech Regional Body to extend the integrated pollution prevention and control license from the end of 2014 until 30 June 2017. At the same time, the company is obliged to submit an action plan aiming to cease production of chlorine using mercury electrolysis by 31 December 2016.

Information concerning significant proceedings is presented in the Management Board Report on the operations of the Group in note C.6.

**3.17. Guarantees**

Excise tax guarantees and excise tax on goods and merchandise under the excise tax suspension procedure as at 30 June 2016 and as at 31 December 2015 amounted to PLN 1,916 million and PLN 1,815 million, respectively.

**3.18. Events after the end of the reporting period**

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

# HALF-YEAR CONDENSED SEPARATE FINANCIAL STATEMENTS

**FOR THE 6 AND 3 MONTH PERIOD ENDED 30 JUNE**

**2016**

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

**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 30/06/2016 (unaudited)	3 MONTHS ENDED 30/06/2016 (unaudited)	6 MONTHS ENDED 30/06/2015 (unaudited)	3 MONTHS ENDED 30/06/2015 (unaudited)
Sales revenues		23 418	12 850	30 853	17 230
<i>revenues from sales of finished goods and services</i>		13 700	7 545	17 993	9 956
<i>revenues from sales of merchandise and raw materials</i>		9 718	5 305	12 860	7 274
Cost of sales	3.1	(20 716)	(10 818)	(27 754)	(15 203)
<i>cost of finished goods and services sold</i>		(11 318)	(5 691)	(15 204)	(8 090)
<i>cost of merchandise and raw materials sold</i>		(9 398)	(5 127)	(12 550)	(7 113)
<b>Gross profit on sales</b>		<b>2 702</b>	<b>2 032</b>	<b>3 099</b>	<b>2 027</b>
Distribution expenses		(1 127)	(555)	(1 121)	(579)
Administrative expenses		(383)	(192)	(460)	(237)
Other operating income	3.4	59	34	86	23
Other operating expenses	3.4	(93)	(46)	(72)	(44)
<b>Profit from operations</b>		<b>1 158</b>	<b>1 273</b>	<b>1 532</b>	<b>1 190</b>
Finance income	3.5	1 593	1 476	592	546
Finance costs	3.5	(519)	(440)	(616)	(548)
<b>Net finance income and costs</b>		<b>1 074</b>	<b>1 036</b>	<b>(24)</b>	<b>(2)</b>
<b>Profit before tax</b>		<b>2 232</b>	<b>2 309</b>	<b>1 508</b>	<b>1 188</b>
Tax expense		(158)	(155)	(284)	(222)
<i>current tax</i>		-	-	(11)	(11)
<i>deferred tax</i>		(158)	(155)	(273)	(211)
<b>Net profit</b>		<b>2 074</b>	<b>2 154</b>	<b>1 224</b>	<b>966</b>
<b>Other comprehensive income:</b>					
<b>which will be reclassified into profit or loss</b>					
<i>hedging instruments</i>		(240)	(236)	411	52
<i>deferred tax</i>		45	44	(78)	(10)
		<b>(195)</b>	<b>(192)</b>	<b>333</b>	<b>42</b>
<b>Total net comprehensive income</b>		<b>1 879</b>	<b>1 962</b>	<b>1 557</b>	<b>1 008</b>
Net profit and diluted net profit per share (in PLN per share)		4.85	5.04	2.86	2.26

The accompanying notes disclosed on pages 22 – 28 are an integral part of the foregoing the half-year condensed separate financial statements.

**Separate statement of financial position**

	NOTE	30/06/2016 (unaudited)	31/12/2015
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		14 357	14 303
Intangible assets		831	962
Shares in related parties		7 785	7 568
Other financial assets	3.6	73	179
Other assets		136	134
		<b>23 182</b>	<b>23 146</b>
<b>Current assets</b>			
Inventories		7 063	7 715
Trade and other receivables		5 853	4 291
Other financial assets	3.6	536	788
Cash		2 175	964
Non-current assets classified as held for sale		7	77
		<b>15 634</b>	<b>13 835</b>
<b>Total assets</b>		<b>38 816</b>	<b>36 981</b>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
Share capital		1 058	1 058
Share premium		1 227	1 227
Hedging reserve		(338)	(143)
Retained earnings		16 923	15 704
<b>Total equity</b>		<b>18 870</b>	<b>17 846</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Loans, borrowings and bonds	3.7	7 863	8 125
Provisions	3.8	325	317
Deferred tax liabilities		493	380
Other financial liabilities	3.9	609	637
		<b>9 290</b>	<b>9 459</b>
<b>Current liabilities</b>			
Trade and other liabilities		7 851	6 651
Loans, borrowings and bonds	3.7	1 591	1 117
Provisions	3.8	209	383
Deferred income		156	116
Other financial liabilities	3.9	849	1 409
		<b>10 656</b>	<b>9 676</b>
<b>Total liabilities</b>		<b>19 946</b>	<b>19 135</b>
<b>Total equity and liabilities</b>		<b>38 816</b>	<b>36 981</b>

The accompanying notes disclosed on pages 22 – 28 are an integral part of the foregoing the half-year condensed separate financial statements.

**Separate statement of changes in equity**

	Share capital and share premium	Hedging reserve	Retained earnings	Total equity
01/01/2016	2 285	(143)	15 704	17 846
Net profit	-	-	2 074	2 074
Items of other comprehensive income	-	(195)	-	(195)
<b>Total net comprehensive income</b>	-	<b>(195)</b>	<b>2 074</b>	<b>1 879</b>
Dividends	-	-	(855)	(855)
<b>30/06/2016</b>	<b>2 285</b>	<b>(338)</b>	<b>16 923</b>	<b>18 870</b>
(unaudited)				
01/01/2015	2 285	(1 370)	15 387	16 302
Net profit	-	-	1 224	1 224
Items of other comprehensive income	-	333	-	333
<b>Total net comprehensive income</b>	-	<b>333</b>	<b>1 224</b>	<b>1 557</b>
Equity resulting from merger under common control	-	-	(29)	(29)
Dividends	-	-	(706)	(706)
<b>30/06/2015</b>	<b>2 285</b>	<b>(1 037)</b>	<b>15 876</b>	<b>17 124</b>
(unaudited)				

The accompanying notes disclosed on pages 22 – 28 are an integral part of the foregoing the half-year condensed separate financial statements.

**Separate statement of cash flows**

	6 MONTHS ENDED 30/06/2016 (unaudited)	3 MONTHS ENDED 30/06/2016 (unaudited)	6 MONTHS ENDED 30/06/2015 (unaudited)	3 MONTHS ENDED 30/06/2015 (unaudited)
<b>Cash flows from operating activities</b>				
<b>Profit before tax</b>	<b>2 232</b>	<b>2 309</b>	<b>1 508</b>	<b>1 188</b>
Adjustments for:				
Depreciation and amortisation	559	274	543	275
Foreign exchange (profit)/loss	280	246	(58)	114
Interest, net	102	50	83	36
Dividends	(1 463)	(1 440)	(526)	(513)
(Profit)/Loss on investing activities	(39)	12	441	427
Change in provisions	54	1	58	50
Change in working capital	445	(436)	(977)	(639)
<i>inventories</i>	652	(670)	(270)	27
<i>receivables</i>	(1 158)	(1 016)	(1 985)	(1 865)
<i>liabilities</i>	951	1 250	1 278	1 199
Other adjustments	(26)	23	(76)	(38)
Income tax received	2	3	4	5
<b>Net cash from operating activities</b>	<b>2 146</b>	<b>1 042</b>	<b>1 000</b>	<b>905</b>
<b>Cash flows from investing activities</b>				
Acquisition of property, plant and equipment, intangible assets and perpetual usufruct of land	(1 433)	(444)	(815)	(429)
Acquisition of shares	(176)	(176)	(130)	-
Outflows on acquisition of project	-	-	(172)	(17)
Disposal of property, plant and equipment, intangible assets and perpetual usufruct of land	108	61	70	16
Disposal of shares	88	3	-	-
Interest received	2	1	16	5
Dividends received	1 037	1 026	398	398
Proceeds from non-current loans granted	3	2	607	306
Proceeds/(Expenses) from current loans granted	(91)	562	297	153
Proceeds/(Outflows) from cash pool facility	14	11	148	(3)
Other	(2)	-	58	(9)
<b>Net cash from/(used in) investing activities</b>	<b>(450)</b>	<b>1 046</b>	<b>477</b>	<b>420</b>
<b>Cash flows from financing activities</b>				
Proceeds from loans and borrowings received	7 308	4 905	-	-
Bonds issued	904	474	538	204
Repayments of loans and borrowings	(7 709)	(5 565)	(1 924)	(617)
Redemption of bonds	(574)	(352)	(488)	(370)
Interest paid	(169)	(116)	(151)	(100)
Proceeds/(Outflows) from cash pool facility	(234)	(9)	(97)	26
Other	(11)	(6)	(9)	(5)
<b>Net cash (used) in financing activities</b>	<b>(485)</b>	<b>(669)</b>	<b>(2 131)</b>	<b>(862)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>1 211</b>	<b>1 419</b>	<b>(654)</b>	<b>463</b>
Effect of exchange rate changes	-	1	6	(1)
Cash, beginning of the period	964	755	3 475	2 365
<b>Cash and cash equivalents, end of the period</b>	<b>2 175</b>	<b>2 175</b>	<b>2 827</b>	<b>2 827</b>

Beginning with the 1<sup>st</sup> quarter of 2016, the Company presents cash flows from operating activities starting from the profit before tax.

The accompanying notes disclosed on pages 22 – 28 are an integral part of the foregoing the half-year condensed separate financial statements.

**EXPLANATORY NOTES TO THE HALF-YEAR CONDENSED SEPARATE FINANCIAL STATEMENTS**
**1. Information on principles adopted for the preparation of the half-year condensed separate financial statements**
**1.1. Statement of compliance and general principles for preparation**

The foregoing half-year condensed separate financial statements ("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 19 February 2009 on current and periodic information provided by issuers of securities and conditions of recognition as equivalent information required by the law of a non member state (consolidated text: Official Journal 2014, item 133, as amended Official Journal 2016, item 860) ("Regulation") and present the PKN ORLEN S.A. ("Company", "Parent Company", "PKN ORLEN") financial position as at 30 June 2016 and as at 31 December 2015, financial results and cash flows for the 6 and 3 month period ended 30 June 2016 and 30 June 2015.

The foregoing 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 the foregoing 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.

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

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

In the foregoing half-year condensed separate financial statements, the significant assumptions made by the Management Board regarding adoption of accounting principles and main uncertainties were the same as those presented in note 8.6 and 8.7 in the Separate Financial Statements for the year 2015.

The Company intends to adopt IFRS amendments, published but not effective as at the date of publication of the foregoing half-year condensed separate financial statements, in accordance with their effective date. An estimate of the impact of changes and new IFRS on future separate financial statements was presented in the Separate Financial Statements for 2015 in note 8.6.1.

**1.3. Functional currency and presentation currency of financial statements and methods applied to translation of financial data**

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

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

PKN ORLEN does not report any material seasonal or cyclical character of its operations.

**2. Segment reporting**

The operations of the Company is conducted in:

- the Downstream segment, which includes integrated areas of refining and petrochemical production and sales and operations in the energy production activity,
  - the Retail segment, which includes sales at the petrol stations,
  - the Upstream segment, which includes the activity related to exploration and extraction of mineral resources,
- and Corporate Functions, which include activities related to management and administration, support functions and remaining activities not allocated to separate operating segments.

**Financial results by operating segments**
**for the 6 month period ended 30 June 2016**

	NOTE	Downstream Segment (unaudited)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
External revenues		16 808	6 582	-	28	-	23 418
Inter-segment revenues		4 086	-	-	43	(4 129)	-
Sales revenues		20 894	6 582	-	71	(4 129)	23 418
Operating expenses		(19 815)	(6 150)	(13)	(377)	4 129	(22 226)
Other operating income	3.4	20	24	-	15	-	59
Other operating expenses	3.4	(32)	(29)	-	(32)	-	(93)
<b>Segment profit/(loss) from operations</b>		<b>1 067</b>	<b>427</b>	<b>(13)</b>	<b>(323)</b>	<b>-</b>	<b>1 158</b>
Net finance income and costs	3.5						1 074
<b>Profit before tax</b>							<b>2 232</b>
Tax expense							(158)
<b>Net profit</b>							<b>2 074</b>



ADDITIONAL INFORMATION	Downstream Segment (unaudited)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
Depreciation and amortisation	398	123	-	38	-	559
EBITDA	1 465	550	(13)	(285)	-	1 717
CAPEX	513	67	-	48	-	628

**for the 3 month period ended 30 June 2016**

NOTE	Downstream Segment (unaudited)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
External revenues	9 166	3 671	-	13	-	12 850
Inter-segment revenues	2 337	-	-	23	(2 360)	-
Sales revenues	11 503	3 671	-	36	(2 360)	12 850
Operating expenses	(10 309)	(3 416)	(4)	(196)	2 360	(11 565)
Other operating income	3.4 11	19	-	4	-	34
Other operating expenses	3.4 (11)	(17)	-	(18)	-	(46)
<b>Segment profit/(loss) from operations</b>	<b>1 194</b>	<b>257</b>	<b>(4)</b>	<b>(174)</b>	-	<b>1 273</b>
Net finance income and costs	3.5					1 036
<b>Profit before tax</b>						<b>2 309</b>
Tax expense						(155)
<b>Net profit</b>						<b>2 154</b>

ADDITIONAL INFORMATION	Downstream Segment (unaudited)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
Depreciation and amortisation	193	62	-	19	-	274
EBITDA	1 387	319	(4)	(155)	-	1 547
CAPEX	204	37	-	31	-	272

**for the 6 month period ended 30 June 2015**

NOTE	Downstream Segment (unaudited)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
External revenues	23 264	7 561	-	28	-	30 853
Inter-segment revenues	5 426	-	-	38	(5 464)	-
Sales revenues	28 690	7 561	-	66	(5 464)	30 853
Operating expenses	(27 229)	(7 190)	(17)	(363)	5 464	(29 335)
Other operating income	3.4 45	16	-	25	-	86
Other operating expenses	3.4 (13)	(22)	-	(37)	-	(72)
<b>Segment profit/(loss) from operations</b>	<b>1 493</b>	<b>365</b>	<b>(17)</b>	<b>(309)</b>	-	<b>1 532</b>
Net finance income and costs	3.5					(24)
<b>Profit before tax</b>						<b>1 508</b>
Tax expense						(284)
<b>Net profit</b>						<b>1 224</b>

ADDITIONAL INFORMATION	Downstream Segment (unaudited)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
Depreciation and amortisation	396	115	-	32	-	543
EBITDA	1 889	480	(17)	(277)	-	2 075
CAPEX	651	105	-	50	-	806

for the 3 month period ended 30 June 2015

NOTE	Downstream Segment (unaudited)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
External revenues	13 073	4 143	-	14	-	17 230
Inter-segment revenues	3 003	-	-	22	(3 025)	-
Sales revenues	16 076	4 143	-	36	(3 025)	17 230
Operating expenses	(14 895)	(3 940)	(11)	(198)	3 025	(16 019)
Other operating income	3.4 (2)	5	-	20	-	23
Other operating expenses	3.4 (5)	(11)	-	(28)	-	(44)
<b>Segment profit/(loss) from operations</b>	<b>1 174</b>	<b>197</b>	<b>(11)</b>	<b>(170)</b>	<b>-</b>	<b>1 190</b>
Net finance income and costs	3.5					(2)
<b>Profit before tax</b>						<b>1 188</b>
Tax expense						(222)
<b>Net profit</b>						<b>966</b>

ADDITIONAL INFORMATION	Downstream Segment (unaudited)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
<b>Depreciation and amortisation</b>	<b>200</b>	<b>57</b>	<b>-</b>	<b>18</b>	<b>-</b>	<b>275</b>
<b>EBITDA</b>	<b>1 374</b>	<b>254</b>	<b>(11)</b>	<b>(152)</b>	<b>-</b>	<b>1 465</b>
<b>CAPEX</b>	<b>340</b>	<b>53</b>	<b>-</b>	<b>22</b>	<b>-</b>	<b>415</b>

CAPEX - increases of non-current assets together with the capitalisation of borrowing costs

### Assets by operating segments

	30/06/2016 (unaudited)	31/12/2015 (unaudited)
Downstream Segment	23 613	23 292
Retail Segment	3 521	3 469
<b>Segment assets</b>	<b>27 134</b>	<b>26 761</b>
Corporate Functions	11 682	10 220
	<b>38 816</b>	<b>36 981</b>

## 3. Other notes

### 3.1. Operating expenses

#### Cost by nature

	6 MONTHS ENDED 30/06/2016 (unaudited)	3 MONTHS ENDED 30/06/2016 (unaudited)	6 MONTHS ENDED 30/06/2015 (unaudited)	3 MONTHS ENDED 30/06/2015 (unaudited)
Materials and energy	(9 809)	(5 198)	(14 090)	(7 544)
Cost of merchandise and raw materials sold	(9 398)	(5 127)	(12 550)	(7 113)
External services	(1 094)	(549)	(1 250)	(643)
Employee benefits	(387)	(190)	(372)	(178)
Depreciation and amortisation	(559)	(274)	(543)	(275)
Taxes and charges	(450)	(226)	(465)	(234)
Other	(204)	(105)	(178)	(111)
	<b>(21 901)</b>	<b>(11 669)</b>	<b>(29 448)</b>	<b>(16 098)</b>
Change in inventories	(519)	(4)	4	31
Cost of products and services for own use	101	62	37	4
<b>Operating expenses</b>	<b>(22 319)</b>	<b>(11 611)</b>	<b>(29 407)</b>	<b>(16 063)</b>
Distribution expenses	1 127	555	1 121	579
Administrative expenses	383	192	460	237
Other operating expenses	93	46	72	44
<b>Cost of sales</b>	<b>(20 716)</b>	<b>(10 818)</b>	<b>(27 754)</b>	<b>(15 203)</b>

**3.2. Impairment allowances of inventories to net realizable value**

	6 MONTHS ENDED 30/06/2016 (unaudited)	3 MONTHS ENDED 30/06/2016 (unaudited)	6 MONTHS ENDED 30/06/2015 (unaudited)	3 MONTHS ENDED 30/06/2015 (unaudited)
Increase	(12)	(6)	(20)	(16)
Decrease	22	17	530	21

**3.3. Impairment allowances of non-current assets**

As at 30 June 2016 the PKN ORLEN did not identify other impairment indications of non-current assets.

In the 2<sup>nd</sup> quarter of 2015 as part of the Upstream segment ORLEN Upstream Group has determined, based on the gathered data of previous work, the most promising areas for further exploration activity. Narrowing the search area in Poland influenced the partial impairment of assets related to exploration and recognition of mineral resources.

As a result, in the separate financial statements of PKN ORLEN the impairment of additional payments to equity in ORLEN Upstream in the amount of PLN (417) million was recognized.

**3.4. Other operating income and expenses**
**Other operating income**

	6 MONTHS ENDED 30/06/2016 (unaudited)	3 MONTHS ENDED 30/06/2016 (unaudited)	6 MONTHS ENDED 30/06/2015 (unaudited)	3 MONTHS ENDED 30/06/2015 (unaudited)
Profit on sale of non-current non-financial assets	21	10	7	2
Reversal of provisions	1	-	1	-
Reversal of receivables impairment allowances	3	1	5	3
Reversal of impairment allowances of property, plant and equipment and intangible assets	8	8	7	1
Penalties and compensation	8	4	9	4
Other	18	11	57	13
	<b>59</b>	<b>34</b>	<b>86</b>	<b>23</b>

**Other operating expenses**

	6 MONTHS ENDED 30/06/2016 (unaudited)	3 MONTHS ENDED 30/06/2016 (unaudited)	6 MONTHS ENDED 30/06/2015 (unaudited)	3 MONTHS ENDED 30/06/2015 (unaudited)
Loss on sale of non-current non-financial assets	(19)	(6)	(11)	(4)
Recognition of provisions	(17)	(7)	(3)	(2)
Recognition of receivables impairment allowances	(6)	(3)	(7)	(6)
Recognition of impairment allowances of property, plant and equipment and intangible assets	(12)	(8)	(12)	(7)
Penalties, damages and compensation	(5)	(2)	(5)	(3)
Other	(34)	(20)	(34)	(22)
	<b>(93)</b>	<b>(46)</b>	<b>(72)</b>	<b>(44)</b>

**3.5. Finance income and costs**
**Finance income**

	6 MONTHS ENDED 30/06/2016 (unaudited)	3 MONTHS ENDED 30/06/2016 (unaudited)	6 MONTHS ENDED 30/06/2015 (unaudited)	3 MONTHS ENDED 30/06/2015 (unaudited)
Interest	25	13	35	16
Dividends	1 463	1 440	526	513
Other	105	23	31	17
	<b>1 593</b>	<b>1 476</b>	<b>592</b>	<b>546</b>

**Finance costs**

	6 MONTHS ENDED 30/06/2016 (unaudited)	3 MONTHS ENDED 30/06/2016 (unaudited)	6 MONTHS ENDED 30/06/2015 (unaudited)	3 MONTHS ENDED 30/06/2015 (unaudited)
Interest	(105)	(52)	(95)	(41)
Foreign exchange loss, net	(380)	(363)	(74)	(84)
Recognition of impairment allowances of shares in related parties	-	-	(417)	(417)
Other	(34)	(25)	(30)	(6)
	<b>(519)</b>	<b>(440)</b>	<b>(616)</b>	<b>(548)</b>

The line recognition of impairment allowances of shares in related parties in the 3 month period ended 30 June 2015 includes the effect of recognition of impairment allowances of ORLEN Upstream's payment to subsidiaries' equity.

Borrowing costs capitalized in the 6 and 3 month period ended 30 June 2016 and 30 June 2015 amounted to PLN (29) million and PLN (16) million, PLN (33) million and PLN (24) million, respectively.

**3.6. Other financial assets**

	Non-current		Current		Total	
	30/06/2016 (unaudited)	31/12/2015	30/06/2016 (unaudited)	31/12/2015	30/06/2016 (unaudited)	31/12/2015
Cash flow hedging instruments	33	135	343	678	376	813
<i>currency forwards</i>	6	45	33	73	39	118
<i>commodity swaps</i>	27	90	310	605	337	695
Embedded derivatives	-	-	-	1	-	1
<i>currency swaps</i>	-	-	-	1	-	1
Loans granted	40	44	131	20	171	64
Cash pool	-	-	17	31	17	31
Receivables on cash flows settled hedging instruments	-	-	45	58	45	58
	<b>73</b>	<b>179</b>	<b>536</b>	<b>788</b>	<b>609</b>	<b>967</b>

**3.7. Loans, borrowings and bonds**

	Non-current		Current		Total	
	30/06/2016 (unaudited)	31/12/2015	30/06/2016 (unaudited)	31/12/2015	30/06/2016 (unaudited)	31/12/2015
Loans	786	3 973	177	240	963	4 213
Borrowings	5 462	2 135	399	593	5 861	2 728
Bonds	1 615	2 017	1 015	284	2 630	2 301
	<b>7 863</b>	<b>8 125</b>	<b>1 591</b>	<b>1 117</b>	<b>9 454</b>	<b>9 242</b>

In the period covered by the foregoing 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.

**3.8. Provisions**

	Non-current		Current		Total	
	30/06/2016 (unaudited)	31/12/2015	30/06/2016 (unaudited)	31/12/2015	30/06/2016 (unaudited)	31/12/2015
Environmental	193	185	12	32	205	217
Jubilee bonuses and post-employment benefits	132	132	16	16	148	148
CO <sub>2</sub> emissions, energy certificates	-	-	102	223	102	223
Other	-	-	79	112	79	112
	<b>325</b>	<b>317</b>	<b>209</b>	<b>383</b>	<b>534</b>	<b>700</b>

**3.9. Other financial liabilities**

	Non-current		Current		Total	
	30/06/2016 (unaudited)	31/12/2015	30/06/2016 (unaudited)	31/12/2015	30/06/2016 (unaudited)	31/12/2015
Cash flow hedging instruments	266	239	412	760	678	999
<i>interest rate swaps</i>	-	92	-	-	-	92
<i>commodity swaps</i>	42	48	365	749	407	797
<i>currency interest rate swaps</i>	158	99	14	-	172	99
<i>currency forwards</i>	66	-	33	11	99	11
Derivatives not designated as hedge accounting	127	-	-	-	127	-
<i>interest rate swaps</i>	127	-	-	-	127	-
Embedded derivatives	-	-	3	2	3	2
<i>currency swaps</i>	-	-	3	2	3	2
Liabilities on cash flows settled hedging instruments	-	-	112	92	112	92
Investment liabilities	117	299	-	-	117	299
Finance lease	99	99	-	-	99	99
Cash pool	-	-	322	555	322	555
	<b>609</b>	<b>637</b>	<b>849</b>	<b>1 409</b>	<b>1 458</b>	<b>2 046</b>

**3.10. 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 the year 2015 in note 8.6.3.22.

**Fair value hierarchy**

	30/06/2016 (unaudited)	31/12/2015
	LEVEL 2	
<b>Financial assets</b>		
Embedded derivatives and hedging	376	814
	<b>376</b>	<b>814</b>
<b>Financial liabilities</b>		
Embedded derivatives and hedging	808	1 001
	<b>808</b>	<b>1 001</b>

The fair value of financial assets and liabilities quoted on active markets is determined based on market quotations (so called Level 1). In other cases, the fair value is determined based on other input data which are directly or indirectly observable (so called Level 2) or unobservable inputs (so called 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.

**3.11. Finance lease payments**

As at 30 June 2016 and as at 31 December 2015 the Company possessed as a lessee the finance lease agreements, concerning mainly petrol stations.

	30/06/2016 (unaudited)	31/12/2015
Value of future minimum lease payments	145	145
Present value of future minimum lease payments	120	120

**3.12. Future commitments resulting from signed investment contracts**

As at 30 June 2016 and as at 31 December 2015 the value of future commitments resulting from investment contracts signed until that day amounted to PLN 1,227 million and PLN 1,291 million, respectively.

**3.13. Issue, redemption and repayment of debt securities**

On 7 June 2016 was made the issue of debt securities with a 7-year period of redemption by the ORLEN Capital AB - a special purpose entity. The value of the issue amounted to PLN 3,319 million translated using the exchange rate as at 30 June 2016 (representing EUR 750 million). Additional information is presented in the Management Board Report on the operations of the Group in note C.7.3.

In the period covered by the foregoing half-year condensed separate financial statements short term bonds were issued in favour of the Group companies as a part of liquidity optimisation in the ORLEN Group.

### **3.14. Distribution of the profit for 2015, the information concerning the payment of dividends in 2016**

The Ordinary General Meeting of PKN ORLEN S.A. as of 3 June 2016 decided to distribute the net profit of PKN ORLEN for the year 2015 of PLN 1,047,519,491.84 as follows: PLN 855,418,122 will be allocated as a dividend payment (PLN 2 per 1 share) and the remaining amount of net profit of PLN 192,101,369.84 as reserve capital. The dividend date was set at 15 July 2015 and the dividend payment date at 5 August 2016.

### **3.15. Contingent liabilities**

In the period covered by the foregoing half-year condensed separate financial statements, there were no significant contingent liabilities.

### **3.16. Guarantees**

Excise tax guarantees and excise tax on goods and merchandise under the excise tax suspension procedure as at 30 June 2016 and as at 31 December 2015 amounted to PLN 1,437 million and PLN 1,362 million, respectively.

### **3.17. Events after the end of the reporting period**

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

**MANAGEMENT BOARD REPORT ON THE  
OPERATIONS OF THE GROUP**

**FOR THE 1<sup>st</sup> HALF**

**2016**



**C. MANAGEMENT BOARD REPORT ON THE OPERATIONS OF THE GROUP**
**1. Principal activity of the ORLEN Group**

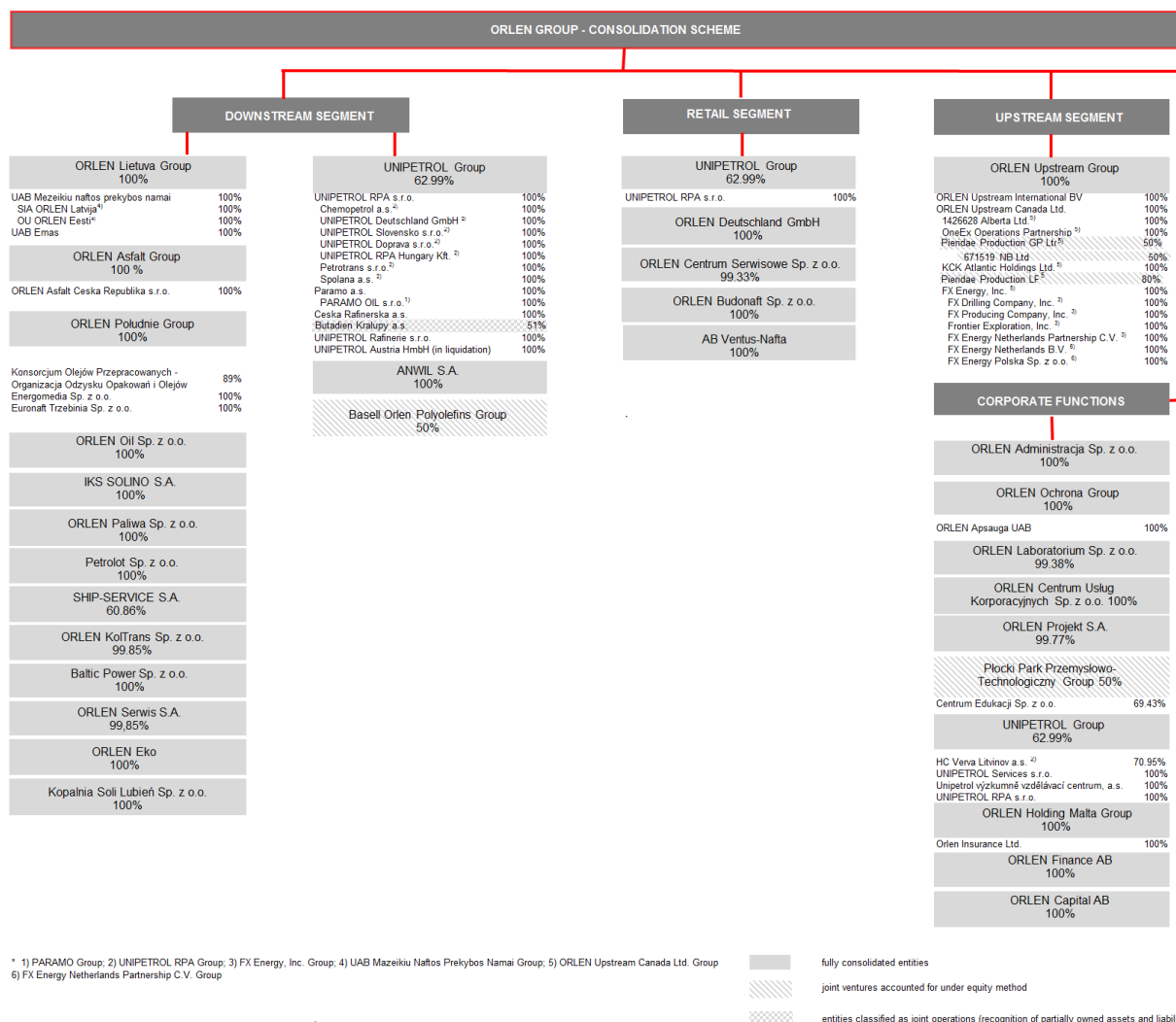
The Parent Company of the Polski Koncern Naftowy ORLEN S.A. Capital Group is Polski Koncern Naftowy ORLEN S.A. ("PKN ORLEN", "Company", "Parent Company") domiciled in Płock, 7 Chemików Street.

The core business of the ORLEN Group is crude oil processing and production of fuel, petrochemical and chemical goods, as well as, retail and wholesale of fuel products. The ORLEN Group conducts also 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. 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, Netherlands, Slovakia, Estonia, Latvia and USA and Canada.


**2.1. Changes in the structure of the ORLEN Group from 1 January 2016 up to the date of preparation of the foregoing report**

- On 1 January 2016, the companies Kicking Horse Energy Inc., KCK Operating Company Ltd., Columbia Natural Resources Canada, Ltd. and Kicking Horse International Exploration Ltd, created a single entity, which then was connected with ORLEN Upstream Canada;
- On 1 January 2016 a merger of Benzina with Unipetrol RPA and Mogul Slovakia with Unipetrol Slovensko took place;
- On 29 February 2016 a merger of ORLEN Serwis S.A. with ORLEN Wir Sp. z o.o. and Przedsiębiorstwo Usług Technicznych Wircom Sp. z o.o. took place;
- On 29 February 2016 PKN ORLEN sold ORLEN Transport S.A. to TP Sp. z o.o., a subsidiary of Trans Polonia S.A. As a result of this transaction in the 1<sup>st</sup> quarter of 2016, the Group recognized profit on the sale in the amount of PLN 54 million;
- On 18 April 2016 deletion from the trade registry Pro-Lab Sp. z o.o. in liquidation took place;



- On 17 May 2016 deletion from the trade registry EkoNaft sp. z o.o. in liquidation took place;
- On 25 May 2016 the Extraordinary General Meeting of Shareholders of ORLEN Upstream Sp. z o.o. took place where a resolution on increasing the Company's share capital was adopted. The company's share capital was increased from PLN 41 million to PLN 43 million through the creation of 3,478 new and indivisible shares, with a nominal value of PLN 500 each, which were fully subscribed by the existing sole shareholder of the company, ie. PKN ORLEN, in exchange for a cash contribution of PLN 174 million;  
Surplus of cash contribution over total nominal value of the newly issued shares increased the company's reserve capital. The contribution was made on 31 May 2016;
- On 10 June 2016 Unipetrol RPA, a 100% subsidiary of Unipetrol a.s., signed with Anwil S.A. an agreement to acquire 100% of Spolana a.s shares from Anwil Group.

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

### 3. Financial situation

#### 3.1. ORLEN Group's achievements accompanied by factors having a significant impact on the half-year condensed consolidated financial statements

##### Statement of profit or loss

Profit from operations for the 6 month of 2016 increased by depreciation and amortization before consideration of changes of crude oil prices on inventory valuation (EBITDA LIFO<sup>1</sup>) and impairment allowances of non-current assets amounted to PLN 4,531 million and was lower by PLN (281) million (y/y).

The positive impact of macroeconomic factors amounted to PLN 80 million (y/y) and included mainly the effect of the increase in the Ural/Brent differential and depreciation of the average PLN exchange rate versus the USD and EUR. The negative effect of lower margins on light and middle distillates was partially compensated by increases margins in the petrochemical segment.

Total sales volume increased by 0.6% (y/y) due to higher retail sales by 3.7% (y/y) and upstream segment sales by 73.4% (y/y) at lower downstream segment sales by (1.0) % (y/y).

The negative volume effect in the amount PLN (612) million (y/y) was mainly the result of the lower sales of high margin petrochemical products of downstream segment.

Other effects amounted to PLN 251 million (y/y) and included mainly:

- change in the balance of other operating activities, after eliminating the impact of impairment allowances of non-current assets in the amount of PLN 706 million (y/y), mainly related to the recognition of revenues of advance payments received from insurers due to the steam cracker unit accident in August 2015 in Unipetrol Group in the amount of PLN 635 million;
- the impact of lower trading margins which reflected intensified competition in the fuel market.

The impairment allowances of property, plant and equipment for the 6 month period of 2016 were not significant and amounted to PLN (11) million. For the 6 month period of 2015 they amounted to PLN (455) million and included mainly partial impairment of assets of the ORLEN Upstream Group in Poland in the amount of PLN (429) million.

After consideration of the above described impairment allowances, EBITDA LIFO profit of the ORLEN Group for the 6 month of 2016 amounted to PLN 4,520 million and was higher by PLN 163 million (y/y).

The negative impact of crude oil prices on inventory valuation for the described period amounted to PLN (528) million.

As a result, EBITDA profit of the ORLEN Group for the 6 month of 2016 amounted to PLN 3,992 million.

After consideration of depreciation and amortization expenses of PLN (1,023) million, profit from operations of the ORLEN Group in the 1<sup>st</sup> half of 2016 amounted to PLN 2,969 million.

Net finance costs for the described period amounted to PLN (499) million and consisted primarily surplus of foreign exchange losses in the amount of PLN (389) million and net interest expense in the amount of PLN (107) million.

After consideration of tax charges of PLN (342) million, the net profit of the ORLEN Group for the 6 month of 2016 amounted to PLN 2,128 million.

##### Statement of financial position

As at 30 June 2016, total assets of the ORLEN Group amounted to PLN 51,809 million and were higher by PLN 3,672 million in comparison with 31 December 2015.

As at 30 June 2016, the value of non-current assets amounted to PLN 28,780 million and were higher by PLN 1,418 million in comparison with the end of the previous year, mainly due to increasing of property, plant and equipment in the amount of PLN 1,600 million.

Balance change of property, plant and equipment and intangible assets comprised mainly investment expenditures in amount of PLN 2,250 million, depreciation and amortization in the amount of PLN (1,023) million and net balance change in owned CO<sub>2</sub> emission right in the amount of PLN (173) million and impact of exchange differences in the amount PLN 407 million.

<sup>1</sup> ORLEN Group's inventories are valued in the financial statements in accordance with International Financial Reporting Standards at the weighted average cost method or purchase price method. Therefore, an upward trend in crude oil prices has a positive effect and a downtrend has a negative impact on reported results. As a result the operating results were presented based on both the weighted average cost or purchase price as well as the LIFO method of inventory valuation, which eliminates the above impact.

Current assets increased by PLN 2,254 million, mainly as result of an increase in the balance of cash and cash equivalents by PLN 1,746 million as well as trade and other receivables in the amount of PLN 1,216 million and decrease of PLN (552) million balance of other financial assets which comprised mainly current cash flows hedge instruments.

As at 30 June 2016, total equity amounted to PLN 25,592 million and was higher by PLN 1,348 million in comparison with the end of 2015, mainly as a result of net profit for the 1<sup>st</sup> half year of 2016 in the amount PLN 2,128 million and the distribution of the net profit for 2015, and the allocation of the dividend for the shareholders of the Parent Company in the amount of PLN (855) million.

As at 30 June 2016, net indebtedness of the ORLEN Group amounted to PLN 5,071 million and was lower by PLN (1,739) million in comparison with the end of 2015. Balance of net indebtedness decreased as a result of net repayment of loans in the amount PLN (266) million, an increase of cash balance by PLN (1,746) million and the net impact of negative exchange differences from revaluation, indebtedness valuation as well as recalculation of balances of foreign entities in total amount of PLN 273 million.

#### Statement of cash flows

Proceeds of net cash from operating activities for the 6 month period of 2016 amounted to PLN 4,691 million and comprised mainly of profit from operations increased by depreciation and amortisation in the amount PLN 3,992 million and the positive impact of decrease in a net working capital of PLN 1,053 million lower by share in financial result from investments accounted for under equity method of PLN (184) million and paid income taxes in the amount of PLN (126) million.

Net cash used in investing activities for the 6 month period of 2016 amounted to PLN (2,455) million and comprised mainly of net expenses for the acquisition of property, plant and equipment, intangible assets and perpetual usufruct of land of PLN (2,804) million and inflows from the received dividends in the amount of PLN 182 million and sale of ORLEN Transport in the amount of PLN 74 million.

Net expenses of cash used in financing activities for the 6 month period of 2016 amounted to PLN (498) million and comprised mainly the net repayment of loans and borrowings of PLN (3,584) million, proceeds of the bond issue in the amount 3,258 and interest paid in the amount of PLN (151) million.

Taking into account the revaluation of cash due to exchange differences, the cash balance increased in the 6 month period of 2016 by PLN 1,746 million and as at 30 June 2016 amounted to PLN 4,094 million.

#### Factors and events which may influence future results

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

### 3.2. The most significant events in the period from 1 January 2016 up to the date of preparation of the foregoing report

#### JANUARY 2016

##### Changes in the Supervisory Board of PKN ORLEN

On 28 January 2016, the Minister of Treasury on behalf of the Company's shareholder, the State Treasury, acting pursuant to § 8 item 2 point 1 of PKN ORLEN's Articles of Association has recalled Mr. Remigiusz Nowakowski from the Supervisory Board of PKN ORLEN.

On 29 January 2016, the Extraordinary General Shareholders' Meeting of PKN ORLEN S.A. recalled Messers Adam Ambroziak, Cezary Banasiński, Grzegorz Borowiec, Cezary Możejki and Leszek Jerzy Pawłowicz from the Supervisory Board and appointed Ms. Agnieszka Krzętowska and Messers Mateusz Henryk Bochacik, Adrian Dworzyński, Remigiusz Nowakowski and Arkadiusz Siwko as Supervisory Board Members.

#### FEBRUARY 2016

##### Changes in the Management Board of PKN ORLEN

On 8 February 2016, the Supervisory Board of PKN ORLEN, dismissed Mr. Marek Podstawa from the Management Board of PKN ORLEN and appointed Mr. Mirosław Kochalski to the position of the Vice-President of the Management Board of the Company and Mr. Zbigniew Leszczyński to the Management Board Member of the Company for a joint three-year term of the Management Board, which terminates on the date of the Ordinary General Meeting approving the financial statements for 2016.

#### MAY 2016

##### Fitch Ratings affirmed long-term rating of PKN ORLEN

On 25 May 2016 Fitch Ratings affirmed the BBB- with stable perspective rating of PKN ORLEN.

#### JUNE 2016

##### New term of office of PKN ORLEN Supervisory Board

On 3 June 2016 the Ordinary General Meeting of Shareholders of PKN ORLEN S.A. appointed members of PKN ORLEN Supervisory Board for a new term of office as follows:

- Ms. Angelina Anna Sarota to the position of Chairman of the Company's Supervisory Board,
- Mr. Mateusz Mariusz Bochacik,
- Mr. Adrian Dworzyński,
- Mr. Artur Gabor,
- Ms. Agnieszka Krzętowska,
- Mr. Radosław Leszek Kwaśnicki,
- Mr. Remigiusz Nowakowski,
- Mr. Wiesław Tomasz Protasewicz.

##### Eurobonds issue within the ORLEN Group

Detailed information is presented in notes 3.14. and 3.13. to the half-year condensed consolidated and separate financial statements, respectively and in note C.7.3.

**JULY 2016**
**Building of power plant in Włocławek**

PKN ORLEN concluded with the consortium of companies (General Electric International Inc. acting via General Electric International S.A., office in Poland and SNC-LAVALIN POLSKA sp. z o.o.) an annex to the agreement for building power plant in Włocławek, which defines further steps related to defects detected during commissioning of the Power plant. According to the arrangements the Power plant will be in hot commissioning till the mid-September 2016 and next the shutdown to conduct the repairs, repeated guarantee measurements and trial run. Start of commercial operation of the Power plant is expected for the 1<sup>st</sup> quarter of 2017.

**3.3. Significant risk factors influencing current and future financial results**

The ORLEN Group within its operations monitors and assesses risks and undertakes activities in order to minimise their impact on the financial situation on the ongoing basis.

The ORLEN Group applies a consistent set of rules for managing the financial risks 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 risks: 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 the year 2015 in note 8.4.5 and in point 2.8 of the Management Board Report on the Operations of the Group for the year 2015.

The ORLEN Group is also exposed to a number of specific risks for the companies in the petroleum sector – the detailed information was presented in point 2.8.2 of the Management Board Report on the Operations of the Group for the year 2015.

<http://www.orlen.pl/EN/InvestorRelations/FinancialData/Pages/FinancialResults.aspx>

**3.4. Hedge accounting**

As a part of its hedging strategies, the ORLEN Group hedges its cash flows from sales of the Group's products and purchase of crude oil, periodic variations in stocks of operating, interest payments related to external financing of implemented investment projects.

The cash flows hedging strategies in the ORLEN Group are identical to those described in the Consolidated Financial Statements for the year 2015 in note 8.4.4.

<http://www.orlen.pl/EN/InvestorRelations/FinancialData/Pages/FinancialResults.aspx>

**4. Forecasted development of the ORLEN Group**

In the 1<sup>st</sup> half of 2016 ORLEN Group consistently pursued the strategic objectives, which allowed to achieve very good financial and operating results. The development of the ORLEN Group are still consistent with the Strategy for 2014-2017 adopted on 22 July 2014 and are based on 3 basic pillars: value growth, financial strength and people.

The Strategy of the ORLEN Group assumes the implementation of development projects in the most prospective areas based on the integrated value chain, under safe financial ratios, based on modern management culture, which will result in the regular increase of the level of paid dividends.

A detailed description of the ORLEN Group strategy in particular areas and the main parameters of financial operations are included in Chapter 1 Management Board Report on the operations for the year ended 31 December 2015.

<http://www.orlen.pl/EN/InvestorRelations/FinancialData/Pages/FinancialResults.aspx>

**5. Related party transactions**

As at 30 June 2016 and as at 31 December 2015 and in the 6 and 3 month period ended 30 June 2016 and 30 June 2015 there were no material transactions of related parties with:

- members of the Management Board and the Supervisory Board of the Parent Company and their relatives,
- key executive personnel of the Parent Company and ORLEN Group companies.

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

	Sales				Purchases			
	6 MONTHS ENDED 30/06/2016	3 MONTHS ENDED 30/06/2016	6 MONTHS ENDED 30/06/2015	3 MONTHS ENDED 30/06/2015	6 MONTHS ENDED 30/06/2016	3 MONTHS ENDED 30/06/2016	6 MONTHS ENDED 30/06/2015	3 MONTHS ENDED 30/06/2015
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Jointly-controlled entities	1 248	638	1 583	863	(22)	(10)	(179)	(68)
<i>joint ventures</i>	1 243	638	1 459	808	(19)	(10)	(18)	(9)
<i>joint operations</i>	5	-	124	55	(3)	-	(161)	(59)
Associates	19	11	27	14	(4)	(1)	(10)	(2)
	<b>1 267</b>	<b>649</b>	<b>1 610</b>	<b>877</b>	<b>(26)</b>	<b>(11)</b>	<b>(189)</b>	<b>(70)</b>

	Trade and other receivables		Trade and other liabilities	
	30/06/2016 (unaudited)	31/12/2015	30/06/2016 (unaudited)	31/12/2015
Jointly-controlled entities	505	509	6	5
<i>joint ventures</i>	505	508	6	4
<i>joint operations</i>	-	1	-	1
Associates	17	17	-	8
	<b>522</b>	<b>526</b>	<b>6</b>	<b>13</b>

The above transactions with related parties include mainly sales and purchases of refinery and petrochemicals products, sales and purchases of services.

In the 6 and 3 month period ended 30 June 2016 and 30 June 2015 there were no related parties transactions within the Group concluded on other than an arm's length basis.

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

### **6.1. Proceedings in which the ORLEN Group entities act are the defendant**

#### **6.1.1. Proceedings with the total value exceeding 10% of the Issuer's equity**

##### **6.1.1.1. Risk connected with the disposal of assets and liabilities related to purchase of Unipetrol shares**

The claim regarding the payment of compensation for losses related among others, to alleged unfair competition of PKN ORLEN included in Agrofert Holding a.s.' (Agrofert) claim and alleged illegal violation of reputation of Agrofert in relation to purchase by PKN ORLEN of UNIPETROL shares. By judgment of 21 October 2010 the Court of Arbitration in Prague ("the Court of Arbitration") dismissed the entire claim of Agrofert against PKN ORLEN regarding the payment of PLN 3,184 million translated using the exchange rate as at 30 June 2016 (representing CZK 19,464 million) with interest and obliged Agrofert to cover the cost of proceedings born by PKN ORLEN. On 3 October 2011 PKN ORLEN received from the upper court in Prague (Czech Republic) Agrofert's claim which repealed the above judgment. The complaint was dismissed by the upper court in Prague with the ruling of 24 January 2014. On 7 April 2014 Agrofert appealed the above decision. On 7 April 2015 the court of appeals dismissed the appeal of the Agrofert and therefore confirms the earlier judgment of the court of 24 January 2014 dismissing Agrofert's claim which overruled the sentence of the Court of Arbitration. On 4 September 2015 Agrofert appealed to the Supreme Court against the above judgment. The appeal proceedings are pending.

In the opinion of PKN ORLEN, the decision included in the judgment of the Court of Arbitration dated 21 October 2010, in the judgment of the upper court in Prague dated 24 January 2014 and in the judgment of the court of appeals dated 7 April 2015 are correct and the company will take all necessary legal measures to retain the judgment in force.

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

##### **6.1.2.1. Tax proceedings in ORLEN Południe S.A. (previously Rafineria Trzebinia S.A.)**

On 14 May 2014 and 20 May 2014 the company received the decisions of the Head of the Customs Office in Kraków determining excise tax liabilities for the months: May - August 2004 in the amount of PLN 132 million. Rafineria Trzebinia S.A. paid the entire liability with interest using at the same time, provisions recognized for this purpose in prior years. Rafineria Trzebinia S.A. appealed to the Voivodship Administrative Court ("VAC") in Kraków against the above decisions. On 26 February 2015 the VAC in Kraków announced a judgment dismissing the company's claims. On 5 May 2015 the company submitted to the Supreme Administrative Court ("SAC") in Warsaw annulment claims against the judgement of the VAC, that were not recognized until the date of approval of the foregoing financial statements.

In view of the issue by the European Court of Justice in Luxembourg judgement in a similar case the company has submitted applications for renewal of administrative proceedings. Director of the Customs Chamber in Kraków by a decision issued on 23 July 2015 refused to reopen the proceedings due to the ongoing proceedings before the SAC in the cases final decisions for May - August. The company filed an appeal regarding to the decisions of the Director of the Customs Chamber in Kraków refusing to reopen the proceedings, which were dismissed.

The company filed complaints against above decisions on 16 November 2015, which the VAC in Kraków dismissed on 11 February 2016. On 28 April 2016 the company submitted to the SAC annulment claims against the above described proceedings. These annulment claims were not recognized until the date of the approval of the foregoing financial statements.

##### **6.1.2.2. Power transfer fee in settlements with ENERGA-OPERATOR S.A. (legal successor of Zakład Energetyczny Plock S.A.)**

Court proceeding concerning the settlement of a disputed system fee of PKN ORLEN with ENERGA-OPERATOR S.A. for the period from 5 July 2001 to 30 June 2002. ENERGA-OPERATOR S.A. claims from PKN ORLEN payment of PLN 46 million plus statutory interest. The District Court in Warsaw (as the initial court) by its judgment from 27 October 2014 ordered PKN ORLEN to pay off to ENERGA-OPERATOR S.A. the claimed amount of PLN 46 million in its entirety, plus statutory interest from 30 June 2004 to the date of payment. PKN ORLEN filed an appeal against above judgment. On 19 April 2016 the Court of Appeal dismissed the claim of ENERGA-OPERATOR S.A. in the amount of approximately PLN 30 million and in the remaining part i.e. in the amount of PLN 16 million (plus statutory interest) took into account claims of ENERGA-OPERATOR S.A. Adjudged payments with interest was paid by PKN ORLEN to ENERGA-OPERATOR S.A. The judgement was announced orally by the Court of Appeal and parties have the right to submit an annulment against it. After receiving the written judgment with justification PKN ORLEN will take a decision on the possibility of submitting an annulment.

On 29 June 2015 PKN ORLEN received consecutive claim on this case, in which ENERGA-OPERATOR S.A. requests approximately PLN 13 million in addition. The case is pending in the District Court in Łódź. On 10 July 2015 a response to the lawsuit was filed, which questioned the claim as unfounded. On 22 December 2015 the District Court in Łódź issued a judgement, which overruled the request of ENERGA-OPERATOR S.A. concerning order to pay by PKN ORLEN of approximately PLN 13 million and adjudged the return of proceeding's expenses by ENERGA-OPERATOR S.A. to PKN ORLEN. On 29 January 2016 ENERGA-OPERATOR S.A. appealed against the above judgment of the Appeal Court in Łódź. PKN ORLEN responded to the appeal. The parties await fixing the date of the hearing.

##### **6.1.2.3. I.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 293 million, translated using the exchange rate as at 30 June 2016 (representing CZK 1,789 million). UNIPETROL RPA s.r.o. is one of 8 defendants which the claim was brought against. According to UNIPETROL RPA s.r.o. the claim is without merit. The parties expect the further steps in the proceedings.

**6.1.2.4. Claim of OBR S.A. for compensation**

On 5 September 2014, the company OBR S.A. filed 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 technique of the separation of hydrodesulfurization products of heavy residue after extractive distillation of crude oil'. The amount of the claim in the lawsuit has been estimated by the OBR S.A. of approximately PLN 83 million. The claim covers the adjudged sum of money from PKN ORLEN for the OBR S.A. in the amount corresponding to the market value of the license fee for the use of the solution under the above patent and adjudge the obligation to repay the benefits derived from the use of this solution. On 16 October 2014, PKN ORLEN responded 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 PLN 247 million. By the court order from 21 May 2015 the parties were directed to mediation. Mediation proceedings were completed. The case referred to the District Court in Łódź. The court fixed the next date of hearing on 31 August of 2016. In the opinion of PKN ORLEN the claim of patent infringement is without merit.

**6.2. Court proceedings in which entities of the ORLEN Group act as a plaintiff****6.2.1. Compensation due to damages suffered by ORLEN Południe S.A (previously Rafineria Trzebinia S.A.)**

ORLEN Południe S.A. acts as an auxiliary prosecutor in proceedings started in 2010 concerning abuses associated with the realization of an investment - installation for the esterification of biodiesel oils, in which Rafineria Trzebinia S.A. claims to have incurred a loss of approximately PLN 79 million. The company filed a motion requesting to oblige the defendants to compensate the incurred damages. Criminal proceedings concerning the accused who acted against the company's interest are ongoing. Further hearings, during which one of the accused filed an explanations, were held. The next hearing is scheduled on 31 August 2016.

**6.2.2. Proceeding of ORLEN Lietuva for compensation in respect of an accident at the Terminal in Butingė**

AB ORLEN Lietuva is a plaintiff in a court proceeding against RESORT MARITIME S.A., The London Steamship Owners' Mutual Insurance Association Limited, Sigma Tankers Inc., Cardiff Maritime Inc., Heidenreich Marine, Heidenreich Maritime Inc. and Heidmar Inc. regarding compensation payment for damage caused by a collision of a tanker ship into a terminal buoy in Butingė Terminal on 29 December 2005. The proceedings were initiated in December 2006. The total compensation claim amounts to approximately PLN 76 million, translated using the exchange rate as at 30 June 2016 (representing approximately EUR 17.26 million). On October 2014 the parties agreed to change the jurisdiction to English courts. The company expect the further steps in the proceedings.

**6.2.3. Tax proceedings in UNIPETROL RPA**

UNIPETROL RPA s.r.o., acting as a legal successor of CHEMOPETROL a.s. acted in 2010 to the tax office for a refund of taxes paid for the year 2005 by CHEMOPETROL a.s.. The claim concerns unused investment relief attributable to CHEMOPETROL a.s. The value of the claim amounts to approximately PLN 53 million, translated using the exchange rate as at 30 June 2016 (representing approximately CZK 325 million). The case was examined several times by the tax authorities and courts in the course of instances of appeal. On 14 October 2015 the Czech supreme administrative court after recognizing the annulment claim of UNIPETROL RPA s.r.o overruled the judgment of the Court in Usti by the Elbe River of 25 February 2015 and decided to refer the case to the same Court for its reconsideration. A decision is expected to be announced by the Court in Usti by the Elbe River.

**6.2.4. Arbitration proceedings against Basell Europe Holdings B.V.**

On 20 December 2012 PKN ORLEN sent an arbitration request to Basell Europe Holdings B.V. regarding an ad hoc proceeding before the Court of Arbitration in London on compensation relating to Joint Venture Agreement signed in 2002 between PKN ORLEN and Basell Europe Holdings B.V. The claims follow from the use by Basell Sales & Marketing Company so-called *Cash Discounts* which effectively led to a lower product price payable to Basell ORLEN Polyolefins Sp. z o.o. On 27 February 2014 PKN ORLEN submitted its statement on this case, according to which, inter alia, it requests payments from Basell Europe Holdings B.V. to Basell ORLEN Polyolefins Sp. z o.o. in the amount of approximately PLN 133 million, translated using the exchange rate as at 30 June 2016 (representing approximately EUR 30 million) plus interest, or alternatively, from Basell Europe Holdings B.V. to PKN ORLEN the amount of approximately PLN 57 million, provided that the amounts may be adjusted during arbitration proceedings. On 12 May 2016, the Court of Arbitration sent to the parties a judgment in which dismissed all claims of PKN ORLEN and adjudged the return of proceeding's expenses to the Basell Europe Holdings BV. PKN ORLEN after analysis of the possibilities of appeal decided not to complain against an annulment of judgment, which ends the proceedings in the case.

**6.2.5. The dispute between ORLEN Lietuva and Lietuvos Geležinkeliai**

On 31 December 2014, ORLEN Lietuva filed a motion for arbitration against the company Lietuvos Geležinkeliai ("LG") in the court of arbitration in Vilnius. Currently in this proceeding ORLEN Lietuva calls for the conversion of tariffs for rail transport in line with the contract with LG. Consideration of the request of ORLEN Lietuva would lead to savings for the company in the amount estimated for December 2015 not less than PLN 168 million translated using the exchange rate as at 30 June 2016 (representing not less than EUR 38 million) due to an incorrect interpretation of the agreement on rail transport by LG by using of excessive rates. The amount of the claim will be updated in accordance with the activity on the base of the agreement.

Simultaneously, by 30 June 2016, six court proceedings were initiated in which LG demands from ORLEN Lietuva a payment of approximately PLN 136 million translated using the exchange rate as at 30 June 2016 (representing approximately EUR 30,8 million) from fees for rail transport. Three of the above described proceedings were combined and then the court decided that the combined case will not be considered by the state court since the priority of the arbitral tribunal which was confirmed by the court of appeal. Proceedings in the fourth case was suspended by the court until the court of arbitration decide on the claim of ORLEN Lietuva, while in the fifth proceeding the state court refused to open the case due to the jurisdiction of the court of arbitration. LG appealed against the above decisions of state courts and are in progress are proceeding on appeal. Proceedings of LG brought in the sixth case is at the early stage.

## 7. Other information

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

Shareholder	Percentage share in total voting rights at Shareholder's Meeting as at submission date			Number of shares as at submission date		
	foregoing half-year report**	change p.p.	previous quarterly report*	foregoing half-year report**	change	previous quarterly report*
State Treasury	27.52%	-	27.52%	117 710 196	-	117 710 196
Nationale Nederlanden OFE (ING OFE)*	9.30%	0.18%	9.12%	39 785 564	785 564	39 000 000
Aviva OFE*	7.31%	-0.03%	7.34%	31 257 000	(143 000)	31 400 000
Other	55.87%	-0.15%	56.02%	238 956 301	(642 564)	239 598 865
	<b>100.00%</b>		<b>100.00%</b>	<b>427 709 061</b>		<b>427 709 061</b>

\* According to the information from the Extraordinary General Shareholders' Meeting of PKN ORLEN of 29 January 2016

\*\*According to the information from the Ordinary General Shareholders' Meeting of PKN ORLEN of 3 June 2016

Percentage share in the share capital of the Parent Company of the above mentioned shareholders is equal to the percentage share in total votes at the General Shareholders' Meeting.

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

	Number of shares, as at the submission date of the foregoing half-year report*
<b>Supervisory Board</b>	<b>4 800</b>
Artur Gabor	3 200
Remigiusz Nowakowski	1 600

\* According to the received confirmations as at 14 July 2016

### 7.3. Information on loan sureties or guarantees of at least 10% of the Parent Company's equity granted by the Parent Company or its subsidiaries to one entity or its subsidiary

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

30/06/2016	Nominal value		Subscription date	Expiration date	Rating	Value of guarantee issued	
	EUR	PLN				EUR	PLN
Eurobonds	750	3 319	7.06.2016	7.06.2023	BBB-, Baa3	1 100	4 868
Eurobonds	500	2 213	30.06.2014	30.06.2021	BBB-, Baa3	1 000	4 426
	<b>1 250</b>	<b>5 532</b>				<b>2 100</b>	<b>9 294</b>

The bonds have a fixed interest rate of 2.5%.

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

The ORLEN Group did not publish forecasts of its results.

## 8. Information on applied corporate governance rules in the ORLEN Group

In 2016, PKN ORLEN complies with the „Code of Best Practice for WSE Listed Companies“ (‘‘Code of Best Practice’’) valid on the Warsaw Stock Exchange.

The Code of Best Practice can be found on the Warsaw Stock Exchange website [www.corp-gov.gpw.pl](http://www.corp-gov.gpw.pl) and on the corporate website of PKN ORLEN <http://www.orlen.pl/EN/InvestorRelations/ShareholderServicesTools/Pages/WSEBestPractice.aspx>.

In the 1<sup>st</sup> half of 2016 PKN ORLEN applied all the obligatory corporate governance rules contained in the ‘‘Code of Best Practice’’.

**9. Statements of the Management Board****9.1. In respect of the reliability of the half-year condensed consolidated and separate financial statements**

Under the Regulation, the Management Board of PKN ORLEN hereby declares that to the best of its knowledge the foregoing half-year condensed consolidated and separate financial statements and comparative data were prepared in compliance with the accounting principles applicable to the Group and the Company and present a true and fair view on financial position and financial result of the Group and the Company.

In addition, the Management Board of PKN ORLEN declares that the foregoing Management Board Report on the Operations of the Group for the 6 month period ended 30 June 2016 presents true overview of the development, achievements and business situation of the Group, including its basic exposures and risks.

**9.2. In respect of the entity authorized to conduct review of the half-year condensed consolidated and separate financial statements**

The Management Board of PKN ORLEN declares that KPMG Audyt Sp. z o.o., as the entity authorized to conduct a review of the half-year condensed consolidated and separate financial statements, was selected in compliance with the law.

The foregoing half-year report was approved by the Management Board of the Parent Company on 20 July 2016.

.....  
Wojciech Jasiński  
President of the Board

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

.....  
Mirosław Kochalski  
Vice-President of the Board

.....  
Piotr Chelmiński  
Member of the Board

.....  
Zbigniew Leszczyński  
Member of the Board

.....  
Krystian Pater  
Member of the Board

Signature of a person responsible for  
keeping accounting books

.....  
Rafał Warpechowski  
Executive Director  
Planning and Reporting