Polski Koncern Naftowy ORLEN
Spółka Akcyjna

ORLEN CAPITAL GROUP

CONSOLIDATED HALF-YEAR REPORT

FOR THE I HALF OF 2014

ORLEN GROUP - SELECTED DATA

	PLN million		EUR million	
	6 MONTHS 2014	6 MONTHS 2013	6 MONTHS 2014	6 MONTHS 2013
Sales revenues	52 770	55 671	12 629	13 324
Profit/(Loss) from operations	(4 563)	194	(1 092)	46
(Loss) before tax	(5 576)	(152)	(1 334)	(36)
Net (loss) attributable to equity owners of the parent	(5 133)	(58)	(1 228)	(14)
Net (loss)	(5 264)	(84)	(1 260)	(20)
Total comprehensive income attributable to equity owners of the parent	(4 652)	91	(1 113)	22
Total net comprehensive income	(4 739)	100	(1 134)	24
Net cash provided by operating activities	615	2 957	147	708
Net cash (used) in investing activities	(2 080)	(764)	(498)	(183)
Net cash provided by financing activities	4 067	191	974	46
Net increase in cash and cash equivalents	2 602	2 384	623	571
Net (loss) and diluted net (loss) per share attributable to equity owners of the parent (in PLN/EUR per share)	(12.00)	(0.14)	(2.87)	(0.03)

	30/06/2014	31/12/2013	30/06/2014	31/12/2013
Non-current assets	23 808	26 907	5 722	6 467
Current assets	26 799	24 445	6 441	5 875
Total assets	50 607	51 352	12 163	12 342
Non-current liabilities	11 734	7 846	2 821	1 886
Current liabilities	16 678	15 955	4 008	3 835
Total equity	22 195	27 551	5 334	6 621
Equity attributable to equity owners of the parent	20 703	25 948	4 976	6 236
Share capital	1 058	1 058	254	254
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)	48.40	60.67	11.63	14.58

PKN ORLEN - SELECTED DATA

	PLN million		EUR million	
	6 MONTHS 2014	6 MONTHS 2013	6 MONTHS 2014	6 MONTHS 2013
Sales revenues	38 604	40 914	9 239	9 792
Profit from operations	43	167	10	40
(Loss) before tax	(3 794)	(190)	(908)	(45)
Net (loss)	(3 783)	(33)	(905)	(8)
Total net comprehensive income	(3 977)	(97)	(952)	(23)
Net cash provided by operating activities	713	2 495	171	597
Net cash (used) in investing activities	(1 030)	(249)	(247)	(60)
Net cash provided by financing activities	822	367	197	88
Net increase in cash	505	2 613	121	625
Net (loss) and diluted net (loss) per share (in PLN/EUR per share)	(8.84)	(0.08)	(2.12)	(0.02)

	30/06/2014	31/12/2013	30/06/2014	31/12/2013
Non-current assets	20 547	23 355	4 938	5 613
Current assets	18 043	18 708	4 336	4 496
Total assets	38 590	42 063	9 274	10 109
Non-current liabilities	9 160	6 923	2 201	1 664
Current liabilities	10 888	12 005	2 617	2 885
Total equity	18 542	23 135	4 456	5 560
Share capital	1 058	1 058	254	254
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)	43.35	54.09	10.42	13.00

The above data for the I half of 2014 and 2013 was translated into EUR by the following exchange rates:

– items of statement of profit or loss and other comprehensive income and statement of cash flows - by the arithmetic average of average exchange rates published by the National Bank of Poland as of every last day of the month during the reporting period from: 1 January to 30 June 2014 – 4.1784 EUR/PLN;
– items of assets, equity and liabilities – by the average exchange rate published by the National Bank of Poland as at 30 June 2014 – 4.1609 EUR/PLN.

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FOR THE 6 AND 3 MONTHS PERIOD ENDED 30 JUNE 2014

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

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

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

Consolidated statement of profit or loss and other comprehensive income

	NOTE	6 MONTHS 2014 (unaudited)	II QUARTER 2014 (unaudited)	6 MONTHS 2013 (unaudited) (restated data)	II QUARTER 2013 (unaudited) (restated data)
Statement of profit or loss					
Sales revenues	3.1	52 770	28 651	55 671	28 221
Cost of sales	3.2	(49 984)	(27 163)	(52 902)	(27 068)
Gross profit on sales		**2 786**	**1 488**	**2 769**	**1 153**
Distribution expenses		(1 886)	(971)	(1 900)	(957)
Administrative expenses		(712)	(366)	(726)	(372)
Other operating income	3.5	432	129	246	173
Other operating expenses	3.5	(5 220)	(5 118)	(209)	(141)
Share in profit from investments accounted for under equity method		37	21	14	4
Profit/(Loss) from operations		**(4 563)**	**(4 817)**	**194**	**(140)**
Finance income	3.6	82	34	222	105
Finance costs	3.6	(1 095)	(947)	(568)	(230)
Net finance income and costs		**(1 013)**	**(913)**	**(346)**	**(125)**
(Loss) before tax		**(5 576)**	**(5 730)**	**(152)**	**(265)**
Tax expense	3.7	312	340	68	36
Net (loss)		**(5 264)**	**(5 390)**	**(84)**	**(229)**
Items of other comprehensive income:					
which will not be reclassified into profit or loss		**-**	**-**	**(9)**	**(2)**
Fair value measurement of investment property as at the date of reclassification		-	-	*(11)*	*(2)*
Deferred tax		-	-	*2*	-
which will be reclassified into profit or loss under certain conditions		**525**	**590**	**193**	**73**
Hedging instruments		*(225)*	*(125)*	*(86)*	*(109)*
Foreign exchange differences on subsidiaries from consolidation		*707*	*691*	*263*	*162*
Deferred tax		*43*	*24*	*16*	*20*
		525	**590**	**184**	**71**
Total net comprehensive income		**(4 739)**	**(4 800)**	**100**	**(158)**
Net (loss) attributable to		**(5 264)**	**(5 390)**	**(84)**	**(229)**
equity owners of the parent		*(5 133)*	*(5 197)*	*(58)*	*(207)*
non-controlling interest		*(131)*	*(193)*	*(26)*	*(22)*
Total net comprehensive income attributable to		**(4 739)**	**(4 800)**	**100**	**(158)**
equity owners of the parent		*(4 652)*	*(4 597)*	*91*	*(186)*
non-controlling interest		*(87)*	*(203)*	*9*	*28*
Net (loss) and diluted net (loss) per share attributable to equity owners of the parent (in PLN per share)		(12.00)	(12.15)	(0.14)	(0.48)

The accompanying notes disclosed on pages 8 – 20 are an integral part of the foregoing half-year condensed consolidated financial statements.

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

Consolidated statement of financial position

AS AT	NOTE	30/06/2014 (unaudited)	31/12/2013 (restated data)	01/01/2013 (unaudited) (restated data)
ASSETS				
Non-current assets				
Property, plant and equipment		22 021	24 904	24 331
Investment property		113	121	112
Intangible assets		615	823	1 296
Perpetual usufruct of land		88	95	94
Investments accounted for under equity method	3.8	652	615	594
Financial assets available for sale		41	40	41
Deferred tax assets		237	151	285
Other non-current assets		41	158	55
		23 808	**26 907**	**26 808**
Current assets				
Inventories		12 894	13 749	14 903
Trade and other receivables		8 362	7 768	7 996
Other financial assets	3.9	203	165	368
Current tax assets		32	59	84
Cash and cash equivalents		5 295	2 689	2 029
Non-current assets classified as held for sale		13	15	65
		26 799	**24 445**	**25 445**
Total assets		**50 607**	**51 352**	**52 253**
EQUITY AND LIABILITIES				
EQUITY				
Share capital		1 058	1 058	1 058
Share premium		1 227	1 227	1 227
Hedging reserve		(39)	148	(73)
Revaluation reserve		-	-	7
Foreign exchange differences on subsidiaries from consolidation		467	(201)	80
Retained earnings		17 990	23 716	24 180
Total equity attributable to equity owners of the parent		**20 703**	**25 948**	**26 479**
Non-controlling interest		**1 492**	**1 603**	**1 828**
Total equity		**22 195**	**27 551**	**28 307**
LIABILITIES				
Non-current liabilities				
Loans,borrowings and debt securities	3.10	10 123	6 507	7 523
Provisions	3.11	676	658	660
Deferred tax liabilities		458	538	668
Deferred income		9	10	15
Other non-current liabilities		468	133	169
		11 734	**7 846**	**9 035**
Current liabilities				
Trade and other liabilities		14 392	14 013	12 504
Loans,borrowings and debt securities	3.10	1 508	850	1 233
Current tax liabilities		19	36	83
Provisions	3.11	424	821	802
Deferred income		239	124	168
Other financial liabilities		96	110	121
Liabilities directly associated with assets classified as held for sale		-	1	-
		16 678	**15 955**	**14 911**
Total liabilities		**28 412**	**23 801**	**23 946**
Total equity and liabilities		**50 607**	**51 352**	**52 253**

The accompanying notes disclosed on pages 8 – 20 are an integral part of the foregoing half-year condensed consolidated financial statements.

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

Statement of changes in consolidated equity

	Equity attributable to equity owners of the parent							
	Share capital and share premium	Hedging reserve	Revaluation reserve	Foreign exchange differences on subsidiaries from consolidation	Retained earnings	Total	Non-controlling interest	Total equity
1 January 2014	2 285	148	-	(201)	23 716	25 948	1 603	27 551
Net (loss)	-	-	-	-	(5 133)	(5 133)	(131)	(5 264)
Net investment hedge in a foreign operation	-	-	-	657	-	657	-	657
Items of other comprehensive income	-	(187)	-	11	-	(176)	44	(132)
Total net comprehensive income	**-**	**(187)**	**-**	**668**	**(5 133)**	**(4 652)**	**(87)**	**(4 739)**
Change in the structure of non-controlling interest	-	-	-	-	23	23	(23)	-
Dividends	-	-	-	-	(616)	(616)	(1)	(617)
30 June 2014	**2 285**	**(39)**	**-**	**467**	**17 990**	**20 703**	**1 492**	**22 195**
(unaudited)								
1 January 2013	2 285	(73)	6	81	24 180	26 479	1 828	28 307
Net (loss)	-	-	-	-	(58)	(58)	(26)	(84)
Items of other comprehensive income	-	(68)	(5)	222	-	149	35	184
Total net comprehensive income	**-**	**(68)**	**(5)**	**222**	**(58)**	**91**	**9**	**100**
Change in the structure of non-controlling interest	-	-	-	-	-	-	(3)	(3)
Dividends	-	-	-	-	(642)	(642)	(1)	(643)
30 June 2013	**2 285**	**(141)**	**1**	**303**	**23 480**	**25 928**	**1 833**	**27 761**
(unaudited)								

The accompanying notes disclosed on pages 8 – 20 are an integral part of the foregoing half-year condensed consolidated financial statements.

(in PLN million)

Consolidated statement of cash flows

	6 MONTHS 2014 (unaudited)	II QUARTER 2014 (unaudited)	6 MONTHS 2013 (unaudited) (restated data)	II QUARTER 2013 (unaudited) (restated data)
Cash flows - operating activities				
Net (loss)	**(5 264)**	**(5 390)**	**(84)**	**(229)**
Adjustments for:				
Share in profit from investments accounted for under equity method	(37)	(21)	(14)	(4)
Depreciation and amortisation	1 046	524	1 043	520
Foreign exchange loss	792	796	128	72
Interest, net	129	77	142	78
Dividends	(2)	(2)	(2)	(2)
(Profit)/Loss on investing activities	5 007	4 971	(91)	(48)
Tax expense	(312)	(340)	(68)	(36)
Change in provisions	(47)	(110)	215	159
Change in working capital	(350)	3 615	1 796	3 807
inventories	*849*	*3 253*	*1 196*	*2 720*
receivables	*(957)*	*(177)*	*(521)*	*29*
liabilities	*(242)*	*539*	*1 121*	*1 058*
Other adjustments	(286)	(61)	(85)	(7)
Income tax (paid)	(61)	(4)	(23)	(21)
Net cash provided by operating activities	**615**	**4 055**	**2 957**	**4 289**
Cash flows - investing activities				
Acquisition of property, plant and equipment, intangible assets and perpetual usufruct of land	(1 704)	(943)	(984)	(460)
Disposal of property, plant and equipment, intangible assets and perpetual usufruct of land	341	321	118	27
Acquisition of shares	(745)	(683)	(2)	(2)
Disposal of shares	46	46	-	-
Deposits, net	1	(2)	17	5
Dividends received	2	2	2	2
Proceeds/(Outflows) from loans granted	3	1	33	(241)
Other	(24)	(6)	52	33
Net cash (used) in investing activities	**(2 080)**	**(1 264)**	**(764)**	**(636)**
Cash flows - financing activities				
Proceeds from loans and borrowings received	8 366	4 965	3 038	44
Debt securities issued	2 350	2 350	400	400
Repayments of loans and borrowings	(6 495)	(5 486)	(3 089)	(761)
Interest paid	(136)	(76)	(140)	(60)
Payments of liabilities under finance lease agreements	(16)	(8)	(14)	(7)
Other	(2)	(2)	(4)	(1)
Net cash provided by/(used in) financing activities	**4 067**	**1 743**	**191**	**(385)**
Net increase in cash and cash equivalents	**2 602**	**4 534**	**2 384**	**3 268**
Effect of exchange rate changes	4	3	1	1
Cash and cash equivalents, beginning of the period	2 689	758	2 029	1 145
Cash and cash equivalents, end of the period	**5 295**	**5 295**	**4 414**	**4 414**

The accompanying notes disclosed on pages 8 – 20 are an integral part of the foregoing 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 (Official Journal no. 33, item 259 with further amendments) ("Regulation") and present the Polski Koncern Naftowy ORLEN S.A. Capital Group's ("Group", "ORLEN Group") financial position as at 30 June 2014 and 31 December 2013 as well as at 1 January 2013, financial results and cash flows for the period of 6 and 3 months ended 30 June 2014 and 30 June 2013.

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 these 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.

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. Statement of the Management Board

1.2.1. In respect of the reliability of half-year condensed consolidated financial statements

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

1.2.2. In respect of the entity authorized to conduct review of half-year condensed consolidated financial statements

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

1.2.3. Applied accounting principles and IFRS amendments

These foregoing half-year condensed consolidated financial statements were prepared according to principles described in the Consolidated Financial Statements for the year 2013 in note 3 with new standards taken into consideration, which became effective on 1 January 2014 and are significant for the preparation of these consolidated financial statements: IFRS 10 – Consolidated Financial Statements, IFRS 11 – Joint Arrangements, IFRS 12 – Disclosure of Interest in Other Entities as well as changes in standards: IAS 27 Separate Financial Statements and IAS 28 – Investments in Associates and Joint Ventures, which are a result of IFRS 10 and IFRS 11 implementation.

In these foregoing half-year condensed consolidated 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 4 in the Consolidated Financial Statements for the year 2013.

According to IFRS 10 the Group performed evaluation of control over entities in which it invested – analyses performed did not change conclusions as to the Group's control over entities. Adopting new IFRS 12 standard by the Group from January 2014 will result in further disclosures required for investments in other entities, which will be presented in Consolidated Financial Statements for the year 2014.
Adopting the above new standards had no impact on consolidated financial results of the Group.

Starting from the I quarter of 2014, joint arrangements for Basell Orlen Polyolefines Sp. z o.o. Capital Group (BOP) and Płocki Park Przemysłowo-Technologiczny S.A. Capital Group (PPPT) in accordance to new IFRS 11 are accounted for under the equity method instead of proportionate consolidation method applied previously. As a result of change in consolidation method items of statement of financial position and statement of profit or loss and other comprehensive income are presented as investments accounted for under equity method and share in profit from investments accounted for under equity method. Due to consolidation method change restatements of comparative data for the 6 and 3 months period ended 30 June 2013 as well as at 31 December 2013 and as at 1 January 2013 were made. Implementation of the new IFRS 11 had no effect on the consolidated net result of the Group in the above presented periods.
In accordance with IFRS 11 entities belonging to Unipetrol Group – Ceska Rafinerska and Butadien Kralupy were classified as a joint operations and as at 30 June 2014 are accounted based on the share in owned assets, liabilities, generated revenue and incurred costs. Implementation of IFRS 11 in relation to the above entities had no impact on the consolidated financial result of the Group.

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

Impact of new IFRS 11 Standard – Joint arrangements – on presented financial data of the ORLEN Group

	published data 6 MONTHS 2013	impact of new standard IFRS 11	data after application of IFRS 11 6 MONTHS 2013
Statement of profit or loss			
Sales revenues	55 783	(112)	55 671
Cost of sales	(52 958)	56	(52 902)
Gross profit on sales	**2 825**	**(56)**	**2 769**
Distribution expenses	(1 926)	26	(1 900)
Administrative expenses	(732)	6	(726)
Other operating income	246	-	246
Other operating expenses	(209)	-	(209)
Share in profit from investments accounted for under equity method	-	14	14
Profit from operations	**204**	**(10)**	**194**
Finance income	243	(21)	222
Finance costs	(595)	27	(568)
Net finance income and costs	**(352)**	**6**	**(346)**
(Loss) before tax	**(148)**	**(4)**	**(152)**
Tax expense	64	4	68
Net (loss)	**(84)**	**-**	**(84)**

	published data II QUARTER 2013	impact of new standard IFRS 11	data after application of IFRS 11 II QUARTER 2013
Statement of profit or loss			
Sales revenues	28 311	(90)	28 221
Cost of sales	(27 137)	69	(27 068)
Gross profit on sales	**1 174**	**(21)**	**1 153**
Distribution expenses	(970)	13	(957)
Administrative expenses	(373)	1	(372)
Other operating income	173	-	173
Other operating expenses	(141)	-	(141)
Share in profit from investments accounted for under equity method	-	4	4
(Loss) from operations	**(137)**	**(3)**	**(140)**
Finance income	117	(12)	105
Finance costs	(244)	14	(230)
Net finance income and costs	**(127)**	**2**	**(125)**
(Loss) before tax	**(264)**	**(1)**	**(265)**
Tax expense	35	1	36
Net (loss)	**(229)**	**-**	**(229)**

	published data 31/12/2013	impact of new standard IFRS 11	data after application of IFRS 11 31/12/2013
Non-current assets	26 835	72	26 907
Investments accounted for under equity method	*12*	*603*	*615*
Current assets	24 809	(364)	24 445
Total assets	**51 644**	**(292)**	**51 352**
Total equity	27 551	-	27 551
Non-current liabilities	7 943	(97)	7 846
Current liabilities	16 150	(195)	15 955
Total equity and liabilities	**51 644**	**(292)**	**51 352**

Starting from the I quarter of 2014 in the consolidated financial statements "Share in profit from investments accounted for under equity method" is presented within operating activities, as the activity of those entities is connected to the core business of ORLEN Group. As a result, comparative data for the 6 and 3 months period ended 30 June 2013 as well as at 31 December 2013 and as at 1 January 2013 were restated.

Starting from the III quarter of 2013 in the consolidated financial statements foreign exchange gains and losses are presented net in finance income or costs. For the 6 and 3 months period ended 30 June 2013 the Group compensated positive exchange differences with negative ones of PLN 13 million and PLN 5 million respectively.
During the I half of 2014 the ORLEN Group implemented changes of operating activities management in order to improve their effectiveness and integration. The organizational structure was adjusted by changes of competences of the particular Management Board members. As a result of above presentation of the ORLEN Group's operating segments was updated including merger of refining and petrochemical segment into integrated operating segment: Downstream.
As a consequence, the segments' comparative data were adjusted for the 6 and 3 months of 2013 as well as at 31 December 2013. Detailed information is presented in note 2.

In Management's view this change provides better presentation of the results and the financial statements.

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 Entity and presentation currency of the foregoing half-year condensed consolidated financial statements is 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

Financial statements of foreign entities, for consolidation purposes, are translated into PLN using the following methods:
- particular assets and liabilities – at spot exchange rate as at the end of the reporting period,
- respective items of statement of profit or loss and other comprehensive income and statement of cash flows are translated at the average rate.

Foreign exchange differences resulting from the above recalculations are recognized in the 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 2014	II QUARTER 2014	6 MONTHS 2013	II QUARTER 2013	30/06/2014	30/06/2013
EUR/PLN	4.1762	4.1667	4.1777	4.1998	4.1609	4.3292
USD/PLN	3.0467	3.0382	3.1812	3.2153	3.0473	3.3175
CZK/PLN	0.1522	0.1518	0.1626	0.1626	0.1515	0.1669
CAD/PLN	2.7774	2.7862	-	-	2.8519	-

In the first three quarters of 2013 no foreign entities preparing financial statements denominated in Canadian Dollars ("CAD") were consolidated.

1.4. Information concerning 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 ORLEN Group's activities are allocated to:
- the downstream segment, which includes integrated refinery, petrochemical and energy production activity,
- the retail segment, which includes sales at petrol stations,
- upstream segment, which includes the activity related to exploration and extraction of mineral resources

and corporate functions which are reconciling items and include activities related to management and administration and other support functions as well as remaining activities not allocated to separate operating segments.
The allocation of the ORLEN Group's companies to operating segments and corporate functions is presented in the Management Board Report on Operations of the Capital Group in note C2.

Revenues, expenses and financial result by operating segments

for 6 months ended 30 June 2014

	NOTE	Downstream Segment (unaudited)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
Sales revenues from external customers		35 011	17 592	123	44	-	52 770
Sales revenues from transactions with other segments		7 586	90	-	114	(7 790)	-
Sales revenues	*3.1*	42 597	17 682	123	158	(7 790)	52 770
Operating expenses		(42 485)	(17 275)	(105)	(507)	7 790	(52 582)
Other operating income	*3.5*	300	64	3	65	-	432
Other operating expenses	*3.5*	(5 113)	(55)	(8)	(44)	-	(5 220)
Share in profit from investments accounted for under equity method		37	-	-	-	-	37
Segment profit/(loss) from operations		**(4 664)**	**416**	**13**	**(328)**	**-**	**(4 563)**
Net finance income and costs	*3.6*						(1 013)
(Loss) before tax							**(5 576)**
Tax expense	*3.7*						312
Net (loss)							**(5 264)**

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

for 3 months ended 30 June 2014

	NOTE	Downstream Segment (unaudited) (restated data)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited) (restated data)	Adjustments (unaudited) (restated data)	Total (unaudited) (restated data)
Sales revenues from external customers		19 293	9 272	68	18	-	28 651
Sales revenues from transactions with other segments		4 031	48	-	59	(4 138)	-
Sales revenues	3.1	23 324	9 320	68	77	(4 138)	28 651
Operating expenses		(23 267)	(9 046)	(62)	(263)	4 138	(28 500)
Other operating income	3.5	45	29	-	55	-	129
Other operating expenses	3.5	(5 043)	(31)	(7)	(37)	-	(5 118)
Share in profit from investments accounted for under equity method		21	-	-	-	-	21
Segment profit/(loss) from operations		**(4 920)**	**272**	**(1)**	**(168)**	**-**	**(4 817)**
Net finance income and costs	3.6						(913)
(Loss) before tax							**(5 730)**
Tax expense	3.7						340
Net (loss)							**(5 390)**

for 6 months ended 30 June 2013

	NOTE	Downstream Segment (unaudited) (restated data)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited) (restated data)	Adjustments (unaudited) (restated data)	Total (unaudited) (restated data)
Sales revenues from external customers		38 195	17 440	1	35	-	55 671
Sales revenues from transactions with other segments		7 525	76	-	122	(7 723)	-
Sales revenues	3.1	45 720	17 516	1	157	(7 723)	55 671
Operating expenses		(45 518)	(17 197)	(11)	(525)	7 723	(55 528)
Other operating income	3.5	96	57	-	93	-	246
Other operating expenses	3.5	(85)	(57)	-	(67)	-	(209)
Share in profit from investments accounted for under equity method		14	-	-	-	-	14
Segment profit/(loss) from operations		**227**	**319**	**(10)**	**(342)**	**-**	**194**
Net finance income and costs	3.6						(346)
(Loss) before tax							**(152)**
Tax expense	3.7						68
Net (loss)							**(84)**

for 3 months ended 30 June 2013

	NOTE	Downstream Segment (unaudited) (restated data)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited) (restated data)	Adjustments (unaudited) (restated data)	Total (unaudited) (restated data)
Sales revenues from external customers		18 931	9 273	1	16	-	28 221
Sales revenues from transactions with other segments		3 939	41	-	65	(4 045)	-
Sales revenues	3.1	22 870	9 314	1	81	(4 045)	28 221
Operating expenses		(23 128)	(9 032)	(5)	(277)	4 045	(28 397)
Other operating income	3.5	53	42	-	78	-	173
Other operating expenses	3.5	(43)	(42)	-	(56)	-	(141)
Share in profit from investments accounted for under equity method		4	-	-	-	-	4
Segment profit/(loss) from operations		**(244)**	**282**	**(4)**	**(174)**	**-**	**(140)**
Net finance income and costs	3.6						(125)
(Loss) before tax							**(265)**
Tax expense	3.7						36
Net (loss)							**(229)**

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

Assets by operating segments

	30/06/2014 (unaudited)	31/12/2013 (restated data)
Downstream Segment	35 713	40 348
Retail Segment	6 022	5 990
Upstream Segment	2 348	1 375
Segment assets	**44 083**	**47 713**
Corporate Functions	6 828	3 888
Adjustments	(304)	(249)
	50 607	**51 352**

for 6 months ended 30 June 2013 – published data for the I half of 2013

	Refining Segment (unaudited)	Petrochemical Segment (unaudited)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
Sales revenues from external customers	30 210	8 098	17 440	1	33	-	55 782
Sales revenues from transactions with other segments	13 014	1 723	76	-	123	(14 936)	-
Sales revenues	43 224	9 821	17 516	1	156	(14 936)	55 782
Operating expenses	(43 817)	(9 001)	(17 197)	(11)	(526)	14 936	(55 616)
Other operating income	42	54	57	-	93	-	246
Other operating expenses	(45)	(40)	(57)	-	(67)	-	(209)
Segment profit/(loss) from operations	**(596)**	**834**	**319**	**(10)**	**(344)**	**-**	**203**
Net finance income and costs							(351)
(Loss) before tax							**(148)**
Tax expense							64
Net (loss)							**(84)**

for 3 months ended 30 June 2013 – published data for the I half of 2013

	Refining Segment (unaudited)	Petrochemical Segment (unaudited)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
Sales revenues from external customers	15 166	3 857	9 273	1	14	-	28 311
Sales revenues from transactions with other segments	6 521	847	41	-	66	(7 475)	-
Sales revenues	21 687	4 704	9 314	1	80	(7 475)	28 311
Operating expenses	(22 253)	(4 389)	(9 032)	(5)	(278)	7 475	(28 482)
Other operating income	12	43	42	-	78	-	175
Other operating expenses	(8)	(35)	(42)	-	(56)	-	(141)
Segment profit/(loss) from operations	**(562)**	**323**	**282**	**(4)**	**(176)**	**-**	**(137)**
Net finance income and costs							(127)
(Loss) before tax							**(264)**
Tax expense							35
Net (loss)							**(229)**

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

Impact of new IFRS11 Standard – Joint arrangements – on presented segment data in the I half of 2013

for 6 months ended 30 June 2013

	Downstream Segment (unaudited)	Refining Segment (unaudited)	Petrochemical Segment (unaudited)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
Sales revenues from external customers	38 195	(30 210)	(8 098)	-	-	2	-	(111)
Sales revenues from transactions with other segments	7 525	(13 014)	(1 723)	-	-	(1)	7 213	-
Sales revenues	45 720	(43 224)	(9 821)	-	-	1	7 213	(111)
Operating expenses	(45 518)	43 817	9 001	-	-	1	(7 213)	88
Other operating income	96	(42)	(54)	-	-	-	-	-
Other operating expenses	(85)	45	40	-	-	-	-	-
Share in profit from investments accounted for under equity method	14	-	-	-	-	-	-	14
Segment profit/(loss) from operations	**227**	**596**	**(834)**	**-**	**-**	**2**	**-**	**(9)**
Net finance income and costs								5
(Loss) before tax								**(4)**
Tax expense								4
Net (loss)								**-**

for 3 months ended 30 June 2013

	Downstream Segment (unaudited)	Refining Segment (unaudited)	Petrochemical Segment (unaudited)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
Sales revenues from external customers	18 931	(15 166)	(3 857)	-	-	2	-	(90)
Sales revenues from transactions with other segments	3 939	(6 521)	(847)	-	-	(1)	3 430	-
Sales revenues	22 870	(21 687)	(4 704)	-	-	1	3 430	(90)
Operating expenses	(23 128)	22 253	4 389	-	-	1	(3 430)	85
Other operating income	53	(12)	(43)	-	-	-	-	(2)
Other operating expenses	(43)	8	35	-	-	-	-	-
Share in profit from investments accounted for under equity method	4	-	-	-	-	-	-	4
Segment profit/(loss) from operations	**(244)**	**562**	**(323)**	**-**	**-**	**2**	**-**	**(3)**
Net finance income and costs								2
(Loss) before tax								**(1)**
Tax expense								1
Net (loss)								**-**

	published data 31/12/2013	impact of change in segment division and new standard IFRS 11	data after changing segment division and new standard IFRS 11 31/12/2013
Refining Segment	28 229	(28 229)	-
Petrochemical Segment	12 024	(12 024)	-
Downstream Segment	-	40 348	40 348
Retail Segment	5 990	-	5 990
Upstream Segment	1 375	-	1 375
Segment assets	**47 618**	**95**	**47 713**
Corporate Functions	4 286	(398)	3 888
Adjustments	(260)	11	(249)
	51 644	**(292)**	**51 352**

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

3. Other notes

3.1. Sales revenues

	6 MONTHS 2014 (unaudited)	II QUARTER 2014 (unaudited)	6 MONTHS 2013 (unaudited) (restated data)	II QUARTER 2013 (unaudited) (restated data)
Revenues from sales of finished goods and services, net	38 795	20 071	43 541	21 240
Revenues from sales of merchandise and raw materials, net	13 975	8 580	12 130	6 981
	52 770	**28 651**	**55 671**	**28 221**

3.2. Operating expenses

Cost of sales

	6 MONTHS 2014 (unaudited)	II QUARTER 2014 (unaudited)	6 MONTHS 2013 (unaudited) (restated data)	II QUARTER 2013 (unaudited) (restated data)
Cost of finished goods and services sold	(36 563)	(18 851)	(41 275)	(20 336)
Cost of merchandise and raw materials sold	(13 421)	(8 312)	(11 627)	(6 732)
	(49 984)	**(27 163)**	**(52 902)**	**(27 068)**

Costs by nature

	6 MONTHS 2014 (unaudited)	II QUARTER 2014 (unaudited)	6 MONTHS 2013 (unaudited) (restated data)	II QUARTER 2013 (unaudited) (restated data)
Materials and energy	(34 678)	(17 698)	(39 137)	(18 750)
Cost of merchandise and raw materials sold	(13 421)	(8 312)	(11 627)	(6 732)
External services	(1 961)	(1 000)	(2 031)	(1 013)
Employee benefits	(1 047)	(520)	(1 074)	(549)
Depreciation and amortisation	(1 046)	(524)	(1 043)	(520)
Taxes and charges	(320)	(159)	(314)	(169)
Other	(5 434)	(5 243)	(406)	(254)
	(57 907)	**(33 456)**	**(55 632)**	**(27 987)**
Change in inventories	16	(228)	(203)	(587)
Cost of products and services for own use	89	66	98	36
Operating expenses	**(57 802)**	**(33 618)**	**(55 737)**	**(28 538)**
Distribution expenses	1 886	971	1 900	957
Administrative expenses	712	366	726	372
Other operating expenses	5 220	5 118	209	141
Cost of sales	**(49 984)**	**(27 163)**	**(52 902)**	**(27 068)**

3.3. Inventories written down to net realizable value

	6 MONTHS 2014 (unaudited)	II QUARTER 2014 (unaudited)	6 MONTHS 2013 (unaudited) (restated data)	II QUARTER 2013 (unaudited) (restated data)
Increase	(54)	(31)	(150)	51
Decrease	112	92	166	(38)

3.4. Impairment allowances of assets

	6 MONTHS 2014 (unaudited)	II QUARTER 2014 (unaudited)	6 MONTHS 2013 (unaudited) (restated data)	II QUARTER 2013 (unaudited) (restated data)
Property, plant and equipment				
Recognition	(5 014)	(4 996)	(45)	(43)
Reversal	21	18	32	29
Intangible assets				
Recognition	(28)	(28)	(7)	(6)
Reversal	4	4	1	1
Receivables				
Recognition	(19)	(8)	(33)	(17)
Reversal	24	11	22	7

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

3.4.1. Impairment allowances of non-current assets

Main indicators for performing impairment tests of assets within the ORLEN Group in the I half related mainly to worsening current macroeconomic situation and lack of prospects for its improvement, especially noticeable in refining activities. Limited fuel consumption due to lasting economic crisis, excess of global capacity increasing products' supply and growing pressure on margins resulting from shale gas revolution in America and economic changes in Russia have led to an update of assumptions of Group's Strategy and Mid-term Plan for years 2014-2017 including optimization of assets potential, an update of investment program.

During development of assumptions to impairment tests, in accordance with IAS 36 – impairment of assets, the possibility of estimation of the fair value and value in use of individual assets of ORLEN Group was considered. The measurement of fair value less cost of disposal is not possible because there is no basis for making a reliable estimate of the price, at which an orderly transaction to sell the asset owned by the Group. The current market capitalization does not reflect the fair value as a value is dependent on fluctuations in the stock market, which in the case of the global crisis is characterized by high volatility. As a result, it was assumed that the best estimate of the recoverable amount of particular Group's assets is its value in use, according to IAS 36.20

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

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

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

Cost of equity is determined by the profitability of the government bonds that are considered to be risk-free, with the level of market and operating segment risk premium (beta).

Cost of debt includes the average level of credit margins and expected market value of money for each country.

For the purpose of impairment testing of property, plant and equipment and intangible assets periods of analysis were separately determined for each cash-generating unit (CGU) on the basis of the expected useful life.

Useful life used for analysis by main cash generating units as at 30 June 2014

Usefull life in years	Minimum	Median	Maximum
Refining Segment	12	17	25
Petrochemical Segment	8	16	25
Retail Segment	13	15	16

As at 30 June 2014 impairment testing for each CGU was performed. Impairment of assets was carried out on the level of particular CGUs broken down by representing groups of non-current assets and influenced result from operations.

As a result of impairment testing performed during the II quarter 2014 impairment allowances of assets value in a total amount of PLN (5,002) million were recognised and mainly related to selected CGU Refining assets of the ORLEN Group. After analysis of ability to generate future tax profits the Group recognised deferred tax asset from a part of the above impairment allowances in the Unipetrol Group of PLN 135 million. Detailed information is presented in note 3.5.

Future financial performances are based on a number of assumptions, a part of which concern macroeconomic factors, including: commodity prices, product quotations on global markets, foreign exchange rates or interest rates, remain beyond the control of the Group. Changes in these assumptions can affect impairment tests results of non-current assets and as a result may lead to changes in the financial standing and financial results of the Group.

Sensitivity analysis of value in use

The major elements influencing the amount representing the value in use of assets within the individual cash-generating unit are: operating profit before depreciation and amortization (i.e. EBITDA ratio) and the discount rate

The sensitivity of changes of the above factors on the impairment allowances are presented below:

in PLN million — EBITDA

DISCOUNT RATE change	-5%	0%	5%
- 0.5 p.p.	*increase in allowance* (148)	*decrease in allowance* 64	*decrease in allowance* 310
0.0 p.p.	*increase in allowance* (667)	-	*decrease in allowance* 239
+ 0.5 p.p.	*increase in allowance* (1256)*	*increase in allowance* (478)	*decrease in allowance* 158

*change reflects not only an increase of impairment allowances recognised in the II quarter of 2014 but also additional impairment allowance mainly of CGU Rafininery of PKN ORLEN and assets of CGU Petrochemistry of Unipetrol Group, which would occur after the changes of assumptions

3.5. Other operating income and expenses

Other operating income

	6 MONTHS 2014 (unaudited)	II QUARTER 2014 (unaudited)	6 MONTHS 2013 (unaudited) (restated data)	II QUARTER 2013 (unaudited) (restated data)
Profit on sale of non-current non-financial assets	25	17	20	15
Gain on bargain purchase	180	-	-	-
Reversal of provisions	40	10	18	5
Reversal of receivables impairment allowances	17	7	15	6
Reversal of impairment allowances of property, plant and equipment and intangible assets	25	22	33	30
Penalties and compensations earned	25	15	53	42
Other	120	58	107	75
	432	**129**	**246**	**173**

Gain on bargain purchase relates to acquisition of Ceska Rafinerska shares representing 16.335% of the share capital that took place during the I quarter 2014 by Unipetrol from Shell Overseas Investments BV ("Shell").

The line 'other' in the 6 months period ended 30 June 2014 includes mainly the impact of CO_2 emission rights prices fluctuations on the value of CO_2 emission costs of PLN 30 million and included the effect of revaluation of due CO_2 emission rights of PLN 28 million.
The line "other" in the 6 and 3 months period ended 30 June 2013 includes mainly income resulting from the decision of tax authorities on the refund of excise tax paid by PKN ORLEN in previous years for the period May-December 2004 and the adjustment of fuel charge liability regarding RME bioester for the period May-November 2011, received in II quarter 2013 of PLN 47 million and PLN 18 million, respectively.

Other operating expenses

	6 MONTHS 2014 (unaudited)	II QUARTER 2014 (unaudited)	6 MONTHS 2013 (unaudited) (restated data)	II QUARTER 2013 (unaudited) (restated data)
Loss on sale of non-current non-financial assets	(29)	(11)	(16)	(7)
Recognition of provisions	(66)	(53)	(61)	(53)
Recognition of receivables impairment allowances	(15)	(7)	(24)	(14)
Recognition of impairment allowances of property, plant and equipment and intangible assets	(5 042)	(5 024)	(52)	(49)
Costs of losses, breakdowns and compensations	(9)	(4)	(13)	(10)
Other	(59)	(19)	(43)	(8)
	(5 220)	**(5 118)**	**(209)**	**(141)**

The line 'recognition of impairment allowances of property, plant and equipment and intangible assets includes mainly recognised during the II quarter of 2014 impairment allowances of the ORLEN Lietuva Group's refining assets of PLN (4,187) million, the Unipetrol Group of PLN (711) million, the Rafineria Jedlicze Group of PLN (42) million and petrochemical assets of Spolana from the Anwil Group of PLN (58) million.

The line 'other' in the 6 months period ended 30 June 2014 includes mainly the impact of CO_2 emission rights prices fluctuations on the value of recognised CO_2 emission costs of PLN (17) million.

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

3.6. Finance income and costs

Finance income

	6 MONTHS 2014 (unaudited)	II QUARTER 2014 (unaudited)	6 MONTHS 2013 (unaudited) (restated data)	II QUARTER 2013 (unaudited) (restated data)
Interest	20	7	51	30
Dividends	2	2	2	2
Settlement and valuation of financial instruments	34	8	160	70
Reversal of receivables impairment allowances	7	4	7	1
Other	19	13	2	2
	82	**34**	**222**	**105**

Finance costs

	6 MONTHS 2014 (unaudited)	II QUARTER 2014 (unaudited)	6 MONTHS 2013 (unaudited) (restated data)	II QUARTER 2013 (unaudited) (restated data)
Interest	(126)	(74)	(140)	(73)
Foreign exchange loss surplus	(867)	(833)	(316)	(121)
Settlement and valuation of financial instruments	(71)	(22)	(87)	(24)
Recognition of receivables impairment allowances	(4)	(1)	(9)	(3)
Other	(27)	(17)	(16)	(9)
	(1 095)	**(947)**	**(568)**	**(230)**

As of 30 June 2014 the Group stopped using of net investment hedge in a foreign operation (Orlen Lietuva Group). Hedged item (ORLEN Lietuva Group's equity) decreased as a result of recognition in the II quarter of 2014 the impairment allowance of non-current assets the what caused reclassification accumulated surpluses of negative foreign exchange differences from hedging instrument valuation from equity to the statement of profit or loss. In the period of 6 and 3 months ended 30 June 2014 the surplus of negative foreign exchange differences from the abovementioned title amounted to PLN (811) million. Above reclassification has no influence on total equity of the Group.

Borrowing cost capitalized in the 6 and 3 months period ended 30 June 2014 and 30 June 2013 amounted to PLN (24) million, PLN (15) million, PLN (8) million, PLN (5) million, respectively.

3.7. Tax expense

	6 MONTHS 2014 (unaudited)	II QUARTER 2014 (unaudited)	6 MONTHS 2013 (unaudited) (restated data)	II QUARTER 2013 (unaudited) (restated data)
Current income tax	(70)	(11)	17	(45)
Deferred tax	382	351	51	81
	312	**340**	**68**	**36**

3.8. Investments in shares accounted for under equity method

	30/06/2014 (unaudited)	31/12/2013 (restated data)
Associates	13	12
Entities classified as joint venture	639	603
	652	**615**

	30/06/2014 (unaudited)	31/12/2013 (restated data)
Net assets	**1 298**	**1 236**
% share in joint venture	649	618
Consolidation adjustments	(10)	(15)
	639	**603**

Significant financial information relating to joint ventures on total assets and liabilities as at 30 June 2014 and 31 December 2013 as well as revenues, expenses and financial result for 6 and 3 months period ended 30 June 2014 and 30 June 2013 in Basell ORLEN Polyolefins Sp. z o.o. (BOP), Płocki Park Przemysłowo-Technologiczny S.A. (PPPT) is presented below.

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

BOP

	30/06/2014 (unaudited)	31/12/2013
Non-current assets	983	1 024
Current assets	1 429	1 321
Total assets	**2 412**	**2 345**
Non-current liabilities	145	204
Current liabilities	1 033	970
Total liabilities	**1 178**	**1 174**
Net debt	**(109)**	**(57)**

	6 MONTHS 2014 (unaudited)	II QUARTER 2014 (unaudited)	6 MONTHS 2013 (unaudited)	II QUARTER 2013 (unaudited)
Sales revenues	1 829	909	1 818	941
Cost of sales	(1 685)	(832)	(1 713)	(905)
depreciation and amortisation	(48)	(24)	(60)	(30)
Gross profit on sales	**144**	**77**	**105**	**36**
Distribution expenses	(49)	(24)	(53)	(27)
Administrative expenses	(11)	(5)	(11)	(5)
Net other operating income and expenses	(3)	(2)	(1)	-
Profit from operations	**81**	**46**	**40**	**4**
Net finance income and costs	(2)	(1)	(10)	(3)
Profit before tax	**79**	**45**	**30**	**1**
Tax expense	(16)	(9)	(6)	(1)
Net profit	**63**	**36**	**24**	**-**

PPPT

	30/06/2014 (unaudited)	31/12/2013
Non-current assets	60	35
Current assets	37	40
Total assets	**97**	**75**
Non-current liabilities	-	-
Current liabilities	33	10
Total liabilities	**33**	**10**
Net debt	**(3)**	**(36)**

	6 MONTHS 2014 (unaudited)	II QUARTER 2014 (unaudited)	6 MONTHS 2013 (unaudited)	II QUARTER 2013 (unaudited)
Sales revenues	1	-	1	-
Cost of sales	(1)	-	(1)	-
depreciation and amortisation	-	-	-	-
Gross profit/(loss) on sales	**-**	**-**	**-**	**-**
Distribution expenses	-	-	-	-
Administrative expenses	(2)	(1)	(2)	(1)
Net other operating income and expenses	-	-	-	-
(Loss) from operations	**(2)**	**(1)**	**(2)**	**(1)**
Net finance income and costs	-	-	1	-
(Loss) before tax	**(2)**	**(1)**	**(1)**	**(1)**
Tax expense	-	-	-	-
Net (loss)	**(2)**	**(1)**	**(1)**	**(1)**

(in PLN million)

3.9. Other financial assets

	30/06/2014 (unaudited)	31/12/2013
Cash flows hedge instruments	191	144
currency forwards	*60*	*66*
commodity swaps	*131*	*78*
Derivatives not designated as hedge accounting	3	8
currency forwards	*3*	*5*
commodity swaps	*-*	*3*
Embedded derivatives	3	3
currency swaps	*3*	*3*
Deposits	2	4
Loans granted	4	6
	203	**165**

3.10. Loans, borrowings and debt securities

	Non-current		Current		Total	
	30/06/2014 (unaudited)	31/12/2013 (restated data)	30/06/2014 (unaudited)	31/12/2013 (restated data)	30/06/2014 (unaudited)	31/12/2013 (restated data)
Loans	6 040	4 788	1 507	850	7 547	5 638
Borrowings	-	1	1	-	1	1
Debt securities	4 083	1 718	-	-	4 083	1 718
	10 123	**6 507**	**1 508**	**850**	**11 631**	**7 357**

In the period covered by the foregoing interim condensed consolidated financial statements as well as after the reporting date there were no cases of violations of loans repayment of principal and interest.

3.11. Provisions

	Non-current		Current		Total	
	30/06/2014 (unaudited)	31/12/2013 (restated data)	30/06/2014 (unaudited)	31/12/2013 (restated data)	30/06/2014 (unaudited)	31/12/2013 (restated data)
Environmental	368	346	20	36	388	382
Jubilee bonuses and post-employment benefits	261	262	41	42	302	304
Business risk	11	13	45	53	56	66
Shield programs	-	-	36	43	36	43
CO_2 emissions	-	-	135	320	135	320
Other	36	37	147	327	183	364
	676	**658**	**424**	**821**	**1 100**	**1 479**

3.12. Methods applied in determining fair values (fair value hierarchy)

The Group measures derivative instruments at fair value using valuation models for financial instruments based on generally available exchange rates, interest rates, forward and volatility curves for currencies and commodities quoted on active markets.
Fair value of derivatives is based on discounted future flows related to contracted transactions as a difference between term price and transaction price.
Forward rates of exchange are not modelled as a separate risk factor, but they are as a result of spot rate and forward interest rate for foreign currency in relation to PLN.
Derivative instruments are presented as assets, when their valuation is positive and as liabilities, when their valuation is negative.
Gains and losses resulting from changes in fair value of derivative instruments, for which hedge accounting is not applicable, are recognised in a reporting year profit or loss.
As compared to the previous reporting period the Group has not changed valuation methods concerning derivative instruments.

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

Fair value hierarchy

	30/06/2014 (unaudited)		31/12/2013 (restated data)	
	LEVEL 1	LEVEL 2	LEVEL 1	LEVEL 2
Financial assets				
Quoted shares	1	-	1	-
Embedded derivatives, hedging and not designated as hedge accounting	-	217	-	277
	1	**217**	**1**	**277**
Financial liabilities				
Embedded derivatives, hedging and not designated as hedge accounting	-	318	-	139
	-	**318**	**-**	**139**

During the reporting period and comparative period there were no reclassifications in the Group between Level 1 and Level 2 of fair value hierarchy.

3.13. Finance lease payments

As at 30 June 2014 and 31 December 2013 the Group possessed as a lessee, the finance lease agreements, concerning mainly buildings, machinery and equipment as well as means of transportation.

	30/06/2014 (unaudited)	31/12/2013 (restated data)
Value of future minimum lease payments	144	121
Present value of future minimum lease payments	118	102

3.14. Future liabilities resulting from signed investment contracts

As at 30 June 2014 and 31 December 2013 the value of future liabilities resulting from investment contracts signed until that day amounted to PLN 1,601 million and PLN 1,998 million, respectively.

3.15. Issue, redemption and repayment of debt securities

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

On 2 April 2014 PKN ORLEN issued fifth series of 4-years bonds (E series) of nominal value of PLN 200 million, and on 9 April 2014 sixth series of bonds (F series) of total value of PLN 100 million was issued to the retail investors. On 30 June 2014 ORLEN Capital AB, special purpose vehicle, issued debt securities with 7-year redemption period. The value of the issue amounted to PLN 2,080 million translated using exchange rate as at 30 June 2014 (representing EUR 500 million). Detailed information is presented in the Management Board Report on the Operations of the Group, in point 3.4.

3.16. Distribution of the Parent Company's profit for 2013

The Ordinary Shareholders' Meeting of PKN ORLEN S.A. on 15 May 2014 decided to distribute the net profit for the year 2013 of PLN 617,684,481.47 as follows: PLN 615,901,047.84 as dividend payment (PLN 1.44 per 1 share) and PLN 1,783,433.63 as reserve capital of the Company.
The Ordinary Shareholders' Meeting of PKN ORLEN S.A. set the date of 16 June 2014 as a dividend date and the date of 8 July 2014 as a dividend payment date.

3.17. Contingent liabilities

In the period covered by the foregoing half-year condensed consolidated financial statements there were no significant contingent liabilities, apart from disclosed in the Consolidated Financial Statements for 2013 in note 39.

3.18. Guarantees

Excise tax guarantees and excise tax on goods and merchandise under the excise tax suspension procedure as at 30 June 2014 and 31 December 2013 amounted to PLN 1,661 million and PLN 1,652 million, respectively .

3.19. Events after the end of the reporting period

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

HALF-YEAR CONDENSED SEPARATE FINANCIAL STATEMENTS

FOR 6 AND 3 MONTHS PERIOD ENDED 30 JUNE 2014

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

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

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

Separate statement of profit or loss and other comprehensive income

	NOTE	6 MONTHS 2014 (unaudited)	II QUARTER 2014 (unaudited)	6 MONTHS 2013 (unaudited)	II QUARTER 2013 (unaudited)
Statement of profit or loss					
Sales revenues	*3.1*	38 604	21 189	40 914	20 709
Cost of sales	*3.2*	(37 161)	(20 493)	(39 410)	(20 149)
Gross profit on sales		**1 443**	**696**	**1 504**	**560**
Distribution expenses		(1 059)	(534)	(1 029)	(514)
Administrative expenses		(351)	(180)	(361)	(178)
Other operating income	*3.5*	127	68	192	154
Other operating expenses	*3.5*	(117)	(77)	(139)	(94)
Profit/(Loss) from operations		**43**	**(27)**	**167**	**(72)**
Finance income	*3.6*	1 105	1 082	299	258
Finance costs	*3.6*	(4 942)	(4 841)	(656)	(301)
Net finance income and costs		**(3 837)**	**(3 759)**	**(357)**	**(43)**
(Loss) before tax		**(3 794)**	**(3 786)**	**(190)**	**(115)**
Tax expense	*3.7*	11	10	157	66
Net (loss)		**(3 783)**	**(3 776)**	**(33)**	**(49)**
Items of other comprehensive income which will be reclassified into profit or loss under certain conditions					
Hedging instruments		*(239)*	*(114)*	*(79)*	*(109)*
Deferred tax		*45*	*21*	*15*	*21*
		(194)	**(93)**	**(64)**	**(88)**
Total net comprehensive income		**(3 977)**	**(3 869)**	**(97)**	**(137)**
Net (loss) and diluted net (loss) per share (in PLN per share)		(8.84)	(8.83)	(0.08)	(0.12)

The accompanying notes disclosed on pages 26 - 34 are an integral part of the foregoing half-year condensed separate financial statements.

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

Separate statement of financial position

AS AT	NOTE	30/06/2014 (unaudited)	31/12/2013
ASSETS			
Non-current assets			
Property, plant and equipment		13 090	12 097
Intangible assets		282	439
Perpetual usufruct of land		92	98
Shares in related parties		6 002	9 646
Financial assets available for sale		40	40
Other non-current assets	3.8	1 041	1 035
		20 547	**23 355**
Current assets			
Inventories		8 365	9 383
Trade and other receivables		6 201	6 248
Other financial assets	3.9	890	974
Current tax assets		7	31
Cash		2 580	2 072
		18 043	**18 708**
Total assets		**38 590**	**42 063**
EQUITY AND LIABILITIES			
EQUITY			
Share capital		1 058	1 058
Share premium		1 227	1 227
Hedging reserve		(26)	168
Retained earnings		16 283	20 682
Total equity		**18 542**	**23 135**
LIABILITIES			
Non-current liabilities			
Loans and debt securities	3.10	8 051	6 096
Provisions	3.11	324	324
Deferred tax liabilities		346	404
Other non-current liabilities		439	99
		9 160	**6 923**
Current liabilities			
Trade and other liabilities		9 772	9 836
Loans,borrowings and debt securities	3.10	477	1 314
Provisions	3.11	215	348
Deferred income		138	94
Other financial liabilities		286	413
		10 888	**12 005**
Total liabilities		**20 048**	**18 928**
Total equity and liabilities		**38 590**	**42 063**

The accompanying notes disclosed on pages 26 - 34 are an integral part of the foregoing half-year condensed separate financial statements.

(in PLN million)

Statement of changes in separate equity

	Share capital and share premium	Hedging reserve	Retained earnings	Total equity
1 January 2014	2 285	168	20 682	23 135
Net (loss)	-	-	(3 783)	(3 783)
Items of other comprehensive income	-	(194)	-	(194)
Total net comprehensive income	**-**	**(194)**	**(3 783)**	**(3 977)**
Dividends	-	-	(616)	(616)
30 June 2014	**2 285**	**(26)**	**16 283**	**18 542**
(unaudited)				
1 January 2013	2 285	(69)	20 704	22 920
Net (loss)	-	-	(33)	(33)
Items of other comprehensive income	-	(64)	-	(64)
Total net comprehensive income	**-**	**(64)**	**(33)**	**(97)**
Dividends	-	-	(642)	(642)
30 June 2013	**2 285**	**(133)**	**20 029**	**22 181**
(unaudited)				

The accompanying notes disclosed on pages 26 - 34 are an integral part of the foregoing half-year condensed separate financial statements.

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

Separate statement of cash flows

	6 MONTHS 2014 (unaudited)	II QUARTER 2014 (unaudited)	6 MONTHS 2013 (unaudited)	II QUARTER 2013 (unaudited)
Cash flows - operating activities				
Net (loss)	**(3 783)**	**(3 776)**	**(33)**	**(49)**
Adjustments for:				
Depreciation and amortisation	489	243	502	251
Foreign exchange (profit)/loss	(10)	(17)	338	163
Interest, net	123	73	131	71
Dividends	(1 020)	(1 018)	(220)	(220)
(Profit)/Loss on investing activities	4 720	4 699	(51)	(47)
Tax expense	(11)	(10)	(157)	(66)
Change in provisions	32	42	83	66
Change in working capital	169	2 705	1 832	3 154
inventories	*966*	*3 152*	*829*	*2 468*
receivables	*22*	*(634)*	*(73)*	*(444)*
liabilities	*(819)*	*187*	*1 076*	*1 130*
Other adjustments	(18)	(10)	(47)	(8)
Income tax received	22	28	117	55
Net cash provided by operating activities	**713**	**2 959**	**2 495**	**3 370**
Cash flows - investing activities				
Acquisition of property, plant and equipment, intangible assets and perpetual usufruct of land	(1 214)	(685)	(536)	(229)
Disposal of property, plant and equipment, intangible assets and perpetual usufruct of land	322	313	105	17
Acquisition of shares	(145)	-	(1)	(1)
Disposal of shares	67	42	-	-
Acquisition of current securities	(100)	-	-	-
Interest received	20	16	18	14
Dividends received	860	858	27	27
Outflows from additional repayable payments to subsidiaries' equity	(802)	(627)	-	-
Proceeds from additional repayable payments to subsidiaries' equity	38	38	-	-
Outflows from non-current loans granted	(313)	(10)	-	-
Proceeds/(Outflows) from current loans granted	137	(148)	302	(93)
Proceeds/(Outflows) from cash pool facility	107	(18)	(154)	(147)
Other	(7)	(3)	(10)	(8)
Net cash (used) in investing activities	**(1 030)**	**(224)**	**(249)**	**(420)**
Cash flows - financing activities				
Proceeds from loans and borrowings received	7 098	5 625	2 774	524
Debt securities issued	5 261	2 397	4 657	3 146
Repayments of loans and borrowings	(5 613)	(5 216)	(2 805)	(703)
Redemption of debt securities	(5 654)	(2 790)	(4 210)	(2 743)
Interest paid	(142)	(78)	(155)	(74)
Payments of liabilities under finance lease agreements	(8)	(4)	(7)	(4)
Proceeds/(Outflows) from cash pool facility	(119)	(309)	115	7
Other	(1)	(1)	(2)	(2)
Net cash provided by/(used in) financing activities	**822**	**(376)**	**367**	**151**
Net increase in cash	**505**	**2 359**	**2 613**	**3 101**
Effect of exchange rate changes	3	2	2	2
Cash, beginning of the period	2 072	219	972	484
Cash, end of the period	**2 580**	**2 580**	**3 587**	**3 587**

The accompanying notes disclosed on pages 26 - 34 are an integral part of the foregoing 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 (Official Journal no. 33, item 259 with further amendments) ("Regulation") and present the PKN ORLEN S.A. ("Company", "Parent Company", "PKN ORLEN") financial position as at 30 June 2014 and 31 December 2013, financial results and cash flows for the period of 6 and 3 months ended 30 June 2014 and 30 June 2013.

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 these 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.

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. Statement of the Management Board

1.2.1. In respect of the reliability of half-year condensed separate financial statements

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

1.2.2. In respect of the entity authorized to conduct review of half-year condensed separate financial statements

The Management Board of PKN ORLEN declares that KPMG Audyt Sp. z o.o. as the entity authorized to conduct review of interim condensed separate financial statements was selected in compliance with the law.

1.2.3. Applied accounting principles and IFRS amendments

The foregoing half-year condensed separate financial statements were prepared according to principles described in the Separate Financial Statements for the year 2013 in note 3. New standards that entered into force on 1 January 2014 have no impact on the half-year condensed separate financial statements.

In these foregoing half-year condensed separate financial statements, the significant assumptions made by the Management Board regarding adoption of accounting principles and main uncertainties in the Company were the same as those presented in note 4 in the Separate Financial Statements for the year 2013.

During the I half of 2014 PKN ORLEN implemented changes of operating activities management in order to improve their effectiveness and integration. The organizational structure was adjusted by changes of competences of the particular Management Board Members. As a result presentation of PKN ORLEN operating segments were updated including merger of refining and petrochemical segment into integrated operating segment: Downstream.
As a consequence, the segments comparative data for the 6 and 3 months of 2013 as well as at 31 December 2013 were restated. Detailed information is presented in note 2.

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

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

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

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

2. Segment reporting

The Company's activities are allocated to:
- the downstream segment, which includes integrated refinery, petrochemical and power generation activity,
- the retail segment, which includes sales at petrol stations,
- upstream segment, which includes the activity related to exploration and extraction of mineral resources

and corporate functions which are reconciling items and include activities related to management and administration and other support functions as well as remaining activities not allocated to separate operating segments.

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

Revenues, expenses and financial result by operating segments

for 6 months ended 30 June 2014

	NOTE	Downstream Segment (unaudited)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
Sales revenues from external customers		29 753	8 822	-	29	-	38 604
Sales revenues from transactions with other segments		6 589	-	-	37	(6 626)	-
Sales revenues	3.1	36 342	8 822	-	66	(6 626)	38 604
Operating expenses		(36 354)	(8 463)	(22)	(358)	6 626	(38 571)
Other operating income	3.5	56	57	-	14	-	127
Other operating expenses	3.5	(45)	(51)	-	(21)	-	(117)
Segment profit/(loss) from operations		**(1)**	**365**	**(22)**	**(299)**	**-**	**43**
Net finance income and costs	3.6						(3 837)
(Loss) before tax							**(3 794)**
Tax expense	3.7						11
Net (loss)							**(3 783)**

for 3 months ended 30 June 2014

	NOTE	Downstream Segment (unaudited) (restated data)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited) (restated data)	Adjustments (unaudited) (restated data)	Total (unaudited) (restated data)
Sales revenues from external customers		16 502	4 671	-	16	-	21 189
Sales revenues from transactions with other segments		3 479	-	-	20	(3 499)	-
Sales revenues	3.1	19 981	4 671	-	36	(3 499)	21 189
Operating expenses		(20 049)	(4 449)	(13)	(195)	3 499	(21 207)
Other operating income	3.5	36	25	-	7	-	68
Other operating expenses	3.5	(32)	(29)	-	(16)	-	(77)
Segment profit/(loss) from operations		**(64)**	**218**	**(13)**	**(168)**	**-**	**(27)**
Net finance income and costs	3.6						(3 759)
(Loss) before tax							**(3 786)**
Tax expense	3.7						10
Net (loss)							**(3 776)**

for 6 months ended 30 June 2013

	NOTE	Downstream Segment (unaudited) (restated data)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited) (restated data)	Adjustments (unaudited) (restated data)	Total (unaudited) (restated data)
Sales revenues from external customers		32 158	8 729	-	27	-	40 914
Sales revenues from transactions with other segments		6 695	-	-	35	(6 730)	-
Sales revenues	3.1	38 853	8 729	-	62	(6 730)	40 914
Operating expenses		(38 675)	(8 478)	(11)	(366)	6 730	(40 800)
Other operating income	3.5	69	44	-	79	-	192
Other operating expenses	3.5	(23)	(53)	-	(63)	-	(139)
Segment profit/(loss) from operations		**224**	**242**	**(11)**	**(288)**	**-**	**167**
Net finance income and costs	3.6						(357)
(Loss) before tax							**(190)**
Tax expense	3.7						157
Net (loss)							**(33)**

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

for 3 months ended 30 June 2013

	NOTE	Downstream Segment (unaudited) (restated data)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited) (restated data)	Adjustments (unaudited) (restated data)	Total (unaudited) (restated data)
Sales revenues from external customers		16 079	4 614	-	16	-	20 709
Sales revenues from transactions with other segments		3 500	-	-	18	(3 518)	-
Sales revenues	3.1	19 579	4 614	-	34	(3 518)	20 709
Operating expenses		(19 733)	(4 421)	(5)	(200)	3 518	(20 841)
Other operating income	3.5	42	39	-	73	-	154
Other operating expenses	3.5	(1)	(41)	-	(52)	-	(94)
Segment profit/(loss) from operations		**(113)**	**191**	**(5)**	**(145)**	**-**	**(72)**
Net finance income and costs	3.6						(43)
(Loss) before tax							**(115)**
Tax expense	3.7						66
Net (loss)							**(49)**

Assets by operating segments

	30/06/2014 (unaudited)	31/12/2013 (restated data)
Downstream Segment	23 717	24 263
Retail Segment	3 548	3 493
Segment assets	**27 265**	**27 756**
Corporate Functions	11 325	14 307
	38 590	**42 063**

for 6 months ended 30 June 2013 - published data for the I half of 2013

	Refining Segment (unaudited)	Petrochemical Segment (unaudited)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
Sales revenues from external customers	28 333	3 825	8 729	-	27	-	40 914
Sales revenues from transactions with other segments	11 031	1 566	-	-	35	(12 632)	-
Sales revenues	39 364	5 391	8 729	-	62	(12 632)	40 914
Operating expenses	(39 741)	(4 836)	(8 478)	(11)	(366)	12 632	(40 800)
Other operating income	64	5	44	-	79	-	192
Other operating expenses	(19)	(4)	(53)	-	(63)	-	(139)
Segment profit/(loss) from operations	**(332)**	**556**	**242**	**(11)**	**(288)**	**-**	**167**
Net finance income and costs							(357)
(Loss) before tax							**(190)**
Tax expense							157
Net (loss)							**(33)**

for 3 months ended 30 June 2013 – published data for the I half of 2013

	Refining Segment (unaudited)	Petrochemical Segment (unaudited)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
Sales revenues from external customers	14 266	1 813	4 614	-	16	-	20 709
Sales revenues from transactions with other segments	5 568	771	-	-	18	(6 357)	-
Sales revenues	19 834	2 584	4 614	-	34	(6 357)	20 709
Operating expenses	(20 223)	(2 349)	(4 421)	(5)	(200)	6 357	(20 841)
Other operating income	43	(1)	39	-	73	-	154
Other operating expenses	-	(1)	(41)	-	(52)	-	(94)
Segment profit/(loss) from operations	**(346)**	**233**	**191**	**(5)**	**(145)**	**-**	**(72)**
Net finance income and costs							(43)
(Loss) before tax							**(115)**
Tax expense							66
Net (loss)							**(49)**

(in PLN million)

Impact of new segment division on presented segment data in the I half of 2013
for 6 months ended 30 June 2013

	Downstream Segment (unaudited)	Refining Segment (unaudited)	Petrochemical Segment (unaudited)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
Sales revenues from external customers	32 158	(28 333)	(3 825)	-	-	-	-	-
Sales revenues from transactions with other segments	6 695	(11 031)	(1 566)	-	-	-	5 902	-
Sales revenues	38 853	(39 364)	(5 391)	-	-	-	5 902	-
Operating expenses	(38 675)	39 741	4 836	-	-	-	(5 902)	-
Other operating income	69	(64)	(5)	-	-	-	-	-
Other operating expenses	(23)	19	4	-	-	-	-	-
Segment profit/(loss) from operations	**224**	**332**	**(556)**	**-**	**-**	**-**	**-**	**-**
Net finance income and costs								-
(Loss) before tax								**-**
Tax expense								-
Net (loss)								**-**

for 3 months ended 30 June 2013

	Downstream Segment (unaudited)	Refining Segment (unaudited)	Petrochemical Segment (unaudited)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
Sales revenues from external customers	16 079	(14 266)	(1 813)	-	-	-	-	-
Sales revenues from transactions with other segments	3 500	(5 568)	(771)	-	-	-	2 839	-
Sales revenues	19 579	(19 834)	(2 584)	-	-	-	2 839	-
Operating expenses	(19 733)	20 223	2 349	-	-	-	(2 839)	-
Other operating income	42	(43)	1	-	-	-	-	-
Other operating expenses	(1)	-	1	-	-	-	-	-
Segment profit/(loss) from operations	**(113)**	**346**	**(233)**	**-**	**-**	**-**	**-**	**-**
Net finance income and costs								-
(Loss) before tax								**-**
Tax expense								-
Net (loss)								**-**

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

3. Other notes

3.1. Sales revenues

	6 MONTHS 2014 (unaudited)	II QUARTER 2014 (unaudited)	6 MONTHS 2013 (unaudited)	II QUARTER 2013 (unaudited)
Revenues from sales of finished goods and services, net	20 382	10 235	22 423	11 501
Revenues from sales of merchandise and raw materials, net	18 222	10 954	18 491	9 208
	38 604	**21 189**	**40 914**	**20 709**

3.2. Operating expenses

Cost of sales

	6 MONTHS 2014 (unaudited)	II QUARTER 2014 (unaudited)	6 MONTHS 2013 (unaudited)	II QUARTER 2013 (unaudited)
Cost of finished goods and services sold	(19 132)	(9 597)	(21 081)	(10 948)
Cost of merchandise and raw materials sold	(18 029)	(10 896)	(18 329)	(9 201)
	(37 161)	**(20 493)**	**(39 410)**	**(20 149)**

(in PLN million)

Costs by nature

	6 MONTHS 2014 (unaudited)	II QUARTER 2014 (unaudited)	6 MONTHS 2013 (unaudited)	II QUARTER 2013 (unaudited)
Materials and energy	(18 310)	(8 952)	(20 469)	(10 376)
Cost of merchandise and raw materials sold	(18 029)	(10 896)	(18 329)	(9 201)
External services	(1 063)	(537)	(1 058)	(524)
Employee benefits	(337)	(163)	(343)	(177)
Depreciation and amortisation	(489)	(243)	(502)	(251)
Taxes and charges	(210)	(105)	(201)	(108)
Other	(218)	(138)	(234)	(153)
	(38 656)	**(21 034)**	**(41 136)**	**(20 790)**
Change in inventories	(67)	(272)	121	(178)
Cost of products and services for own use	35	22	76	33
Operating expenses	**(38 688)**	**(21 284)**	**(40 939)**	**(20 935)**
Distribution expenses	1 059	534	1 029	514
Administrative expenses	351	180	361	178
Other operating expenses	117	77	139	94
Cost of sales	**(37 161)**	**(20 493)**	**(39 410)**	**(20 149)**

3.3. Inventories written down to net realizable value

	6 MONTHS 2014 (unaudited)	II QUARTER 2014 (unaudited)	6 MONTHS 2013 (unaudited)	II QUARTER 2013 (unaudited)
Increase	(1)	(1)	(4)	(2)
Decrease	4	3	2	2

3.4. Impairment allowances of assets

	6 MONTHS 2014 (unaudited)	II QUARTER 2014 (unaudited)	6 MONTHS 2013 (unaudited)	II QUARTER 2013 (unaudited)
Property, plant and equipment				
Recognition	(28)	(22)	(30)	(28)
Reversal	19	16	29	27
Intangible assets				
Recognition	-	-	(5)	(5)
Reversal	4	4	1	1
Shares in related parties				
Recognition	(4 542)	(4 542)	-	-
Loans				
Recognition	(208)	(208)	-	-
Receivables				
Recognition	(11)	(6)	(21)	(10)
Reversal	17	9	15	6

3.4.1. Impairment of non-current assets

Main indicators for performing impairment tests of assets within the PKN ORLEN in the I half related mainly to worsening current macroeconomic situation and lack of prospects for its improvement, especially noticeable in refining activities. Limited fuel consumption due to lasting economic crisis, excess of global capacity increasing products' supply and growing pressure on margins resulting from shale gas revolution in America and economic changes in Russia have led to an update of assumptions of Group's Strategy and Mid-term Plan for years 2014-2017 including optimization of assets potential, an update of investment program.

During development of assumptions to impairment tests, in accordance with IAS 36 – impairment of assets, the possibility of estimation of the fair value and value in use of individual assets of PKN ORLEN was considered. The measurement of fair value less cost of disposal is not possible because there is no basis for making a reliable estimate of the price, at which an orderly transaction to sell the asset owned by the Group. The current market capitalization does not reflect the fair value as a value is dependent on fluctuations in the stock market, which in the case of the global crisis is characterized by high volatility. As a result, it was assumed that the best estimate of the recoverable amount of particular Group's assets is its value in use, according to IAS 36.20

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

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

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

Cost of equity is determined by the profitability of the government bonds that are considered to be risk-free, with the level of market and operating segment risk premium (beta).
Cost of debt includes the average level of credit margins and expected market value of money for each country.

Impairment of shares in related entities

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

Residual value of particular CGUs was set based on the Mid-term Plan for 2014-2017. Moreover, in order to determine the present value of investment discounted cash flows were adjusted by net debt of particular entity.

As a result of tests performed during the II quarter of 2014 an impairment of share of AB ORLEN Lietuva of PLN (4,542) million and impairment allowances of loan granted to AB ORLEN Lietuva of PLN (208) million were recorded. In relation to the above allowances the Company did not recognised deferred tax asset in accordance with IAS 12.44 – Income tax. , as the realisation of the asset is not certain.

Future financial performances are based on a number of assumptions, a part of which concern macroeconomic factors, including: commodity prices, product quotation on global markets, foreign exchange rates or interest rates, remain beyond the control of the Company. Changes in these assumptions can affect impairment tests results of non-current assets and as a result may lead to changes in the financial standing and financial results of PKN ORLEN.

Sensitivity analysis

The major elements influencing the amount representing the value in use of assets within the individual cash-generating unit are: operating profit before depreciation and amortization (i.e. EBITDA ratio) and the discount rate.

The sensitivity effects of impairment allowances of property, plant and equipment as well as intangible assets of PKN ORLEN on changes of above factors are presented below.

in PLN million EBITDA

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

Appling of the above assumptions would cause impairment allowance of assets of PKN ORLEN within Refinery CGU.

The sensitivity effects of impairment allowances of shares of related entities on changes of above factors are presented below.

in PLN million EBITDA

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

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

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

(in PLN million)

3.5. Other operating income and expenses

Other operating income

	6 MONTHS 2014 (unaudited)	II QUARTER 2014 (unaudited)	6 MONTHS 2013 (unaudited)	II QUARTER 2013 (unaudited)
Profit on sale of non-current non-financial assets	26	25	59	55
Reversal of provisions	29	-	1	-
Reversal of receivables impairment allowances	11	6	9	5
Reversal of impairment allowances of property, plant and equipment and intangible assets	23	20	30	28
Penalties and compensations earned	9	4	5	3
Other	29	13	88	63
	127	**68**	**192**	**154**

Other operating expenses

	6 MONTHS 2014 (unaudited)	II QUARTER 2014 (unaudited)	6 MONTHS 2013 (unaudited)	II QUARTER 2013 (unaudited)
Loss on sale of non-current non-financial assets	(23)	(8)	(8)	(2)
Recognition of provisions	(27)	(25)	(45)	(40)
Recognition of receivables impairment allowances	(8)	(5)	(16)	(9)
Recognition of impairment allowances of property, plant and equipment and intangible assets	(28)	(22)	(35)	(33)
Costs of losses and compensation	(5)	(2)	(6)	(4)
Other	(26)	(15)	(29)	(6)
	(117)	**(77)**	**(139)**	**(94)**

3.6. Finance income and costs

Finance income

	6 MONTHS 2014 (unaudited)	II QUARTER 2014 (unaudited)	6 MONTHS 2013 (unaudited)	II QUARTER 2013 (unaudited)
Interest	28	13	54	31
Foreign exchange gain surplus	-	7	-	-
Dividends	1 020	1 018	220	220
Profit on disposal of shares	32	32	8	-
Settlement and valuation of financial instruments	6	4	5	3
Reversal of receivables impairment allowances	6	3	6	1
Other	13	5	6	3
	1 105	**1 082**	**299**	**258**

Finance costs

	6 MONTHS 2014 (unaudited)	II QUARTER 2014 (unaudited)	6 MONTHS 2013 (unaudited)	II QUARTER 2013 (unaudited)
Interest	(146)	(85)	(150)	(80)
Foreign exchange loss surplus	(28)	-	(488)	(214)
Settlement and valuation of financial instruments	(10)	(2)	(10)	(5)
Recognition of receivables impairment allowances	(3)	(1)	(5)	(1)
Recognition of impairment allowances of shares in related entities	(4 542)	(4 542)	-	-
Recognition of loans impairment allowances	(208)	(208)	-	-
Other	(5)	(3)	(3)	(1)
	(4 942)	**(4 841)**	**(656)**	**(301)**

Lines 'recognition of impairment allowances of shares in related entities' and 'recognition of loans impairment allowances' in the II quarter of 2014 include the effect of impairment allowance of AB Orlen Lietuva shares of PLN (4,542) million and impairment allowance of loan granted to AB Orlen Lietuva of PLN (208) million. Further information is presented in note 3.4.1.
Borrowing cost capitalized in the 6 and 3 months period ended 30 June 2014 and 30 June 2013 amounted to PLN (16) million and PLN (11) million and PLN (5) million and PLN (3) million, respectively.

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

3.7. Tax expense

	6 MONTHS 2014 (unaudited)	II QUARTER 2014 (unaudited)	6 MONTHS 2013 (unaudited)	II QUARTER 2013 (unaudited)
Current tax expense	(2)	1	97	2
Deferred tax	13	9	60	64
	11	**10**	**157**	**66**

3.8. Other non-current assets

	30/06/2014 (unaudited)	31/12/2013
Cash flow hedge instruments	20	122
commodity swaps	*12*	*94*
currency interest rates swaps	*8*	*16*
interest rates swaps	*-*	*12*
Receivables due to sale of non-current non-financial assets	-	8
Loans granted	1 021	905
	1 041	**1 035**

3.9. Other financial assets

	30/06/2014 (unaudited)	31/12/2013
Cash flow hedge instruments	187	143
currency forwards	*58*	*65*
commodity swaps	*129*	*78*
Derivatives not designated as hedge accounting	2	-
currency forwards	*2*	*-*
Embedded derivatives	3	3
currency swaps	*3*	*3*
Bonds	101	-
Loans granted	446	570
Cash pool	151	258
	890	**974**

3.10. Loans, borrowings and debt securities

	Non-current		Current		Total	
	30/06/2014 (unaudited)	31/12/2013	30/06/2014 (unaudited)	31/12/2013	30/06/2014 (unaudited)	31/12/2013
Loans	6 030	4 378	139	139	6 169	4 517
Borrowings	-	-	33	177	33	177
Debt securities	2 021	1 718	305	998	2 326	2 716
	8 051	**6 096**	**477**	**1 314**	**8 528**	**7 410**

3.11. Provisions

	Non-current		Current		Total	
	30/06/2014 (unaudited)	31/12/2013	30/06/2014 (unaudited)	31/12/2013	30/06/2014 (unaudited)	31/12/2013
Environmental	211	211	10	23	221	234
Jubilee bonuses and post-employment benefits	113	113	25	25	138	138
Business risk	-	-	16	16	16	16
Shield programs	-	-	28	27	28	27
CO_2 emission	-	-	53	165	53	165
Other	-	-	83	92	83	92
	324	**324**	**215**	**348**	**539**	**672**

3.12. Methods applied in determining fair values (fair value hierarchy)

The Company measures derivative instruments at fair value using valuation models for financial instruments based on generally available exchange rates, interest rates, forward and volatility curves for currencies and commodities quoted on active markets.
Fair value of derivatives is based on discounted future flows related to contracted transactions as a difference between term price and transaction price.
Forward rates of exchange are not modelled as a separate risk factor, but they are as a result of spot rate and forward interest rate for foreign currency in relation to PLN.

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

Derivative instruments are presented as assets, when their valuation is positive and as liabilities, when their valuation is negative. Gains and losses resulting from changes in fair value of derivative instruments, for which hedge accounting is not applicable, are recognised in a reporting year profit or loss.
As compared to the previous reporting period the Company has not changed valuation methods concerning derivative instruments.

Fair value hierarchy

	30/06/2014 (unaudited)	31/12/2013
	LEVEL 2	
Financial assets		
Embedded derivatives, hedging and not designated as hedge accounting	212	268
	212	**268**
Financial liabilities		
Embedded derivatives, hedging and not designated as hedge accounting	242	56
	242	**56**

During the reporting period and comparative period there were no reclassifications in the Company between Level 1 and Level 2 of fair value hierarchy.

3.13. Finance lease payments

As at 30 June 2014 and as at 31 December 2013 the Company possessed as a lessee the finance lease agreements, concerning mainly petrol stations, cars and car wash.

	30/06/2014 (unaudited)	31/12/2013
Value of future minimum lease payments	134	106
Present value of future minimum lease payments	107	87

3.14. Future liabilities resulting from signed investment contracts

As at 30 June 2014 and 31 December 2013 the value of future liabilities resulting from investment contracts signed until that day amounted to PLN 1,489 million and PLN 1,894 million, respectively.

3.15. Issue, redemption and repayment of debt securities

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

On 2 April 2014 PKN ORLEN issued fifth series of 4-years bonds (E series) of nominal value of PLN 200 million, and on 9 April 2014 sixth series of bonds (F series) of total value of PLN 100 million was issued to the retail investors. On 30 June 2014 ORLEN Capital AB, special purpose vehicle, issued debt securities with 7-year redemption period. The value of the issue amounted to PLN 2,080 million translated using exchange rate as at 30 June 2014 (representing EUR 500 million). Detailed information is presented in the Management Board Report on the Operations of the Group, in point 3.4.

3.16. Distribution of the Parent Company's profit for 2013

The Ordinary Shareholders' Meeting of PKN ORLEN S.A. on 15 May 2014 decided to distribute the net profit of the Parent Company for the year 2013 of PLN 617,684,481.47 as follows: PLN 615,901,047.84 as dividend payment (PLN 1.44 per 1 share) and PLN 1,783,433.63 as reserve capital of the Company.
The Ordinary Shareholders' Meeting of PKN ORLEN S.A. set the date of 16 June 2014 as a dividend date and the date of 8 July 2014 as a dividend payment date.

3.17. Contingent liabilities

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

3.18. Guarantees

Excise tax guarantees and excise tax on goods and merchandise under the excise tax suspension procedure as at 30 June 2014 and 31 December 2013 amounted to PLN 1,221 million and PLN 1,241 million, respectively.

3.19. Events after the end of the reporting period

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

MANAGEMENT BOARD REPORT ON THE OPERATIONS OF THE CAPITAL GROUP

FOR THE I HALF OF 2014

C. MANAGEMENT BOARD REPORT ON THE OPERATIONS OF THE CAPITAL GROUP

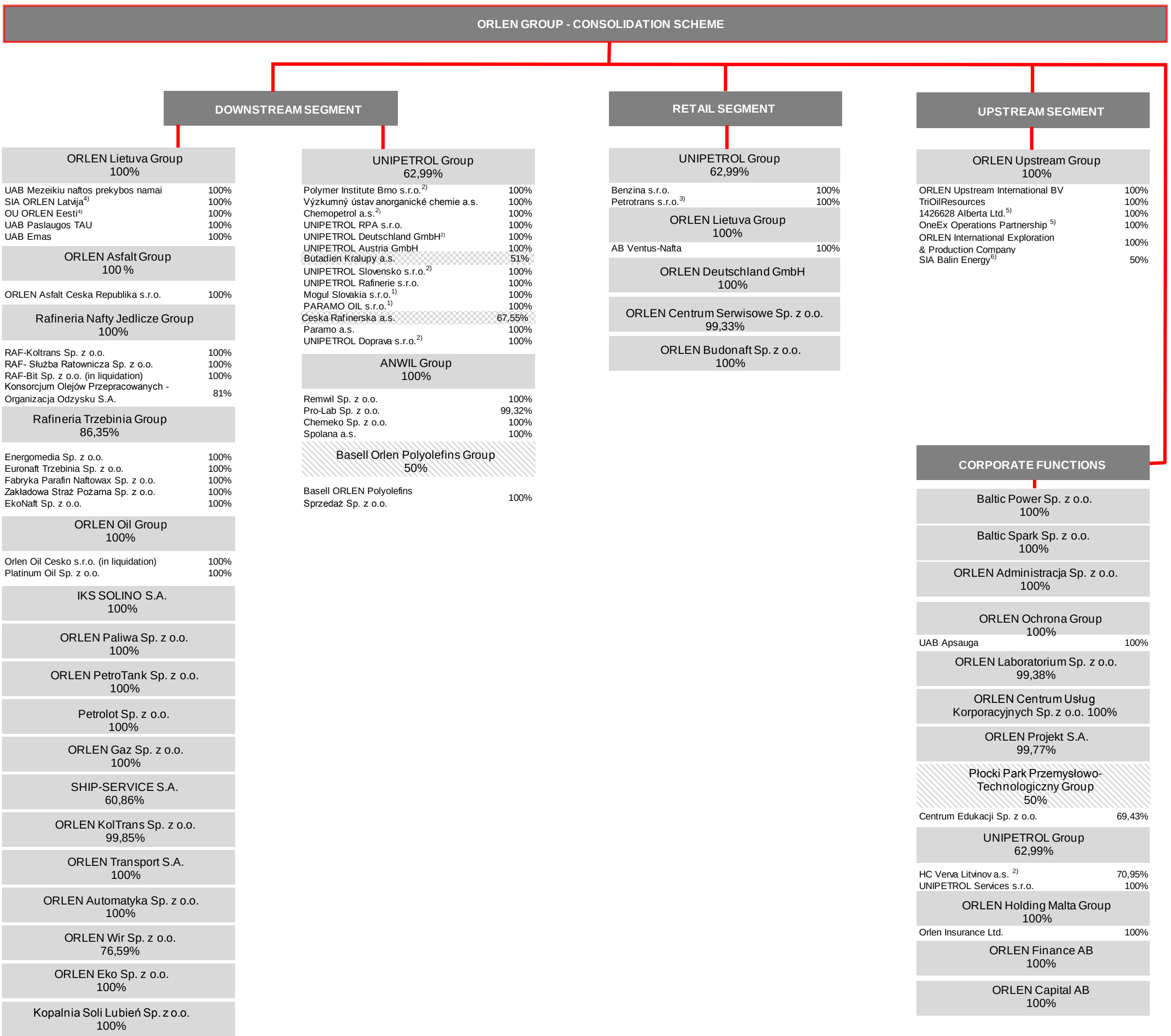
1. Principal activity of ORLEN Group

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

The principal activity of the Group includes processing of crude oil and manufacturing of wide variety of refinery, petrochemical and chemical products, exploration and extraction of hydrocarbons as well as their transport, wholesale and retail sale.

2. Organization of ORLEN Group

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



fully consolidated entities
joint ventures accounted for under the equity method
entities classified as joint operations (recognition of partially owned assets and liabilities)

* 1) PARAMO Group; 2) UNIPETROL RPA Group; 3) Benzina Group; 4) UAB Mazeikiu Naftos Prekybos Namai Group; 5) TriOilResources Ltd Group.
6) ORLEN International Exploration & Production Company Group

2.1. Changes in the ORLEN Group's structure in the I quarter of 2014

2.1.1. Acquisition of shares of Birchill Exploration Limited Partnership

On 5 June 2014 the ORLEN Group acquired 100% of Exploration Limited Partnership („Birchill") shares. Shares were acquired as an execution of provisions of agreement dated 7 May 2014 concluded between the ORLEN Group's entity – TriOil Resources Ltd. ("TriOil") and Bregal – Birchill Investments S.A.R.L. seated in Luxemburg. Acquired shares represents 100% of Birchill's share capital and 100% votes on the company's Shareholders Meeting. 5 June 2015 is assumed as a date of taking control (Polish time).

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

The core business of Birchill is exploration, prospecting and extraction of crude oil and natural gas in Canada. Concluding of the agreement is consistent with the ORLEN Group's strategy, which plans the development of crude oil and natural gas resource base. The amount paid for shares by TriOil amounted to PLN 707.4 million among others was translated using the exchange rate as at 5 June 2014 (representing CAD 255.6 million).

Fair value of the identifiable assets and liabilities of Birchill as at acquisition date is as follows:

	Carrying amount as at the acquisition day	Adjustments to fair value	Fair value
Exploration and evaluation of mineral resources' assets	4	5	9
Assets related to development and extraction of mineral resources	438	391	829
Trade and other receivables	15	-	15
Assets (A)	**457**	**396**	**853**
Trade and other liabilities	16	-	16
Provision for decommissioning costs of drillings and supporting infrastructure	7	10	17
Provision for deffered income tax	-	113	113
Liabilities (B)	**23**	**123**	**146**
Identifiable net assets at fair value (A-B)			**707**
Fair value of transferred payment due to acquisition			**707**

The settlement of executed transaction did not influence the consolidated statement of profit or loss and other comprehensive income. Fair value of net assets recognised in the ORLEN Group is equal to price paid. The settlement was preceded by assessment of completeness and accuracy of identified assets and liabilities acquired in relation to the mentioned transaction and verification of procedures applied to determine fair value of identified assets and liabilities.
Simultaneously, on 5 June 2014 TriOil and Birchill merger took place. The merger took place by transfer of Birchill total assets to TriOil. Taking into account the fact that TriOil possessed 100% shares of Birchill's share capital, the merger took place without an increase of share capital.

2.1.2. Other changes

As a result of the transaction concluded on 26 June 2014, ORLEN Eko Sp. z o.o. acquired from both ANWIL S.A. and Przedsiębiorstwo Inwestycyjno – Remontowego "RemWil Sp. z o.o." – subsidiary of ANWIL, a total of 100% shares in the company Chemeko Sp. z o.o. operationg within the ANWIL Group. The transition of ownership of shares took place on 1 July 2014.

Unipetrol, subsidiary of PKN ORLEN, accepted the offer of an Italian ENI regarding the acquisition of Česká Rafinérská shares, representing 32.445% of share capital of the company. The total amount of the transaction is estimated at EUR 30 million. Unipetrol, exercising the pre-emptive right, will become the sole owner of Česká Rafinérská. The conclusion of the transaction is dependent on obtaining the antitrust approvals.

3. Financial situation

3.1. ORLEN Group's achievements accompanied by factors having a significant impact on financial results

Operating result before depreciation and amortisation ("EBITDA") of ORLEN Group before recognition of impairments of assets in accordance with IAS 36 amounted to PLN 1,500 million as compared to PLN 1,237 million in the I half of 2013. After considering the above impairments, EBITDA in the I half of 2014 amounted to PLN (-) 3,517 million and was lower by PLN (-) 4,754 million (y/y).

ORLEN Group valuates inventory in accordance with International Financial Reporting Standards by the method of weighted average cost or purchase price. This method of valuation defers the recognition of an increase or decrease in the purchase price of crude oil in relation to the prices received from the sale of finished products. The growing trend in crude oil prices has a positive effect, while a diminishing trend has a negative effect on operating results.
A negative impact of changes in crude oil prices on inventory valuation in the I half of 2014 was higher by PLN 168 million (y/y) and amounted to PLN (-) 324 million.

The negative impact of macroeconomic factors related mainly to the reduction of the model downstream margin and the strengthening of the PLN exchange rate against USD amounted to PLN (-) 518 million (y/y).

The positive volume effect in the amount of PLN 242 million (y/y) is mainly the impact of higher sales in retail and downstream segment in the Czech Republic as well as extraction of crude oil and gas in Canada, while lower volumes in downstream segment in Poland and Lithuania were recognised.

The negative impact of other factors amounted to PLN (-) 4,646 million (y/y) and related mainly to the changes in the balance of other operating activities of PLN (-) 4,825 million (y/y) including mainly impairment allowances of assets as well as a positive impact on other elements of PLN 179 million.
The impairment allowance of property, plant and equipment related mainly to the refining assets of ORLEN Lietuva of PLN (-) 4,187 million, Unipetrol Group of PLN (-) 711 million, the Rafineria Jedlicze Group of PLN (-) 42 million and petrochemical assets in Spolana from Anwil Group of PLN (-) 58 million.

The positive impact of other factors mainly resulted from positive net effects of repurchase and sales transactions of mandatory reserves in the I half of 2013 and 2014 as well as savings on overheads and labour costs partly reduced by pressure on trade margins.

Downstream Segment

In the I half of 2014, EBITDA of downstream segment of ORLEN Group before impairment allowances of assets amounted to PLN 1,121 million. After recognition of the impairment allowance of assets, the negative EBITDA of downstream segment for the I half-year of 2014 amounted to PLN (-) 3,883 million and was lower by PLN (-) 4,923 million (y/y).

The negative impact of the changes in crude oil prices on inventory valuation in the I half of 2014 was higher (y/y) and contributed to the increase in downstream segment EBITDA by PLN 168 million (y/y).

The decrease of the model downstream margin reflecting the changes in the macroeconomic parameters of the main refining and petrochemical products of ORLEN Group by (-) 2.3 USD /bbl (y/y) as well as with additional effect of lower margin on butadiene had a negative impact on EBITDA of the segment of PLN (-) 518 million (y/y).

The positive volume effect of the segment of PLN 79 million (y/y) achieved despite the lower total sales volume of the segment is the result of increased sales in the Czech Republic thanks to higher installation availability and increased production capacity after the acquisition of 16.3% stake in Ceska Rafinerska a.s. from Shell.
The impact of higher volumes on the Czech market has compensated lower sales in the markets served by ORLEN Lietuva Group and decreased sales volumes in Poland as a result of reduced sales to oil companies and reduced export to eastern markets (Ukrainian conflict).
In the area of petrochemicals in the I half of 2014, the decrease in volumes on the Polish market was related with the shutdowns of PX / PTA complex, installation of PVC and soda lye in Anwil Group was partially compensated with higher volumes in the Czech market thanks to the improved market conditions and the absence of limitations due to floods in the Czech Republic in the I half-year of 2013.

The negative impact of other factors amounted to PLN (-) 4,652 million (y/y) and related mainly to the changes in the balance of other operating activities of PLN (-) 4,824 million (y/y) including impairment allowances as well as a positive impact on other elements of PLN 172 million related mainly to the sales transaction of mandatory reserves described above.

In the I half of 2014 as compared to the previous year there was an increase in the segment's capital expenditures by PLN 1,046 million (y/y) to the level of PLN 1,580 million.
The largest capital expenditure projects realised in the I half of 2014 were:

- PKN ORLEN: CCGT power plant in Włocławek, Installation of Catalytic Denitrification and Dedusting and Flue Gas Desulphurization Installation, replacement of pipelines on Hydrocracking plant, construction of reformate tanks on the Composition Department, modernisation of starting collector of Boiler of Power Heating Plant, adaptation of handling tank for storage of hydrocarbon liquid streams of Ethylene Unit, modernisation of furnace of Olefin Unit II, works connected with decrease of acetic acid on PTA Installation as well as projects related to the construction of gas power plant in Włocławek by PKN ORLEN,
- ORLEN Lietuva Group: finalisation of Visbreaker Vacuum Flasher installation construction,
- Unipetrol Group: modernisation of LPG unloading station, projects related to energy efficiency improvement, construction of educational and research centre and periodic reconstruction of pyrolysis furnaces,
- Anwil Group: construction of loading and package storage installation and modernisation of freon-cooling system.

Retail segment

In the I half of 2014, retail segment EBITDA of ORLEN Group amounted to PLN 591 million as compared to PLN 492 million in the I half of 2013.

The increase in the fuel margins in the Polish market with the observed market pressure on margins in Germany and the Czech Republic contributed to the improvement in segment's EBITDA by PLN 45 million (y/y).

The increase in sales volume (y/y) achieved in all markets increased the segment EBITDA by PLN 42 million (y/y).

The positive impact of other factors amounted to PLN 12 million (y/y) and comprised mainly improved results on the sale of non-fuel goods and services accompanied by higher fuel stations operating expenses.

In the I half of 2014, the segment's capital expenditures amounted to PLN 113 million.

At the end of I half of 2014, the ORLEN Group operated 2,681 fuel stations which represents a decrease by (-) 15 (by (-) 14 on the Polish market, (-) 2 on the German market, with an increase by 1 on Czech market) as compared to the end of II quarter of 2013. In the Lithuanian market the number of fuel stations did not change. The number of fuel stations decreased by (-) 13 in the CODO system and by (-) 2 in the franchise system.

At the end of the I half of 2014 the number of catering points such as Stop Cafe and Stop Cafe Bistro in Poland amounted to 1,149 and was higher by 280 (y/y). On Lithuanian and Czech markets the number of catering points such as Stop Cafe and Stop Cafe Bistro did not change (y/y) and amounted to 23 and 92, respectively.

Upstream segment

Upstream segment EBITDA for the I half-year before impairment allowances amounted to PLN 58 million. The negative impact of impairment allowances of assets amounted to PLN (-) 8 million and is described in detail below.

Unconventional projects in Poland

As at the end of June 2014, 10 drillings were completed, including 7 vertical and 3 horizontal.
In the I half of 2014, within the Lublin Shale project a horizontal drilling was completed on the Wodynie-Łuków concession and the acquisition of 2D seismic data under Wołomin concession was started. Preparatory works of hydraulic fracturing treatment within the Wodynie-Łuków concession as well as works related to another horizontal drilling within the Wierzbica concession were performed. The analyses of data obtained during previous operations were performed simultaneously.

Within Mid-Poland Unconventionals and Hrubieszów Shale projects, interpretations of integrated geological and geophysical data were conducted.

In the II quarter, within the Mid-Poland Unconventionals project, impairment allowances on incurred capital expenditures of PLN (-) 8 million related to expiration of the "Łódź" concession in July 2014 as well as the decision of ORLEN Upstream to resign from further project works in this region, were recognised. Works within the project of the "Sieradz" concession region are continued.

Total capital expenditures concerning unconventional projects in the I half of 2014 amounted to PLN 35 million.

Conventional projects in Poland

As at the end of the June of 2014, 3 exploration and prospecting drillings were completed, including 2 prospecting drillings within the Sieraków project and 1 exploration drilling within a project conducted on the Baltic Sea.

In the I half of 2014 analyses of data obtained during previous operations continued to be performed within the Sieraków project in order to verify the potential of the area and to update the working schedule.

In the I half of 2014, within the Karbon project, an exploration drilling within Lublin concession as well as continued processing and interpretation of new 2D seismic data within the Bełżyce and Lublin units were performed.

Total capital expenditures concerning conventional projects in the I half of 2014 amounted to PLN 27 million.

Activities in Canada

On 5 June 2014 TriOil acquired 100% of shares of Birchill Exploration Limited Partnership ("Birchill"). The core business of Birchill includes: exploration, prospecting, extraction of crude oil and natural gas in Canada. The conclusion of the agreement is consistent with the ORLEN Group strategy, which plans the development of crude oil and natural gas resource base.
On the same day, TriOil and Birchill merger through transfer of all assets of Birchill on TriOil was performed.

In the I half of 2014, hydrocarbon extractions amounted to boe[1]/d 4.1 thousand.

Weather and side conditions in the II quarter of 2014 limited the ability to conduct operating activities in the Alberta region.
In addition, the impact of the acquired Ferrier / Strachan assets belonging to Birchill was limited due to including them effectively in consolidation since the II half of June 2014 due to the realisation after the acquisition of a periodic repair gas processing plant which enables the production of hydrocarbons for sale.

As at the end of I half of 2014 extraction works were performed on the 123 net drillings[2].

Total capital expenditures of TriOil in the I half of 2014 amounted to PLN 111 million and comprised mainly preparatory works related to new production drillings as well as development of extraction infrastructure.

Corporate functions

In the I half of 2014, EBITDA of Corporate Functions was higher by PLN 11 million (y/y).

In the I half of 2014, capital expenditures of corporate functions of PLN 162 million related mainly to fees of transformation of perpetual usufruct of land into real estate ownership of a part of production plant in Płock accompanied by adjacent areas of PLN 138 million, that will be paid over a 20 years period, as well as IT projects.

Financial costs and net result

Net financial costs in the I half of 2014 amounted to PLN (-) 1,013 million and mainly consisted of net foreign exchange losses of PLN (-) 867 million, net interest costs of PLN (-) 106 million as well as the settlement and valuation of net financial instruments of PLN (-) 37 million.
In the line of negative net foreign exchange the main item is the amount of exchange differences arising from the termination of hedge accounting of net investment in a foreign operation (known as net investment hedge). As of 30 June 2014, the ORLEN Group stopped using hedge accounting of net investment in a foreign operation (ORLEN Lietuva Group). Hedged item (ORLEN Lietuva Group's equity) decreased as a result of recognition in the II quarter of 2014 of the impairment allowances of non-current assets, which resulted in a reclassification of accumulated surplus of negative foreign exchange from the valuation of hedging instruments from equity to the statement of profit or loss. Negative foreign exchange surplus in the 6 and 3 month period ended 30 June 2014 related to the above amounted to PLN (-) 811 million. The above reclassification has no impact on total equity of the ORLEN Group.

After taking into account tax settlements, the ORLEN Group's net loss for the I half-year of 2014 amounted to PLN (-) 5,264 million.

[1] Equivalent of crude oil barrel
[2] Adjusted for the shares of other partners

3.2 Statement of financial position

As at 30 June 2014, total assets amounted to PLN 50,607 million and decreased by PLN (-) 745 million (by (-) 1.5%) as compared to the balance as at 31 December 2013.

Current assets increased by PLN 2,354 million (by 9.6%) (y/y) to the level of PLN 26,799 million, mainly as a result of:

- increase by PLN 2,606 million (by 96.9%) of the cash and cash equivalents balance,
- increase by PLN 594 million (by 7.6%) of trade and other receivables,
- decrease by PLN (-) 855 million (by (-) 6.2%) of the value of inventories, mainly as a result of the repurchase of the earlier sold IV tranche of mandatory reserves of PLN 1,189 million as well as the sale of the next tranche to Cranbell Sp. z o.o. under the changed formula of the crude oil mandatory reserves maintenance with a value of PLN (-) 2,236 million.

The value of non-current assets decreased as compared to the balance as at 31 December 2013 by PLN (-) 3,099 million (by (-) 11,5%) and amounted to PLN 23,808 million. The most significant influence on the above change was a net reduction by PLN (-) 3,091 million (by (-) 12.0%) of the value of property, plant and equipment and intangible assets, mainly as a result of:

- capital expenditures of PLN 2,036 million,
- depreciation and amortisation of PLN (-) 1,046 million,
- recognized impairment allowance of assets, mainly in ORLEN Lietuva, Unipetrol Group, Refineria Jedlicze Group as well as Spolana from Anwil Group of PLN (-) 5,017 million,
- the consolidation of the Canadian company Birchill's assets of PLN 838 million and
- strengthened control by Unipetrol Group over Ceska Rafinerska of PLN 195 million as a result of the acquisition of shares from Shell.

As at 30 June 2014, equity amounted to PLN 22,195 million and was lower by PLN (-) 5,356 million (by (-) 19.4%) as compared to at the end of the previous year, mainly as a result:

- the resolution of the Annual General Shareholders Meeting of PKN ORLEN S.A. dated 15 May 2014 on the distribution of profit for 2013 as a dividend of PLN (-) 616 million and the recognition of a net loss for the 6 months of 2014 attributable to equity owners of the parent of PLN (-) 5.133 million ,
- increase by PLN 668 million (y/y) of the foreign exchange differences on subsidiaries from consolidation,
- decrease by PLN (-) 111 million (y/y) of equity attributable to non-controlling interests,
- decrease by PLN (-) 187 million of hedging reserve.

As at 30 June 2014, the ORLEN Group's net indebtedness amounted to PLN 6,336 million and was higher by PLN 1,668 million as compared to the end of 2013. The change in the net indebtedness balance included net incurrence of loans in the amount of PLN 4,224 million, an increase in cash and cash equivalents balances by PLN (-) 2,606 million and the impact of negative foreign exchange differences from the revaluation of foreign currency loans and valuation of indebtedness of PLN 50 million.

3.3. Statement of cash flows

Net cash flows from operating activities in the I half of 2014 amounted to PLN 615 million and mainly resulted from generated EBITDA before non-cash impairment allowances of non-current assets of PLN 1,500 million . It was decreased by non-cash income on acquisition of Ceska Rafinerska shares from Shell in the I quarter of 2014 of PLN (-) 180 million, growth of net working capital amounted to PLN (-) 350 million as well as payments made in relation to tax settlements of Rafineria Trzebinia from previous years in accordance with tax authorities decisions of PLN (-) 191 million in the II quarter of 2014.

Net cash used in investing activities in the I half of 2014 amounted to PLN (-) 2,080 million and comprised mainly net expenditures for the acquisition of property, plant and equipment, intangible assets and perpetual usufruct of land of PLN (-) 1,363 million and net expenditure for the acquisition of shares of PLN (-) 699 million related to the acquisition of a Canadian company Birchill Exploration Limited Partnership, purchase of Ceska Rafinerska a.s. shares from Shell and the sale of ORLEN Medica along with Sanatorium Uzdrowiskowe "Krystynka" in Ciechocinek and PROF-MED.

Net cash provided by financial activities in the I half of 2014 amounted to PLN 4,067 million and mainly comprised of net proceeds of loans and borrowings of PLN 1,871 million, proceeds from the issuance of debt securities of PLN 2,350 million related to the issuance of retail bonds by PKN ORLEN S.A. and Eurobonds by special purpose vehicle ORLEN Capital AB and interest payments of PLN (-) 136 million.

Taking into account the revaluation of cash from foreign exchange differences, the balance of cash increased in the I half of 2014 by PLN 2,606 million and as at 30 June 2014 amounted to PLN 5,295 million.

Factors and events which may influence future results

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

3.4. The most significant events in the period from 1 January 2014 until the date of preparation of the foregoing report

JANUARY 2014

Termination of the agreement for gathering and keeping of crude oil mandatory reserves

PKN ORLEN announced that on 28 January 2014 the agreement for gathering and keeping of crude oil mandatory reserves, concluded on 28 December 2012 between PKN ORLEN and Whirlwind Sp. z o.o., has expired.
Therefore, and in accordance with realization of the Act on stocks of crude oil, petroleum products and natural gas, the principles of proceeding in circumstances of a threat to the fuel security of the State and disruption on the petroleum market PKN ORLEN purchased crude oil owned by Whirlwind. The value of transaction was approximately PLN 1,223 million, translated using exchange rate as at 27 January 2014 (representing approximately USD 396 million). The crude oil price was established according to market quotations.
On the day of conclusion of the Agreement, PKN ORLEN hedged purchase price of crude oil with futures contract. Through the settlement of the hedging transaction purchase price of crude oil was decreased by approx. PLN 34 million, translated using exchange rate as at 27 January 2014 (representing approx. USD 11 million). As a result of these operations PKN ORLEN recognised in the first quarter of 2014 purchase of crude oil of approx. PLN 1,189 million, translated using exchange rate as at 27 January 2014 (representing approx. USD 385 million).
Additionally, within the duration of the contract regarding gathering and maintenance of crude oil reserves, Whirlwind incurred charges to PKN ORLEN for inventory maintenance guarantees.

MARCH 2014

Appointment to the new term of office of the Management Board by the Supervisory Board of PKN ORLEN

On 6 March 2014 the Supervisory Board of PKN ORLEN appointed to the Management Board of PKN ORLEN following persons:

- Dariusz Jacek Krawiec for the position of the President of the Management Board,
- Sławomir Jędrzejczyk for the position of the Vice-President of the Management Board,
- Piotr Chełmiński for the position of the Member of the Management Board,
- Krystian Pater for the position of the Member of the Management Board,
- Marek Podstawa for the position of the Member of the Management Board

for the common three year term of office starting the day after present common term of office of the Management Board of the Company expires, that is after the day of the General Shareholders Meeting of the Company approving the financial statements for 2013.

APRIL 2014

Bonds under public bond issuance program

On 28 March 2013 the Supervisory Board of PKN ORLEN approved the issue of bonds by the Company through a public bond issuance program (the Program).
On the basis of an agreement concluded with UniCredit CAIB Poland S.A, Powszechna Kasa Oszczędności Bank Polski S.A. and Bank Pekao S.A., in 2013 PKN ORLEN issued 4 series of mid-term bonds (4-years) of total nominal value of PLN 700 million, dedicated to retail investors. On 2 April 2014 PKN ORLEN issued fifth series of 4-years bonds (E series) of nominal value of PLN 200 million, and on 9 April 2014 sixth series of retail bonds (F series), of total value of PLN 100 million was issued. Sixth series was the last offering, finalizing the Program.
Bonds issued under the Program are unsecured, bearer ordinary bonds, registered in the National Depository for Securities listed on the regulated market within the Catalyst platform operated by the Warsaw Stock Exchange.

In PLN million

	Nominal value	Subscription date	Redemption date	Base rate	Margin	Rating
A Series	200	28.05.2013	28.05.2017	6M WIBOR	1,50%	A - (pol)
B Series	200	03.06.2013	03.06.2017	6M WIBOR	1,50%	A - (pol)
C Series	200	06.11.2013	06.11.2017	6M WIBOR	1,40%	A - (pol)
D Series	100	14.11.2013	14.11.2017	6M WIBOR	1,30%	A - (pol)
E Series	200	02.04.2014	02.04.2018	6M WIBOR	1,30%	A - (pol)
F Series	100	09.04.2014	09.04.2020	Fixed interest rate	5%	A - (pol
Total	**1 000**					

Resignation from the position of member of the Supervisory Board of PKN ORLEN

On 17 April 2014 Mr Michał Gołębiowski resigned from the position of member of the Supervisory Board of PKN ORLEN, effective on 21 April 2014, due to relevant professional circumstances.

Refinance of main credit line and extension of the period of available financing

On 25 April 2014 in order to refinance its main credit line, PKN ORLEN signed a credit agreement with syndicate of 17 banks. The maximum debt, under the Agreement provisions, amounts to PLN 8 406 million, based on the exchange rate as of 25 April 2014 (representing EUR 2,000 million), The Agreement replaced the credit agreement dated 28 April 2011 with the maximum debt value of EUR 2,625 million, signed with syndicate of 14 banks.
The debt is arranged as a club-deal type, with a group of main relational banks of the ORLEN Group, in which PKN ORLEN set independently with each bank from the consortium, an amount of credit exposure as well as its funding conditions. The Agreement is valid for 5 years with 2 one-year options to extend the contractual period.
According to the Agreement provisions the debt is available in two tranches. The first tranche in the amount of PLN 6,305 million based on the exchange rate as of 25 April 2014 (representing EUR 1,500 million) will be used for the repayment of debt from the credit agreement dated 28 April 2011. Availability of the second tranche in the amount of approximately PLN 2,102 million, based on the exchange rate as of 25 April 2014 (representing EUR 500 million) depends on PKN ORLEN's as well as companies from ORLEN Group needs for financial resources. Provisions of the Agreement state that the Company can withdraw from using of that tranche in 6 months from the day of signing of the Agreement.
The debt can be drawn in EUR, USD, PLN, CZK and CAD. Interest rate of the credit is based on the certain base fee plus margin. Other conditions of credit are also not different from market conditions.
The syndicate of banks, which signed the Agreement is formed by: The Bank of Tokyo-Mitsubishi UFJ, Ltd., Bank

Polska Kasa Opieki S.A., ING Bank Slaski S.A., Bank Zachodni WBK S.A., BNP Paribas S.A. Branch in Poland, Credit Agricole Corporate and Investment Bank, mBank S.A., Nordea Bank Polska S.A., Powszechna Kasa Oszczędności Bank Polski S.A., Société Générale Corporate & Investment Banking, Bank Handlowy w Warszawie S.A., HSBC Bank plc, Rabobank Polska S.A., The Royal Bank of Scotland plc, Erste Group Bank AG, DNB Bank Polska S.A., Caixabank, S.A. (publ) Branch in Poland.

MAY 2014

Changes of PKN ORLEN Supervisory Board members

The Ordinary Shareholders' Meeting of PKN ORLEN on 15 May 2014 appointed to the Supervisory Board Mr. Adam Ambrozik and Mr. Radosław L. Kwaśnicki.
Additionally the Ministry of the State Treasury acting on behalf of the shareholder the State Treasury, according to § 8 item 2 point 1 of the Company's Articles of Association appointed to the Company's Supervisory Board Mr. Maciej Bałtowski with effective date of 15 May 2014.

JUNE 2014

Opening of liquidation proceedings for RAF – KOLTRANSSp. Z o.o.

On 1 June 2014 the Extraordinary Shareholders Meeting of „RAF-KOLTRANS" Sp. z o.o. located in Jedlicze, adopted a resolution regarding the dissolution of „RAF-KOLTRANS" Sp z o.o. on 1 June 2014.
The purpose of the „RAF-KOLTRANS" Sp. z o.o. was providing of manoeuvres, loading and unloading services on railway siding of Rafineria Nafty Jedlicze S.A.

Sales of next tranche of crude oil mandatory reserves

Within the process of changing the formula of keeping crude oil mandatory reserves, the Company sold a part of mandatory reserves, through assigning the keeping of the inventories to the third party.
Based on the agreement dated 26 June 2014 PKN ORLEN sold to the company Cranbell crude oil of approximately PLN 2,236 million translated with exchange rate as at 26 June 2014 (representing EUR 736 million). The price was determined based on market quotations.
On the basis of simultaneously concluded agreement for keeping of inventories Cranbell will be providing service of keeping of crude oil mandatory reserves to PKN ORLEN account, whereas PKN ORLEN will guarantee storage of inventories in current location. The agreement for keeping of inventories was concluded for the period to 28 January 2016. The Company takes into account the possibility of its renewal for the next period.
Above Agreements were concluded after receiving by PKN ORLEN the approval of Material Reserves Agency for the transaction concluded.
Cranbell is a SPV, owned in 19% by RBS Investments Netherlands B.V. and in 81% by Dutch company Cranbell B.V. Cranbell in its statutory activities includes turnover of crude oil.

Eurobonds issue within the ORLEN Group

On 30 June 2014 the special entity ORLEN Capital AB issued debt securities with 7-year redemption period. The value of the issue was PLN 2,080 million translated using exchange rate as at 30 June 2014 (representing EUR 500 million). PKN ORLEN, being an underwriter, owns 100% of shares in ORLEN Capital AB. The funds acquired from the issue will be used to further diversification of the ORLEN Group's sources of financing.

3.5. Significant risk factors influencing current and future financial results

The main risks to which the ORLEN Groups is exposed are as follows:
- market risks, including:
  - *commodity risk,*
  - *foreign currency risk,*
  - *interest rate risk,*
- liquidity and credit risk.

The ORLEN Group applies a consistent financial risk hedging policy based on market risk management policy supported and supervised by the Financial Risk Committee, Management Board and Supervisory Board.
PKN ORLEN supervises liquidity management and external financing in the Group.

3.5.1. Market risks

Market risk is a possible negative impact on the Group's results due to changes of commodities prices, currency exchange rates and interest rates.
The objective of market risk management is to reduce the unfavourable effects of changes in market risk factors on the cash flows and financial results in the short and medium term.
The ORLEN Group applies a consistent hedging policy to commodity risk, foreign exchange risk and interest rate risk. The above mentioned risks are managed on the basis of market risk management policy and hedging strategies, which define the principles of measurement of individual exposure parameters and the time horizon of risk hedging and hedging instruments.
Market risk management is conducted using derivative instruments which are used solely to reduce the risk of changes in fair value and risk of changes in cash flows. ORLEN Group applies only those instruments which can be measured internally, using standard valuation models for given instrument.
When obtaining market valuation of the instruments, the Group relies on information obtained from market leading banks, brokers and information services. Transactions are concluded only with reliable partners, authorized to participate in transactions through the application of appropriate procedures and signing the relevant documentation.

3.5.1.1. Commodity risk

As part of its operating activity the Group is exposed mainly to the following commodity risks:
- risk of changes in margins on the sale of products delivered by the Group;
- risk of Brent/Ural differential fluctuations,
- risk of changes in crude oil prices and product prices related to time mismatch that occurs especially when part of crude oil is purchased by sea or when there is a periodic oversized operating stock of crude oil, semi-finished products or products as well as concluded future transaction of sale,
- risk of changes in CO_2 emission rights prices,
- risk of changes in crude oil prices and refining products prices associated with the obligation to maintain mandatory reserves of crude oil and fuels.

Based on developed hedging strategies, the ORLEN Group hedges unsystematically both refining margin risk and changes in Ural/Brent differential risk.
Risk of changes in crude oil prices and/or products related to the time mismatch is identified and hedged in a systematic and regular way.
The ORLEN Group regularly manages the risk of changes in prices of CO_2 emission rights by at least an annual verification of the number of CO_2 emission rights and determines the method of balancing of the future shortages or surpluses.
Risk of changes in crude oil and product prices related to the obligation to maintain mandatory reserves of crude oil and fuels, is not hedged on purpose due to the volume, permanent exposure and non-cash impact on the Group's results.

3.5.1.2. Currency risk

As part of its business activities the ORLEN Group is exposed to the following risks from foreign currency exchange rates changes:
- economic currency exposure over the next 12 months that results from reduced by indexed to or denominated in other that functional currency;
- balance sheet currency exposure resulting from denominated in foreign currency assets (trade and other receivables, cash and cash equivalents, other) and liabilities (trade and other liabilities, loans, debt securities, other);
- currency risk related to investments expenditures.

The risk related to economic currency exposure is regularly and actively hedged using purchase or sales currency forwards.
Based on developed hedging strategies, the Group hedges not systematically selected items balance sheet currency exposure..
Foreign currency risk related to the investments expenditures is regularly hedged by forward currency purchase transactions of foreign currencies in which the expenses are incurred.

3.5.1.3. Interest rate risk

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

3.5.2. Liquidity and credit risk

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

ORLEN Group is exposed to liquidity risk arising from the ratio of current assets to current liabilities. As at 30 June 2014 and 31 December 2013, the ratio of current assets to current liabilities (current ratio) amounted to 1.61 and 1.53, respectively.
The objective of liquidity risk management is to ensure the financial security and stability of the Group and the basic tool reducing above risk is the ongoing review of assets and liabilities maturity. Additionally, the ORLEN Group carries out a policy of its funding sources diversification and uses a range of tools for effective liquidity management.
Banking sector has the largest share in the ORLEN Group's financing and provides financing in the form of syndicated loans (representing the core funding source) and bilateral loans (overdrafts, multi-purpose credit lines, investment loans) of diverse maturity structure.
Given the increasingly restrictive regulations on obtaining long-term bank financing, the Group additionally takes advantage of two bond programs, enabling to use of resources outside the bank sector.

Bonds issued under the Program realised since 2007 can be purchased by financial institutions and companies. The above mentioned program is also used in the ORLEN Group's working capital management.

In April 2014, PKN ORLEN finalized its retail bond issuance program, launched in 2013, under which 10,000,000 units of debt securities were offered to investors with a nominal price of PLN 100 each.
The issuance of debt securities of EUR 500 million with a 7-year redemption period was completed on 30 June 2014 by a special purpose vehicle - ORLEN Capital AB. The sole owner of ORLEN Capital AB is PKN ORLEN, acting as the underwriter of the issue. Funds from the issue will serve to further diversify sources of funding.
The ORLEN Group operates 2 domestic cash pool facility systems in PLN which as at 30 June 2014 comprised 35 entities of ORLEN Group and cross border cash pool facility denominated in EUR, USD and PLN, run for PKN ORLEN and foreign subsidiaries of ORLEN Group.

Credit risk is related to the credibility of customers with whom sales transactions are concluded. Within its trading activity with its customers, the Group applies deferred payment term. However, granting credit limit is subject to risk associated with unsettled receivables for the delivered products and services by the customers.
Above risk in ORLEN Group is partly reduced through a wide range of customers with trade credit dispersed in various sectors of domestic and foreign economy.
In order to minimize the above risk, procedures are used regarding granting credit limits to the customers. Each time of customers' financial situation is assessed and their credibility and solvency are verified. The inherent element of credit risk management process realised in the Group is an ongoing monitoring of receivables turnover. The Group implements various legal forms of legal pledges (mortgages, guarantees, warranties, blockade of cash on bank accounts, security deposits, bills of exchange). For the customers to who credit limits are granted, prepayment or cash is the valid form of payment in the initial period of cooperation. The Group prepares the aging analysis of receivables, what reduces the problems with the on- time receivables settlement by its customers.
In order to reduce the risk of customers' insolvency, the Group additionally insures portion of its receivables within the organized trade credit insurance programs.

3.6. Hedge accounting

Cash flow hedge accounting

The Group hedges the following cash flows:
- from inflows from operating activities over next 12 months, reduced by indexed or denominated in other than functional currency expenses, using non-deliverable sales/purchase forwards,
- from sales of products and purchase of crude oil using commodity swaps,
- from interest payments concerning external financing using interest rate swaps (IRS),
- from investment projects using foreign exchange forwards.

Hedging transactions, which settlement and fair value measurement influence on the foregoing consolidated financial statements were concluded in the years 2009 – 2013.

Net investment hedge in a foreign operation

Starting from 30 June 2014 the Group ceased to use net investment hedge in a foreign operation. Net investment hedge hedged currency risk of the portion of net investment in ORLEN Lietuva that uses USD as its functional currency.

4. Forecasted development directions of ORLEN Group

The Strategy of ORLEN Group for 2014-2017 adopted in July 2014 is based on 3 basic pillars:

- **Value growth:** focus and utilization of the existing potential as a leverage of value creation in Upstream and Retail segments as well as simultaneous improvement of operational efficiency in the Downstream segment which includes the Refining, Petrochemical and Power Industry Segments. As a result, the forecasted annual average EBITDA[3] under a LIFO basis (profit from operation increased by depreciation and amortization) for the years 2014-2017 will amount to PLN 5.1 billion.
- **Financial strength**: flexibility and resistance to crisis situations, indebtedness with maturity dates above 5 year periods as well as its diversification – increased share of corporate and retail bonds as well as maintaining the investment rating at the minimum level of BBB-. Safe levels of net financial leverage below 30% and net debt / (operating profit + depreciation and amortisation) ratio less than 2. Stable financial foundations will create the potential for dividend payments in the subsequent years.
- **People**: management foundations based on the ORLEN's values: Responsibility, Progress, People, Energy, Dependability. Activities focused on standards improvement in the area of health and safety. The implementation of business objectives while maintaining the respect for the environment, strengthening the image of the "green" branch leader. A further care of people reflected in social campaigns carried out by the corporate ORLEN Foundation – Dar Serca. The development of modern management culture reflected in investing in the competencies development of the employees as well as assembling an experienced team of specialists, further optimization of business and management structures of the ORLEN Group as well as innovation.

Strategic directions in the ORLEN Group segments

Downstream segment

The ORLEN Group's core operating activity will be the downstream segment which includes high-class integrated refining, petrochemical and power industry assets as well as a competitive product portfolio which enables to achieve attractive margins and extend the value chain. Highly important is also the internal power industry based on high-efficiency cogeneration which offers lower costs in comparison to the European competition as well as power industry integrated with the production technology enabling high operational flexibility.

The improvement of the operational efficiency as well as the impact of the macroeconomic environment will enable the increase of the average level of EBITDA under LIFO[4] in the years 2014-2017 by PLN 1.5 billion to the level of PLN 3.9 billion in comparison to 2013.

[3] Before recognition of impairment allowances of property, plant and equipment in the II quarter 2014
[4] Before recognition of impairment allowances of property, plant and equipment in the II quarter 2014

In 2014-2017 annual average capital expenditures of the downstream segment in the refining and petrochemical area will amount to PLN 1.7 billion in comparison with 1.2 billion in 2013. Within the power industry annual average level of capital expenditures in the above mentioned years will be PLN 1.0 billion in comparison to PLN 0.4 billion in 2013. The main projects include development projects of CCGT in Wloclawek and Plock, Polyethylene 3, exploitation of the vacuum residue, as well as metathesis and HROS II. The remaining part will be disbursed for the optimization of the operations as well as mandatory projects.

Retail segment

The activities of the retail segment in the next years will be based on the largest sales chain in the Central Europe of more than 2,700 fuel stations. A strong brand is an additional advantage confirmed by high recognition among customers as well as a wide non-fuel market offer. Further value growth of Retail segment will be conducted based on full utilization of existing competitive advantages.

As a result of the above actions average EBITDA under LIFO basis of the segment will increase in 2014-2017 by PLN 0.2 billion to the level of PLN 1.5 billion in comparison to 2013.

Annual average capital expenditures in 2014-2017 will amount to PLN 0.4 billion, of which PLN 0.3 billion will regard to expenditures related to sales chain development, including the locations on highways, as well as the intensification of non-fuel market offer.

Upstream segment

The development of the segment is based on exploration-prospecting projects in the most perspective locations in Poland as well as on the secure foundations which include upstream assets in Canada (TriOil, Birchill).

Operational activities in 2014-2017 assume an increase of hydrocarbons output to the level of 6.0 billion boe/yr in 2017, what will enable to achieve annual EBITDA under LIFO basis in 2014-2017 at the level of PLN 0.4 billion.

Planned total capital expenditures of the Upstream segment in 2014-2017 will amount to PLN 3.2 billion and will include expenditures related to the acquisition of Birchill, the development of explorations in Poland and the exploration-extraction works in Canada. The amount does not include additional pool on works intensification in Poland or diversification of assets portfolio in Poland and abroad, depending on the free cash flow.

5. Achievements in research and technological development

5.1. Downstream

In the I half of 2014 the most important work carried out by **PKN ORLEN** in cooperation with institutes and research centres, included a review of the hydrogen gases and hydrogen management. In order to reduce hydrogen losses, increase hydrocarbons recovery, increase outputs on Hydrocracking installation by improving the quality of the circulating gas and prolonging the life of the catalyst on the Isomerisation installation by reducing the amount of carbon oxide in the hydrogen gas, a number of initiatives/projects were prepared.
The construction of gas and steam power plant in Wloclawek with the capacity of MWe 463 is continued. The major advantages of this type of block are greater efficiency and flexibility in comparison with conventional systems of electricity production based on carbon fuel. The CCGT (Combined Cycle Gas Turbine) technologies used in blocks lead to significantly lower emissions of harmful substances such as NOx, SO_2 and greenhouse gases.
An ecological investment programme involving the construction of modern catalytic desulphurization and flue gas denitriding installation aimed to satisfy strict industrial emission standards, which will enter into force from 1 January 2016, was realized in PKN ORLEN heat and power plant**.**

In **ORLEN Lietuva Group** in the I half of 2014 research and development was continued regarding the improvement of production processes efficiency. In 2014 thanks to the introduction of technologically advanced Visbreaker Vacuum Flasher installation the processing of crude oil was intensified which increased fuel yields.
A project was introduced aiming to increase the production of high-octane gasoline while limiting purchases of high-octane fuel components by improving workflow management of semi-finished products on existing technological lines.

The research and development activities of **Unipetrol Group** in the I half of 2014 were realised in collaboration with the VUAnCh company and Polymer Institute Brno s.r.o. The most important work concerned the usage of residues from Visbreaking installation in road asphalt production, optimization of fuel oils production processes while maintaining quality standards as well as the analysis of possible ways to improve the quality of diesel fuel.
Projects relating to the improvement of polymers properties by using new catalysts as well as relating to new methods of their stabilisation aiming to further optimize the production processes were also continued.

In the I half of 2014 **ANWIL Group** continued with AkzoNobel company research and development work related to the implementation of continuous initiators dosing technology (CID) in the polymerization process of polyvinyl chloride. The result of the conducted work was the start up of trial production, which will enable the evaluation of the production indicators and industrial capacity.
A project was launched, conducted with the participation of the Lodz University of Technology and the Central Mining Institute, aiming to develop and implement manufacturing technology ceramising composites based on polyvinyl chloride.

Research and development carried out in the I half of 2014 by **ORLEN Oil** aimed to widen the market offer and further develop new product technologies including energy efficient engine oils in 5W-30 class, modern engine oils in 5W-30 and 10W-30 classes, hydraulic oils (biodegradable, arctic, synthetic), industrial gas engine oils as well as specialized oils used in machining processes and maintenance-cleaning oils.

Additionally studies were lunched related to the work temperature optimization of refinement installations of vacuum distillates aiming to reduce energy consumption of the installation. In addition, a project reducing the energy costs of base oil hydrorefining in the HROS installation was also continued.

Rafineria Trzebinia Group continued its works related to the optimization of the Tubular-Tower Distillation unit (pl DRW) aimed to improve output and reduce energy consumption and losses. An analysis of A-4 fraction redistillation for the production purposes of base oils with high viscosity indexes and paraffin gases was conducted.
The work on new recipes regarding paraffin specifics used in the tire, rubber, candlestick and agricultural industries was continued.

ORLEN Group meets the requirements of the **REACH** resolution (resolution (UE) 1907/2006 of the European Parliament and the European Union Council) which main objective is to ensure a high level of human health and environment protection with simultaneous support of competitiveness, innovations, and propagation of development of alternative methods of evaluation of threats caused by chemical substances.
As part of execution of the resolution's tasks, producers and importers of chemical substances are obliged to register them in the European Chemicals Agency (ECHA). As at 30 June 2014 the ECHA data base contained 240 registration documentations submitted by ORLEN Group.

5.2. Upstream

Under **the unconventional projects** implemented by the ORLEN Group in the I half of 2014 the project Lublin Shale preparatory works were performed for the acquisition of 2D seismic data under the Wołomin concession. The analyses of data obtained during previous operations were performed simultaneously.
Under the Mid-Poland Unconventionals project and Hrubieszów Shale project an interpretation of integrated geological and geophysical data was conducted.

Under **the conventional projects** analysis of data obtained during previous operations were performed under the Sieraków project in order to verify the potential of the area and to update the working schedule.
Under the Karbon project the works regarding processing and interpretation of new 2D seismic data from Bełżyce and Lublin units were performed. ORLEN Upstream Group actively participated in the "Blue Gas" Program of the National Research and Development Centre aiming to develop solutions for the extraction of shale gas in Poland..

5.3. Environmental protection

In the I half-year of 2014 ORLEN Group continued its integrated environmental protection activities. Within the implemented initiatives educational, investment and organizational activities in the environmental protection area were undertaken with the participation of a large number of employees. PKN ORLEN participated actively in giving opinions and creating drafts of national law acts concerning environmental protection. The activities focused mainly on implementation into Environmental Protection Law the provisions contained in Directive 2010/75/EU of the European Parliament and of the Council dated 24 November 2010 on industrial emissions. Additionally, according to the Act on the greenhouse gas emission rights trading system,5 annual reports were prepared concerning CO_2 emissions in 2013, which were positively verified by independent experts in the area of their consistency with the actual state.
Activities concerning the implementation of the Responsible Care Programme were also carried out and focused on reports required for 2013 and declaration of new tasks for 2014.
An Audit performed by Bureau Veritas Certification confirmed the correctness of activities carried out in the area of environmental protection.

5.4. The Integrated Safety Management System

The main purpose of Safety Management System in ORLEN Group is a systematic development of a corporate occupational safety culture.
In the I half-year of 2014 activities focused on further integration and cooperation within the ORLEN Group were continued. Processes of multi-channel informing about threats, accidents, inspections, fires and failures in the area of occupational safety through Electronic Prevention System were optimised.
In order to further increase the efficiency of activities aimed at improving the employees' awareness and promoting the occupational safety culture the so called " Occupational Safety Indicator - OSI was implemented, which is the function of the existing Total Recordable Rate TRR („Total Recordable Rate") and Reporting and Realization of Threats Indicator RRT.
The result of efficient measures undertaken to improve the occupational safety in ORLEN Group companies is a drop by (-) 18.5% in the number of accidents in comparison to I half of 2013. Total Recordable Rate TRR decreased by 17% (y/y) and was the best result in ORLEN Group history at the level of 1.40.

6. Related party transactions

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

In the 6 and 3 months period ended 30 June 2014 and 30 June 2013 the Group companies did not grant any advances, borrowings, loans, guarantees and sureties to managing and supervising persons and their relatives nor concluded other agreements obliging to render services to PKN ORLEN and its related parties.
As at 30 June 2014 and as at 31 December 2013 there are no loans granted by the Group companies to managing and supervising persons and their relatives.

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

6.2. Transactions with related parties concluded by the key executive personnel of the Parent Company and key executive personnel of the Capital Group companies

As at 30 June 2014, as at 31 December 2013 and in the 6 and 3 months period ended 30 June 2014 and 31 December 2013 key executive personnel of the Parent Company and the Group companies did not concluded any transactions with related parties that could significantly influence the half-year condensed consolidated financial statements.

	Entities classified as joint arrangements			
	6 MONTHS 2014 (unaudited)	II QUARTER 2014 (unaudited)	6 MONTHS 2013 (unaudited) (restated data)	II QUARTER 2013 (unaudited) (restated data)
Sales	1 713	834	1 766	820
Purchases	(248)	(126)	(215)	(65)

including:
:

	Entities classified as joint arrangements joint venture			
	6 MONTHS 2014 (unaudited)	II QUARTER 2014 (unaudited)	6 MONTHS 2013 (unaudited) (restated data)	II QUARTER 2013 (unaudited) (restated data)
Sales	1 528	744	1 582	752
Purchases	(14)	(7)	(14)	(7)

	Entities classified as joint arrangements joint operations			
	6 MONTHS 2014 (unaudited)	II QUARTER 2014 (unaudited)	6 MONTHS 2013 (unaudited) (restated data)	II QUARTER 2013 (unaudited) (restated data)
Sales	185	90	184	68
Purchases	(234)	(119)	(201)	(58)

	Associates			
	6 MONTHS 2014 (unaudited)	II QUARTER 2014 (unaudited)	6 MONTHS 2013 (unaudited) (restated data)	II QUARTER 2013 (unaudited) (restated data)
Sales	31	17	27	17
Purchases	(24)	(14)	(18)	(9)

	Total			
	6 MONTHS 2014 (unaudited)	II QUARTER 2014 (unaudited)	6 MONTHS 2013 (unaudited) (restated data)	II QUARTER 2013 (unaudited) (restated data)
Sales	1 744	851	1 793	837
Purchases	(272)	(140)	(233)	(74)

	Entities classified as joint arrangements		Associates		Total	
	30/06/2014 (unaudited)	31/12/2013 (restated data)	30/06/2014 (unaudited)	31/12/2013 (restated data)	30/06/2014 (unaudited)	31/12/2013 (restated data)
Trade and other receivables	627	653	22	19	649	672
Trade and other liabilities	244	233	13	11	257	244

(in PLN million)

including:

	Entities classified as joint arrangements				Total	
	joint venture		joint operation			
	30/06/2014 (unaudited)	31/12/2013 (restated data)	30/06/2014 (unaudited)	31/12/2013 (restated data)	30/06/2014 (unaudited)	31/12/2013 (restated data)
Trade and other receivables	570	590	57	63	627	653
Trade and other liabilities	3	4	241	229	244	233

In the 6 and 3 months period ended 30 June 2014 and 30 June 2013 there were related party transactions concluded within the Group on other than market terms

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

Detailed information concerning the below-mentioned proceedings was presented in the Consolidated Financial Statements for 2013 in note 44. Changes in their status in the current period and information regarding new proceedings were presented below.

7.1. Proceedings in which the ORLEN Group entities act as a defendant

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

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

The claim regards the payment of a compensation for losses related among others to alleged unfair competition of PKN ORLEN included in Agrofert Holding a.s. (Agrofert) claim and alleged illegal violation of reputation of Agrofert in relation to purchase by PKN ORLEN of UNIPETROL a.s. shares. On 21 October 2010 the Court of Arbitration in Prague overruled the entire claim of Agrofert against PKN ORLEN regarding the payment of PLN 2,949 million translated using exchange rate as at 30 June 2014 (representing CZK 19,464 million) with interest and obliged Agrofert to cover the cost of proceedings born by PKN ORLEN. On 3 October 2011 PKN ORLEN received from the common court in Prague (Czech Republic) claim for overruling the sentence of the Arbitration Court attached to the Economic Chamber of the Czech Republic and Agricultural Chamber of the Czech Republic in Prague issued on 21 October 2010. The complaint was dismissed by the court in Prague with the ruling of 24 January 2014. On 7 April 2014 Agrofert appealed from the above sentence. In the opinion of PKN ORLEN the decision included in the judgment of the Arbitration Court dated 21 October 2010 and in the judgment of the court in Prague dated 24 January 2014 are correct and will take all necessary means to remain the judgment in force.

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

7.1.2.1. Tax proceedings

As a result of the Customs Office proceeding in 2005, the excise tax liability in Rafineria Trzebinia S.A. for the period May-September 2004 was set at the amount of approximately PLN 100 million.
The proceeding of the excise tax liability for September 2004 was closed by the decision of the Supreme Administrative Court of 7 October 2013 which sustained the decision of the Head of the Customs Office in Cracow determining the excise tax liability of PLN 38 million. Rafineria Trzebinia S.A. settled entire liability including interest in a total amount of PLN 72 million.
On 14 May 2014 and 20 May 2014 the company received the decision of the Head of the Customs Office in Cracow determining of excise tax liabilities for the period: May, June, July and August 2004. The excise tax liability according to those decisions is PLN 132 million. The company filled an annulment against the decision to Head of the Customs Office in Cracow. On 5 June 2014 Rafineria Trzebinia paid entire liability with interests in a total amount of PLN 191 million. At the same time used provisions previously recognized for this purpose.

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

As at the date of preparation of the foregoing consolidated financial statements PKN ORLEN participates in court proceeding concerning the settlement of system fee with ENERGA – OPERATOR S.A. for the period from 5 July 2001 to 30 June 2002. ENERGA – OPERATOR claims from PKN ORLEN payment of PLN 46 million increased by the statutory interest. During the retrial, an opinion was prepared by an expert witness for the variant damages calculation. The court set the date of next hearing on 29 September 2014.

7.1.2.3. 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. motion for bankruptcy of I.P.-95 s.r.o. in November 2009. Total amount of the compensation is approximately PLN 271 million, translated using the exchange rate as at 30 June 2014 (representing CZK 1,789 million). UNIPETROL RPA s.r.o. is one of the 8 defendants against which the claim was brought. According to the UNIPETROL RPA s.r.o the claim is unjustified and groundless. The proceedings were suspended due to bankruptcy of I.P.-95 s.r.o.

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

7.2. Court proceedings in which entities of the ORLEN Group act as plaintiff

7.2.1. Compensations due to damages suffered by Rafineria Trzebinia S.A.

Rafineria Trzebinia S.A. acts as an auxiliary prosecutor in the proceedings started in 2010 held by District Court in Cracow concerning abuses associated with the realization of investment in installation for the esterification of biodiesel oil, on which Rafineria Trzebinia S.A. claims to incur a loss of approximately PLN 79 million. The Company issued a motion to the court requesting to oblige the defendants to compensate the incurred damages. The proceeding is pending in the District Court in Chrzanów. In order to confirm the circumstances of estimation of incurred loss by Rafineria Trzebinia S.A., an expert opinion will be allowed. After preparing such an opinion a date of next heating will be appointed.

7.2.2. Proceeding of Orlen Lietuva for compensation in respect of accident at Terminal in Butingè

AB Orlen Lietuva is a plaintiff in the 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 the hit of tanker ship into terminal buoy in Butinge Terminal on 29 December 2005. The total compensation claim amounts to approximately PLN 72 million translating using the exchange rate as at 30 June 2014 (representing approximately LTL 60 million). The proceeding is held in the first instance in front of District Court in Klajpeda. The court did not set a date of next hearing at the date of publication.

7.2.3. Tax proceedings

UNIPETROL RPA s.r.o., acting as a legal successor of CHEMOPETROL a.s. claims the return of tax expense paid in 2006 for the year 2005 by CHEMOPETROL a.s.. The claim concerns unused investment relief attributable to CHEMOPETROL a.s.. Value of claim amounts to approximately PLN 49 million translated using the exchange rate as at 30 June 2014 (representing approximately CZK 325 million). On 11 December 2013, the Court in Usti by the Elbe River (Czech Republic) issued a sentence in which it dismissed the decisions of the tax authorities regarding tax liability due to tax expense of UNIPETROL RPA s.r.o. of approximately CZK 325 million. UNIPETROL RPA s.r.o. submit an annulment claim against the sentence of the Court in Usti by the Elbe River seeking to dismiss of the tax authorities decision and to state that they are invalid and non-existent, as such statement would improve the company's position against the tax authorities in this particular case. On 19 March 2014 the Czech Supreme Administrative Court overruled an annulment claim of UNIPETROL RPA, s.r.o and dismissed the Court in Usti by the Elbe River decision and decided to revoke them to reexamination. UNIPETROL RPA s.r.o. submitted an application to the Czech Constitutional Court for a declaration that the judgment of the Administrative Court of the Czech violated the right to a fair trial. As a consequence, the Court in Usti by the Elbe River suspended the proceeding on UNIPETROL RPA's s.r.o annulment claim regarding dismiss of the decisions of the tax authorities.

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

On 20 December 2012 PKN ORLEN sent an arbitration call to Basell Europe Holding B.V. regarding ad hoc proceeding relating to Joint Venture Agreement signed in 2002 between PKN ORLEN and Basell Europe Holding B.V. The claims follow from the use by Basell Sales & Marketing Company so-called Cash Discounts which effectively led to a lower product price payable to Basell Orlen Polyolefins Sp. z o.o. On 27 February 2014 PKN ORLEN submitted its statement on this case, according to which claimed amounts were updated in the way that PKN ORLEN requests from Basell Europe Holdings B.V. to Basell Orlen Polyolefins Sp. z o.o. the amount of PLN 125 million translated using exchange rate as of 30 June 2014 (representing approximately EUR 30 million) plus interest, or alternatively, from Basell Europe Holdings B.V. to PKN ORLEN the amount of approximately PLN 57 million, provided that the amounts may be adjusted by arbitration proceedings. On 10 April 2014 PKN ORLEN submitted an application for suspension of the arbitration proceedings until 1 November 2014. Basell Europe Holdings B.V. accepted this request. On 23 April 2014 the parties received the Tribunal's decision regarding the suspension of the proceeding until 1 November 2014. In the opinion of PKN ORLEN, suspension of the proceeding may allow the parties reach the solution outside the court.

7.2.5. Proceedings against Aon UK Limited

In 2012 AB Orlen Lietuva acted as a plaintiff in the proceeding against Aon UK Limited, in which requests a compensation for damages incurred due to improper performance of brokerage services as a consequence of which AB Orlen Lietuva did not receive full compensation for the loss resulting from the refinery fire in 2006. Value of AB Orlen Lietuva compensation claim amounts to approximately from PLN 110 million to PLN 381 million translated using the exchange rate as at 30 June 2014 (representing approximately from USD 36 million to USD 125 million) depending on the adopted methods of calculation, which will be examined in court proceedings. Proceeding is held in the first instance in front of court in Great Britain. The witnesses, experts are submitting their declaration and opinions. The parties are waiting for the date of the hearing.

8. Other information

8.1. 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 the submission date	Number of shares as at the submission date
State Treasury	27.52%	117 710 196
ING OFE*	9.35%	40 000 000
Aviva OFE*	7.01%	30 000 000
Others	56.12%	239 998 865
	100.00%	**427 709 061**

* According to the information from the Ordinary Shareholders Meeting of PKN ORLEN of 15 May 2014

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.

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

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

	Number of shares, stock options as at the submission date of the I half report*
Supervisory Board	**3 300**
Grzegorz Borowiec	100
Artur Gabor	3 200

* According to the received confirmations as at 16 July 2014

In the period covered by the foregoing half-year condensed consolidated financial statements there were no changes in the ownership of shares held by members of the Management Board and the Supervisory Board.

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

As at 30 June 2014 and 31 December 2013 PKN ORLEN and its subsidiaries did not grant any loan sureties or guarantees to one entity or its subsidiary, where the value of sureties and guarantees constituted at least 10% of the Parent Company's equity.

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

The ORLEN Group has not published forecasts of the results.

9. Information on a set of applied corporate governance rules in the ORLEN Group

In 2013, PKN ORLEN complied with the "Best Practice for Companies Listed on the Stock Exchange" ("BPCL") valid for the Warsaw Stock Exchange. The Code of BPCL can be found on the website dedicated to the corporate governance at the Warsaw Stock Exchange(www.corp-gov.gpw.pl) and on the corporate website of PKN ORLEN (www.orlen.pl) in the "Investor Relations" section dedicated to the Company's shareholders under "Shareholder services & tools" in the "WSE Best Practice" tab (http://www.orlen.pl/PL/RelacjeInwestorskie/Gielda/Strony/DobrePraktykiGPW.aspx).
The Company currently does not apply the rule described in part IV, point 10 of "BPCL", regarding the shareholders right to take part in the General Meeting, using electronic means of communication, by broadcasting the General Meeting and allowing the bilateral communication set out in the real-time, with regard to the bilateral communication in the real-time. The other obligatory rules of the corporate governance contained in the "BPCL" are applied by PKN ORLEN.

Report on application of corporate governance rules in PKN ORLEN S.A. in 2013 was published by the Company on 27 March 2014, as a part of the Management Board Report on the Operations of PKN ORLEN S.A. for 2013, as well as a part of Management Board Report on the Operations of the ORLEN Capital Group for 2013. This report is available on the corporate website of PKN ORLEN (www.orlen.pl) in the "Investor Relations" section in the "WSE Best Practice" tab (http://www.orlen.pl/PL/RelacjeInwestorskie/Gielda/Strony/DobrePraktykiGPW.aspx).

The foregoing half-year report was authorized by the Management Board of the Parent Company on 22 July 2014.

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

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

……………………………
Piotr Chełmiński
Member of the Board

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

…………………………
Marek Podstawa
Member of the Board

Signature of the person responsible
for keeping accounting books

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