



**ORLEN**

**Polski Koncern Naftowy ORLEN**  
Spółka Akcyjna

# ORLEN GROUP

CONSOLIDATED HALF-YEAR REPORT

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

2017

**ORLEN GROUP - SELECTED DATA**

	PLN million		EUR million	
	6 MONTHS ENDED 30/06/2017	6 MONTHS ENDED 30/06/2016	6 MONTHS ENDED 30/06/2017	6 MONTHS ENDED 30/06/2016
Sales revenues	45 900	35 568	10 807	8 120
Profit from operations increased by depreciation and amortisation (EBITDA)	5 539	3 992	1 304	911
Profit from operations (EBIT)	4 396	2 969	1 035	678
Profit before tax	4 662	2 470	1 098	564
Net profit	3 842	2 128	905	486
Total net comprehensive income	4 026	2 265	948	517
Net profit attributable to equity owners of the parent	3 461	1 945	815	444
Total net comprehensive income attributable to equity owners of the parent	3 630	2 035	855	465
Net cash from operating activities	4 166	4 691	981	1 071
Net cash (used) in investing activities	(1 847)	(2 455)	(435)	(560)
Net cash (used) in financing activities	(1 377)	(498)	(324)	(114)
Net increase in cash and cash equivalents	942	1 738	222	397
Net profit and diluted net profit per share attributable to equity owners of the parent (in PLN/EUR per share)	8.09	4.55	1.90	1.04

	30/06/2017	31/12/2016	30/06/2017	31/12/2016
Non-current assets	30 559	30 321	7 230	6 854
Current assets	25 930	25 238	6 135	5 705
Total assets	56 489	55 559	13 365	12 559
Share capital	1 058	1 058	250	239
Equity attributable to owners of the parent	29 110	26 763	6 887	6 050
Total equity	31 939	29 285	7 556	6 620
Non-current liabilities	8 718	9 652	2 063	2 182
Current liabilities	15 832	16 622	3 746	3 757
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)	68.06	62.57	16.10	14.14

**PKN ORLEN – SELECTED DATA**

	PLN million		EUR million	
	6 MONTHS ENDED 30/06/2017	6 MONTHS ENDED 30/06/2016	6 MONTHS ENDED 30/06/2017	6 MONTHS ENDED 30/06/2016
Sales revenues	33 597	23 418	7 910	5 346
Profit from operations increased by depreciation and amortisation (EBITDA)	2 686	1 717	632	392
Profit from operations (EBIT)	2 094	1 158	493	264
Profit before tax	3 412	2 232	803	510
Net profit*	2 953	2 074	695	473
Total net comprehensive income	3 525	1 879	830	429
Net cash from operating activities	1 911	2 146	450	490
Net cash from/(used in) investing activities	183	(450)	43	(103)
Net cash (used) in financing activities	(1 731)	(485)	(408)	(111)
Net increase in cash	363	1 211	85	276
Net profit and diluted net profit per share (in PLN/EUR per share)	6.90	4.85	1.62	1.11

	30/06/2017	31/12/2016	30/06/2017	31/12/2016
Non-current assets	24 894	25 109	5 890	5 676
Current assets	18 049	17 963	4 270	4 060
Total assets	42 943	43 072	10 160	9 736
Share capital	1 058	1 058	250	239
Total equity	24 410	22 168	5 775	5 011
Non-current liabilities	7 818	8 918	1 850	2 016
Current liabilities	10 715	11 986	2 535	2 709
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)	57.07	51.83	13.50	11.72

\* Net result for the 1<sup>st</sup> half of 2017 includes impairment allowance of shares of ORLEN Lietuva recognized in the 1<sup>st</sup> quarter of 2017 in the amount of PLN (517) million.

The above data for the 6 month period of 2017 and 2016 was translated into EUR using the following exchange rates:

- items in the statement of profit or loss and other comprehensive income and the statement of cash flows - by the arithmetic average of average exchange rates published by the National Bank of Poland as of the last day of the month during the reporting period: from 1 January to 30 June 2017 – 4.2474 EUR/PLN and from 1 January 2016 to 30 June 2016 – 4.3805 EUR/PLN;
- items of assets, equity and liabilities – by the average exchange rate published by the National Bank of Poland as at 30 June 2017 – 4.2265 EUR/PLN and as at 31 December 2016– 4.4240 EUR/PLN;

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# HALF-YEAR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE 6 AND 3 MONTH PERIOD ENDED 30 JUNE

2017

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

**A. HALF-YEAR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION**
**Consolidated statement of profit or loss and other comprehensive income**

	NOTE	6 MONTHS ENDED 30/06/2017 (unaudited)	3 MONTHS ENDED 30/06/2017 (unaudited)	6 MONTHS ENDED 30/06/2016 (unaudited)	3 MONTHS ENDED 30/06/2016 (unaudited)
<b>Sales revenues</b>		<b>45 900</b>	<b>23 025</b>	<b>35 568</b>	<b>19 355</b>
<i>revenues from sales of finished goods and services</i>		34 392	16 605	26 044	14 051
<i>revenues from sales of merchandise and raw materials</i>		11 508	6 420	9 524	5 304
<b>Cost of sales</b>	4.1	<b>(39 600)</b>	<b>(20 151)</b>	<b>(30 797)</b>	<b>(16 223)</b>
<i>cost of finished goods and services sold</i>		(29 045)	(14 292)	(21 955)	(11 343)
<i>cost of merchandise and raw materials sold</i>		(10 555)	(5 859)	(8 842)	(4 880)
<b>Gross profit on sales</b>		<b>6 300</b>	<b>2 874</b>	<b>4 771</b>	<b>3 132</b>
Distribution expenses		(2 020)	(983)	(2 005)	(1 004)
Administrative expenses		(736)	(369)	(732)	(370)
Other operating income	4.3	861	612	916	718
Other operating expenses	4.3	(133)	(69)	(165)	(84)
Share in profit from investments accounted for under equity method	4.5	124	55	184	99
<b>Profit from operations</b>		<b>4 396</b>	<b>2 120</b>	<b>2 969</b>	<b>2 491</b>
Finance income	4.4	880	201	99	54
Finance costs	4.4	(614)	(198)	(598)	(509)
<b>Net finance income and costs</b>		<b>266</b>	<b>3</b>	<b>(499)</b>	<b>(455)</b>
<b>Profit before tax</b>		<b>4 662</b>	<b>2 123</b>	<b>2 470</b>	<b>2 036</b>
Tax expense		(820)	(369)	(342)	(244)
<i>current tax</i>		(635)	(297)	(109)	(49)
<i>deferred tax</i>		(185)	(72)	(233)	(195)
<b>Net profit</b>		<b>3 842</b>	<b>1 754</b>	<b>2 128</b>	<b>1 792</b>
<b>Other comprehensive income:</b>					
<b>which will be reclassified into profit or loss</b>					
<i>hedging instruments</i>		873	41	(344)	(213)
<i>exchange differences on translating foreign operations</i>		(520)	78	416	430
<i>deferred tax</i>		(169)	(11)	65	40
		<b>184</b>	<b>108</b>	<b>137</b>	<b>257</b>
<b>Total net comprehensive income</b>		<b>4 026</b>	<b>1 862</b>	<b>2 265</b>	<b>2 049</b>
<b>Net profit attributable to</b>		<b>3 842</b>	<b>1 754</b>	<b>2 128</b>	<b>1 792</b>
<i>equity owners of the parent</i>		3 461	1 541	1 945	1 608
<i>non-controlling interest</i>		381	213	183	184
<b>Total net comprehensive income attributable to</b>		<b>4 026</b>	<b>1 862</b>	<b>2 265</b>	<b>2 049</b>
<i>equity owners of the parent</i>		3 630	1 529	2 035	1 781
<i>non-controlling interest</i>		396	333	230	268
Net profit and diluted net profit per share attributable to equity owners of the parent (in PLN per share)		8.09	3.60	4.55	3.76

The accompanying notes disclosed on pages 10 – 21 are an integral part of the foregoing the half-year condensed consolidated financial statements.

**Consolidated statement of financial position**

	NOTE	30/06/2017 (unaudited)	31/12/2016
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		27 978	27 671
Intangible assets		1 222	1 377
Investments accounted for under equity method	4.5	710	763
Deferred tax assets		109	167
Embedded derivatives and hedging instruments	4.7	257	66
Other assets	4.7	283	277
		<b>30 559</b>	<b>30 321</b>
<b>Current assets</b>			
Inventories		11 036	11 182
Trade and other receivables		8 420	8 553
Current tax assets		101	121
Cash and cash equivalents		5 833	5 072
Non-current assets classified as held for sale		15	61
Embedded derivatives and hedging instruments	4.7	380	97
Other assets	4.7	145	152
		<b>25 930</b>	<b>25 238</b>
<b>Total assets</b>		<b>56 489</b>	<b>55 559</b>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
Share capital		1 058	1 058
Share premium		1 227	1 227
Hedging reserve		293	(355)
Revaluation reserve		5	5
Exchange differences on translating foreign operations		467	946
Retained earnings		26 060	23 882
<b>Equity attributable to owners of the parent</b>		<b>29 110</b>	<b>26 763</b>
<b>Non-controlling interests</b>		<b>2 829</b>	<b>2 522</b>
<b>Total equity</b>		<b>31 939</b>	<b>29 285</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Loans, borrowings and bonds	4.6	6 351	7 446
Provisions	4.8	844	828
Deferred tax liabilities		1 114	809
Embedded derivatives and hedging instruments	4.7	119	280
Other liabilities	4.7	290	289
		<b>8 718</b>	<b>9 652</b>
<b>Current liabilities</b>			
Trade and other liabilities		13 877	13 591
Loans, borrowings and bonds	4.6	657	989
Provisions	4.8	451	666
Current tax liabilities		296	659
Embedded derivatives and hedging instruments	4.7	195	403
Other liabilities	4.7	356	314
		<b>15 832</b>	<b>16 622</b>
<b>Total liabilities</b>		<b>24 550</b>	<b>26 274</b>
<b>Total equity and liabilities</b>		<b>56 489</b>	<b>55 559</b>

The accompanying notes disclosed on pages 10 – 21 are an integral part of the foregoing the half-year condensed consolidated financial statements.

**Consolidated statement of changes in equity**

	Equity attributable to owners of the parent						Non-controlling interests	Total equity
	Share capital and share premium	Hedging reserve	Revaluation reserve	Exchange differences on translating foreign operations	Retained earnings	Total		
01/01/2017	2 285	(355)	5	946	23 882	26 763	2 522	29 285
Net profit	-	-	-	-	3 461	3 461	381	3 842
Items of other comprehensive income	-	648	-	(479)	-	169	15	184
<b>Total net comprehensive income</b>	-	<b>648</b>	-	<b>(479)</b>	<b>3 461</b>	<b>3 630</b>	<b>396</b>	<b>4 026</b>
Dividends	-	-	-	-	(1 283)	(1 283)	(89)	(1 372)
<b>30/06/2017</b>	<b>2 285</b>	<b>293</b>	<b>5</b>	<b>467</b>	<b>26 060</b>	<b>29 110</b>	<b>2 829</b>	<b>31 939</b>
(unaudited)								
01/01/2016	2 285	(80)	-	537	19 431	22 173	2 071	24 244
Net profit	-	-	-	-	1 945	1 945	183	2 128
Items of other comprehensive income	-	(250)	-	340	-	90	47	137
<b>Total net comprehensive income</b>	-	<b>(250)</b>	-	<b>340</b>	<b>1 945</b>	<b>2 035</b>	<b>230</b>	<b>2 265</b>
Change in the structure of non-controlling interest	-	-	-	-	(1)	(1)	(1)	(2)
Dividends	-	-	-	-	(855)	(855)	(60)	(915)
<b>30/06/2016</b>	<b>2 285</b>	<b>(330)</b>	-	<b>877</b>	<b>20 520</b>	<b>23 352</b>	<b>2 240</b>	<b>25 592</b>
(unaudited)								

The accompanying notes disclosed on pages 10 – 21 are an integral part of the foregoing the half-year condensed consolidated financial statements.



**Consolidated statement of cash flows**

	6 MONTHS ENDED 30/06/2017 (unaudited)	3 MONTHS ENDED 30/06/2017 (unaudited)	6 MONTHS ENDED 30/06/2016 (unaudited)	3 MONTHS ENDED 30/06/2016 (unaudited)
<b>Cash flows from operating activities</b>				
<b>Profit before tax</b>	<b>4 662</b>	<b>2 123</b>	<b>2 470</b>	<b>2 036</b>
Adjustments for:				
Share in profit from investments accounted for under equity method	(124)	(55)	(184)	(99)
Depreciation and amortisation	1 143	581	1 023	508
Foreign exchange (profit)/loss	(92)	45	279	238
Interest, net	103	53	128	78
Dividends	(4)	(4)	(5)	(5)
(Profit)/Loss on investing activities	203	93	(44)	(1)
Change in provisions	133	62	49	19
Change in working capital	(418)	1 317	1 053	(713)
<i>inventories</i>	(15)	915	182	(1 295)
<i>receivables</i>	(52)	20	(898)	(930)
<i>liabilities</i>	(351)	382	1 769	1 512
Other adjustments, incl.:	(520)	(531)	48	(259)
<i>change in balances of settlements due to compensation from insurers in Unipetrol Group</i>	(275)	(475)	(5)	(298)
Income tax (paid)	(920)	(191)	(126)	(38)
<b>Net cash from operating activities</b>	<b>4 166</b>	<b>3 493</b>	<b>4 691</b>	<b>1 764</b>
<b>Cash flows from investing activities</b>				
Acquisition of property, plant and equipment, intangible assets and perpetual usufruct of land	(2 001)	(1 112)	(2 804)	(1 271)
Acquisition of shares adjusted for received cash	-	-	(2)	(2)
Disposal of property, plant and equipment, intangible assets and perpetual usufruct of land	68	18	83	22
Sale of subsidiary	-	-	74	3
Dividends received	177	177	182	182
Other	(91)	(23)	12	10
<b>Net cash (used) in investing activities</b>	<b>(1 847)</b>	<b>(940)</b>	<b>(2 455)</b>	<b>(1 056)</b>
<b>Cash flows from financing activities</b>				
Proceeds from loans and borrowings received	242	223	4 115	1 985
Bonds issued	-	-	3 258	3 258
Repayments of loans and borrowings	(1 014)	(229)	(7 699)	(5 316)
Redemption of bonds	(400)	(400)	-	-
Interest paid	(190)	(156)	(151)	(99)
Payments of liabilities under finance lease agreements	(14)	(7)	(15)	(8)
Other	(1)	-	(6)	(7)
<b>Net cash (used) in financing activities</b>	<b>(1 377)</b>	<b>(569)</b>	<b>(498)</b>	<b>(187)</b>
<b>Net increase in cash and cash equivalents</b>	<b>942</b>	<b>1 984</b>	<b>1 738</b>	<b>521</b>
Effect of exchange rate changes	(181)	33	8	106
Cash and cash equivalents, beginning of the period	5 072	3 816	2 348	3 467
<b>Cash and cash equivalents, end of the period</b>	<b>5 833</b>	<b>5 833</b>	<b>4 094</b>	<b>4 094</b>

The accompanying notes disclosed on pages 10 – 21 are an integral part of the foregoing the half-year condensed consolidated financial statements.

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

The foregoing half-year condensed consolidated financial statements ("consolidated financial statements") were prepared in accordance with requirements of IAS 34 "Interim financial reporting" and in the scope required under the Minister of Finance Regulation of 19 February 2009 on current and periodic information provided by issuers of securities and conditions of recognition as equivalent information required by the law of a non member state (consolidated text: Official Journal 2014, item 133, as amended Official Journal 2016, item 860) ("Regulation") and present the Polski Koncern Naftowy ORLEN S.A. Capital Group's ("Group", "ORLEN Group") financial position as at 30 June 2017 and as at 31 December 2016, financial results and cash flows for the 6 and 3 month period ended 30 June 2017 and 30 June 2016.

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

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

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

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

In the foregoing half-year condensed consolidated financial statements, the significant assumptions made by the Management Board regarding adoption by the Group of accounting principles and main uncertainties were the same as those presented in the notes to the Consolidated Financial Statements for the year 2016.

The Group intends to adopt IFRS amendments, published but not effective as at the date of publication of the foregoing half-year condensed consolidated financial statements, in accordance with their effective date. An estimate of the impact of changes and new IFRS on future consolidated financial statements was presented in the Consolidated Financial Statements for the year 2016 in note 5.5.

**1.3. Functional currency and presentation currency of financial statements and methods applied to translation of financial statement of foreign entities**
**1.3.1. Functional currency and presentation currency**

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

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

Translation into PLN of financial statements of foreign entities, for consolidation purposes:

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

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

CURRENCY	Average exchange rate for the reporting period				Exchange rate as at the end of the reporting period	
	6 MONTHS ENDED	3 MONTHS ENDED	6 MONTHS ENDED	3 MONTHS ENDED	30/06/2017	31/12/2016
	30/06/2017	30/06/2017	30/06/2016	30/06/2016		
EUR/PLN	4.2701	4.2174	4.3694	4.3713	4.2265	4.4240
USD/PLN	3.9472	3.8347	3.9167	3.8708	3.7062	4.1793
CZK/PLN	0.1594	0.1588	0.1616	0.1617	0.1611	0.1637
CAD/PLN	2.9604	2.8527	2.9412	3.0024	2.8543	3.0995

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

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

## 2. Financial situation and changes in the structure of the ORLEN Group

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

#### Profit or loss

Sales revenues of the ORLEN Group in the 6 month period of 2017 increased by PLN 10,332 million (y/y) to PLN 45,900 million.

Higher sale revenues are the effect of both of increasing sales volumes in all business segments by 7% (y/y) due to the improvement of the market situation resulting from the introduction of a regulation package in Poland limiting influence of so-called shadow economy for fuel trade, as well as the increase of quotations of major products: fuel (by 18%), diesel oil (by 28%), Jet fuel (by 28%), light heating oil (by 29%), heavy heating oil (by 69%), ethylene (by 17%), propylene (by 39%) and benzene (by 43%).

Result of other operating activities amounted to PLN 728 million, mainly due to the partial settlement of damage related to the steam cracker unit accident in Unipetrol Group of August 2015 in the amount of PLN 442 million and compensation of property damage and loss of profit related to the accident on installation FCC (Fluid Catalytic Cracking) of May 2016 in the Unipetrol Group in the amount of PLN 211 million.

As a result profit from operations for the 6 months of 2017 amounted to PLN 4,396 million and was higher by PLN 1,427 million (y/y).

Net finance income in the described period amounted to PLN 266 million and included mainly foreign exchange gains in the amount of PLN 456 million, settlement and valuation of net financial instruments in the amount of PLN (107) million and net interest expenses in the amount of PLN (82) million.

After consideration of tax charges in the amount of PLN (820) million, the net profit of the ORLEN Group for the 6 months of 2017 amounted to PLN 3,842 million and was higher by PLN 1,714 million (y/y).

#### Statement of financial position

As at 30 June 2017, total assets of the ORLEN Group amounted to PLN 56,489 million and was higher by PLN 930 million in comparison with 31 December 2016.

As at 30 June 2017, the value of non-current assets amounted to PLN 30,559 million and was higher by PLN 238 million in comparison with the end of the previous year, mainly due to increasing of property, plant and equipment and intangible assets by PLN 152 million, increasing valuation of financial instruments by PLN 191 million and decrease of the value of investments accounted for under equity method by PLN (53) million.

Balance change of property, plant and equipment and intangible assets comprised mainly investment expenditures in the amount of PLN 1,921 million, primarily for the projects of Construction of the Polyethylene 3 installation in Unipetrol Group, heat and power plants CCGT in Plock with the infrastructure and Metathesis Installation in Plock, depreciation and amortisation in the amount of PLN (1,143) million and net balance change in rights in the amount of PLN (153) million and exchange differences from recalculation of balances of foreign entities of the ORLEN Group on PLN in the amount of PLN (437) million.

The value of current assets increased by PLN 692 million, mainly as result of increase in the balance of cash and cash equivalents by PLN 761 million with decrease of trade and other receivables by PLN (133) million, inventories by PLN (146) million and increase in other financial assets which comprised valuations of hedge instruments by PLN 283 million.

As at 30 June 2017, total equity amounted to PLN 31,939 million and was higher by PLN 2,654 million in comparison with the end of 2016, mainly as a result of net profit for the 6 months of 2017 in the amount of PLN 3,842 million with consideration of dividend payments from the previous year's profit in the total amount of PLN (1,372) million.

The value of provisions as at 30 June 2017 amounted to PLN 1,295 million and was lower by PLN (199) million in comparison with the end of 2016, mainly due to a change in balance of provisions for estimated CO<sub>2</sub> emission, energy certificates in the amount of PLN (204) million, as a net result of the recognition of provisions for the first half of 2017 in the amount of PLN 146 million and usage of provision in connection with the amortisation of rights of 2016 in the amount of PLN (342) million.

As at 30 June 2017, net financial indebtedness of the ORLEN Group amounted to PLN 1,175 million and was lower by PLN (2,188) million in comparison with the end of 2016. Change of net financial indebtedness included net repayment of loans, borrowings and bonds in the amount of PLN (1,108) million, increase of cash balance by PLN (761) million and the net impact of positive exchange differences from revaluation and indebtedness valuation in total amount of PLN (319) million.

#### Statement of cash flows

Proceeds of net cash from operating activities for the 6 month period of 2017 amounted to PLN 4,166 million and comprised mainly profit from operations increased by depreciation and amortisation in the amount of PLN 5,539 million and the negative impact of increase in a net working capital by PLN (418) million and paid income taxes in the amount of PLN (920) million.

Net cash used in investing activities for the 6 month period of 2017 amounted to PLN (1,847) million and comprised mainly net expenses for the acquisition of property, plant and equipment, intangible assets and perpetual usufruct of land in the amount of PLN (1,933) million.

Net expenses of cash used in financing activities for the 6 month period of 2017 amounted to PLN (1,377) million and comprised mainly the net repayment of loans and borrowings of PLN (772) million, redemption of retail bonds A and B Series in the amount of PLN (400) million and interest paid in the amount of PLN (190) million.

Taking into account the revaluation of cash due to exchange differences, the cash balance in the 6 month period of 2017 increased by PLN 761 million and as at 30 June 2017 amounted to PLN 5,833 million.

### Factors and events which may influence future results

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

### 2.2. Changes in the structure of the ORLEN Group from 1 January 2017 up to the date of preparation of the foregoing report

- On 1 January 2017 a merger of ČESKÁ RAFINÉRSKÁ a.s. with Unipetrol RPA s.r.o. took place;
- On 10 March 2017 the process of compulsory redemption of shares of ORLEN Laboratorium S.A. from minority shareholders was settled; PKN ORLEN became the sole shareholder;
- On 30 May 2017 deletion from the trade registry Petro-Mawi sp. z o.o. in liquidation (ORLEN Paliwa Group) took place;
- On 1 June 2017 the Extraordinary General Meeting of Shareholders of ORLEN Upstream Sp. z o.o. took place where a resolution on increasing the Company's share capital was adopted from PLN 43 million to PLN 45 million through the creation of 4,534 new and indivisible shares, with a nominal value of PLN 500 each, which were fully subscribed by the existing sole shareholder of the company, ie. PKN ORLEN, in exchange for a cash contribution of PLN 227 million.  
Surplus of cash contribution over total nominal value of the newly issued shares increased the company's reserve capital. The cash contribution was made by 30 June 2017;
- On 1 June 2017 Euronaf's rail services division, owned by ORLEN Południe S.A., entered to the assets of ORLEN KolTrans.

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

Additional information on the composition of the Group are presented in the of the Management Board Report on the operations of the Group in note C.2.

### 3. Segment reporting

The operations of the ORLEN Group is conducted in:

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

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

### Revenues, costs, financial results, investments expenditures

for the 6 month period ended 30 June 2017

	NOTE	Downstream Segment (unaudited)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
External revenues		29 160	16 442	267	31	-	45 900
Inter-segment revenues		6 591	49	-	156	(6 796)	-
Sales revenues		35 751	16 491	267	187	(6 796)	45 900
Operating expenses		(32 628)	(15 745)	(258)	(521)	6 796	(42 356)
Other operating income	4.3	807	30	1	23	-	861
Other operating expenses	4.3	(44)	(46)	(1)	(42)	-	(133)
Share in profit from investments accounted for under equity method	4.5	125	-	(1)	-	-	124
<b>Profit/(Loss) from operations</b>		<b>4 011</b>	<b>730</b>	<b>8</b>	<b>(353)</b>	<b>-</b>	<b>4 396</b>
Net finance income and costs	4.4						266
<b>Profit before tax</b>							<b>4 662</b>
Tax expense							(820)
<b>Net profit</b>							<b>3 842</b>
<b>Depreciation and amortisation</b>	4.1	<b>735</b>	<b>206</b>	<b>153</b>	<b>49</b>	<b>-</b>	<b>1 143</b>
<b>EBITDA</b>		<b>4 746</b>	<b>936</b>	<b>161</b>	<b>(304)</b>	<b>-</b>	<b>5 539</b>
<b>CAPEX</b>		<b>1 124</b>	<b>212</b>	<b>492</b>	<b>93</b>	<b>-</b>	<b>1 921</b>



## for the 3 month period ended 30 June 2017

	NOTE	Downstream Segment (unaudited)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
External revenues		14 327	8 550	133	15	-	23 025
Inter-segment revenues		3 371	38	-	82	(3 491)	-
Sales revenues		17 698	8 588	133	97	(3 491)	23 025
Operating expenses		(16 487)	(8 111)	(129)	(267)	3 491	(21 503)
Other operating income	4.3	584	13	1	14	-	612
Other operating expenses	4.3	(18)	(29)	-	(22)	-	(69)
Share in profit from investments accounted for under equity method	4.5	56	-	(1)	-	-	55
<b>Profit/(Loss) from operations</b>		<b>1 833</b>	<b>461</b>	<b>4</b>	<b>(178)</b>	<b>-</b>	<b>2 120</b>
Net finance income and costs	4.4						3
<b>Profit before tax</b>							<b>2 123</b>
Tax expense							(369)
<b>Net profit</b>							<b>1 754</b>
<b>Depreciation and amortisation</b>	4.1	<b>374</b>	<b>103</b>	<b>78</b>	<b>26</b>	<b>-</b>	<b>581</b>
<b>EBITDA</b>		<b>2 207</b>	<b>564</b>	<b>82</b>	<b>(152)</b>	<b>-</b>	<b>2 701</b>
<b>CAPEX</b>		<b>678</b>	<b>124</b>	<b>339</b>	<b>57</b>	<b>-</b>	<b>1 198</b>

## for the 6 month period ended 30 June 2016

	NOTE	Downstream Segment (unaudited)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
External revenues		21 493	13 852	189	34	-	35 568
Inter-segment revenues		4 872	151	-	138	(5 161)	-
Sales revenues		26 365	14 003	189	172	(5 161)	35 568
Operating expenses		(24 442)	(13 455)	(263)	(535)	5 161	(33 534)
Other operating income	4.3	853	36	-	27	-	916
Other operating expenses	4.3	(87)	(38)	(2)	(38)	-	(165)
Share in profit from investments accounted for under equity method	4.5	184	-	-	-	-	184
<b>Profit/(Loss) from operations</b>		<b>2 873</b>	<b>546</b>	<b>(76)</b>	<b>(374)</b>	<b>-</b>	<b>2 969</b>
Net finance income and costs	4.4						(499)
<b>Profit before tax</b>							<b>2 470</b>
Tax expense							(342)
<b>Net profit</b>							<b>2 128</b>
<b>Depreciation and amortisation</b>	4.1	<b>636</b>	<b>196</b>	<b>143</b>	<b>48</b>	<b>-</b>	<b>1 023</b>
<b>EBITDA</b>		<b>3 509</b>	<b>742</b>	<b>67</b>	<b>(326)</b>	<b>-</b>	<b>3 992</b>
<b>CAPEX</b>		<b>1 741</b>	<b>148</b>	<b>306</b>	<b>55</b>	<b>-</b>	<b>2 250</b>



for the 3 month period ended 30 June 2016

	NOTE	Downstream Segment (unaudited)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
External revenues		11 655	7 588	97	15	-	19 355
Inter-segment revenues		2 767	108	-	73	(2 948)	-
Sales revenues		14 422	7 696	97	88	(2 948)	19 355
Operating expenses		(12 790)	(7 351)	(127)	(277)	2 948	(17 597)
Other operating income	4.3	690	22	-	6	-	718
Other operating expenses	4.3	(36)	(24)	(2)	(22)	-	(84)
Share in profit from investments accounted for under equity method	4.5	99	-	-	-	-	99
<b>Profit/(Loss) from operations</b>		<b>2 385</b>	<b>343</b>	<b>(32)</b>	<b>(205)</b>	<b>-</b>	<b>2 491</b>
Net finance income and costs	4.5						(455)
<b>Profit before tax</b>							<b>2 036</b>
Tax expense							(244)
<b>Net profit</b>							<b>1 792</b>
<b>Depreciation and amortisation</b>	4.1	<b>312</b>	<b>99</b>	<b>72</b>	<b>25</b>	<b>-</b>	<b>508</b>
<b>EBITDA</b>		<b>2 697</b>	<b>442</b>	<b>40</b>	<b>(180)</b>	<b>-</b>	<b>2 999</b>
<b>CAPEX</b>		<b>957</b>	<b>76</b>	<b>180</b>	<b>35</b>	<b>-</b>	<b>1 248</b>

EBITDA – profit/(loss) from operations increased by depreciation and amortisation

CAPEX - increase of property, plant and equipment, intangible assets, investment property and perpetual usufruct of land together with the capitalisation of borrowing costs

**Assets by operating segments**

	30/06/2017 (unaudited)	31/12/2016
Downstream Segment	38 630	38 770
Retail Segment	6 144	6 139
Upstream Segment	3 942	3 840
<b>Segment assets</b>	<b>48 716</b>	<b>48 749</b>
Corporate Functions	7 809	6 943
Adjustments	(36)	(133)
	<b>56 489</b>	<b>55 559</b>

**4. Other notes****4.1. Operating expenses****Cost by nature**

	6 MONTHS ENDED 30/06/2017 (unaudited)	3 MONTHS ENDED 30/06/2017 (unaudited)	6 MONTHS ENDED 30/06/2016 (unaudited)	3 MONTHS ENDED 30/06/2016 (unaudited)
Materials and energy	(26 874)	(12 812)	(19 213)	(10 123)
Cost of merchandise and raw materials sold	(10 555)	(5 859)	(8 842)	(4 880)
External services	(1 962)	(952)	(1 965)	(1 007)
Employee benefits	(1 172)	(586)	(1 133)	(566)
Depreciation and amortisation	(1 143)	(581)	(1 023)	(508)
Taxes and charges	(542)	(258)	(544)	(270)
Other	(366)	(199)	(411)	(216)
	<b>(42 614)</b>	<b>(21 247)</b>	<b>(33 131)</b>	<b>(17 570)</b>
Change in inventories	3	(390)	(731)	(216)
Cost of products and services for own use	122	65	163	105
<b>Operating expenses</b>	<b>(42 489)</b>	<b>(21 572)</b>	<b>(33 699)</b>	<b>(17 681)</b>
Distribution expenses	2 020	983	2 005	1 004
Administrative expenses	736	369	732	370
Other operating expenses	133	69	165	84
<b>Cost of sales</b>	<b>(39 600)</b>	<b>(20 151)</b>	<b>(30 797)</b>	<b>(16 223)</b>

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

	6 MONTHS ENDED 30/06/2017 (unaudited)	3 MONTHS ENDED 30/06/2017 (unaudited)	6 MONTHS ENDED 30/06/2016 (unaudited)	3 MONTHS ENDED 30/06/2016 (unaudited)
Increase	(88)	(73)	(105)	(25)
Decrease	75	63	220	73

**4.3. Other operating income and expenses**
**Other operating income**

	6 MONTHS ENDED 30/06/2017 (unaudited)	3 MONTHS ENDED 30/06/2017 (unaudited)	6 MONTHS ENDED 30/06/2016 (unaudited)	3 MONTHS ENDED 30/06/2016 (unaudited)
Profit on sale of subsidiaries	-	-	60	3
Profit on sale of non-current non-financial assets	20	8	37	17
Reversal of provisions	9	2	14	4
Reversal of receivables impairment allowances	7	3	7	3
Reversal of impairment allowances of property, plant and equipment and intangible assets	18	11	10	10
Penalties and compensation	739	563	698	662
Other	68	25	90	19
	<b>861</b>	<b>612</b>	<b>916</b>	<b>718</b>

The line penalties and compensation in the 6 and 3 month period ended 30 June 2017 and 30 June 2016 includes mainly amounts of partial compensation received from insurers due to the steam cracker unit accident in Unipetrol Group of August 2015 in the amount PLN 442 million received in the 2<sup>nd</sup> quarter of 2017 and PLN 635 million received in the 2<sup>nd</sup> quarter of 2016, respectively.

Furthermore, in the 6 and 3 month period ended 30 June 2017 the line includes amounts of compensation of property damage and loss of profit related to the accident on installation FCC (Fluid Catalytic Cracking) in Unipetrol Group of May 2016 in the amount of PLN 211 million and PLN 48 million, respectively.

**Other operating expenses**

	6 MONTHS ENDED 30/06/2017 (unaudited)	3 MONTHS ENDED 30/06/2017 (unaudited)	6 MONTHS ENDED 30/06/2016 (unaudited)	3 MONTHS ENDED 30/06/2016 (unaudited)
Loss on sale of non-current non-financial assets	(21)	(12)	(20)	(7)
Recognition of provisions	(13)	(4)	(21)	(10)
Recognition of receivables impairment allowances	(8)	(3)	(14)	(5)
Recognition of impairment allowances of property, plant and equipment and intangible assets	(33)	(24)	(21)	(14)
Penalties, damages and compensation	(15)	(6)	(34)	(14)
Other	(43)	(20)	(55)	(34)
	<b>(133)</b>	<b>(69)</b>	<b>(165)</b>	<b>(84)</b>

**4.4. Finance income and costs**
**Finance income**

	6 MONTHS ENDED 30/06/2017 (unaudited)	3 MONTHS ENDED 30/06/2017 (unaudited)	6 MONTHS ENDED 30/06/2016 (unaudited)	3 MONTHS ENDED 30/06/2016 (unaudited)
Interest	14	5	27	13
Foreign exchange gain surplus	456	92	-	-
Dividends	4	4	5	5
Settlement and valuation of derivative financial instruments	395	96	51	30
Reversal of receivables impairment allowances	1	1	2	2
Other	10	3	14	4
	<b>880</b>	<b>201</b>	<b>99</b>	<b>54</b>

**Finance costs**

	6 MONTHS ENDED 30/06/2017 (unaudited)	3 MONTHS ENDED 30/06/2017 (unaudited)	6 MONTHS ENDED 30/06/2016 (unaudited)	3 MONTHS ENDED 30/06/2016 (unaudited)
Interest	(96)	(41)	(134)	(84)
Foreign exchange loss, net	-	-	(389)	(388)
Settlement and valuation of derivative financial instruments	(502)	(151)	(54)	(26)
Recognition of receivables impairment allowances	(1)	(1)	(2)	(2)
Other	(15)	(5)	(19)	(9)
	<b>(614)</b>	<b>(198)</b>	<b>(598)</b>	<b>(509)</b>

Borrowing costs capitalized in the 6 and 3 month period ended 30 June 2017 and 30 June 2016 amounted to PLN (32) million and PLN (14) million, PLN (30) million and PLN (14) million, respectively.

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

	30/06/2017 (unaudited)	31/12/2016
Joint ventures, incl.:	704	756
<i>Basell ORLEN Polyolefins Sp. z o.o. (BOP)</i>	629	677
<i>Pieridae Production GP Ltd (ORLEN Upstream Group)</i>	43	47
Associates	6	7
	<b>710</b>	<b>763</b>

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

	30/06/2017 (unaudited)	31/12/2016
Non-current assets	820	856
Current assets	1 164	1 152
<i>cash</i>	235	440
<i>other current assets</i>	929	712
<b>Total assets</b>	<b>1 984</b>	<b>2 008</b>
<b>Total equity</b>	<b>1 303</b>	<b>1 395</b>
Non-current liabilities	45	50
Current liabilities, incl.:	636	563
<i>trade and other liabilities</i>	616	548
<b>Total liabilities</b>	<b>681</b>	<b>613</b>
<b>Total equity and liabilities</b>	<b>1 984</b>	<b>2 008</b>
<b>Net debt</b>	<b>(235)</b>	<b>(440)</b>
Net assets	1 303	1 395
Group's share in joint ventures (50%)	652	698
Consolidation adjustments	(23)	(21)
<b>Joint ventures investments accounted for under equity method</b>	<b>629</b>	<b>677</b>

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

	6 MONTHS ENDED 30/06/2017 (unaudited)	3 MONTHS ENDED 30/06/2017 (unaudited)	6 MONTHS ENDED 30/06/2016 (unaudited)	3 MONTHS ENDED 30/06/2016 (unaudited)
Joint ventures	124	55	184	99
<i>Basell ORLEN Polyolefins Sp. z o.o. (BOP)</i>	125	56	184	99
<i>Pieridae Production GP Ltd (ORLEN Upstream Group)</i>	(1)	(1)	-	-
	<b>124</b>	<b>55</b>	<b>184</b>	<b>99</b>



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

	6 MONTHS ENDED 30/06/2017 (unaudited)	3 MONTHS ENDED 30/06/2017 (unaudited)	6 MONTHS ENDED 30/06/2016 (unaudited)	3 MONTHS ENDED 30/06/2016 (unaudited)
Sales revenues	1 741	850	1 874	946
Cost of sales, incl.: <i>depreciation and amortisation</i>	(1 363) (43)	(689) (22)	(1 321) (50)	(661) (25)
<b>Gross profit on sales</b>	<b>378</b>	<b>161</b>	<b>553</b>	<b>285</b>
Distribution expenses	(44)	(22)	(51)	(25)
Administrative expenses	(12)	(6)	(12)	(6)
Other operating income and expenses, net	(1)	-	-	-
<b>Profit from operations</b>	<b>321</b>	<b>133</b>	<b>490</b>	<b>254</b>
<b>Net finance income and costs</b>	<b>(7)</b>	<b>-</b>	<b>2</b>	<b>7</b>
<b>Profit before tax</b>	<b>314</b>	<b>133</b>	<b>492</b>	<b>261</b>
Tax expense	(60)	(25)	(94)	(50)
<b>Net profit</b>	<b>254</b>	<b>108</b>	<b>398</b>	<b>211</b>
<b>Total net comprehensive income</b>	<b>254</b>	<b>108</b>	<b>398</b>	<b>211</b>
<b>Dividends received from joint ventures</b>	<b>173</b>	<b>173</b>	<b>182</b>	<b>182</b>
Group's share in joint ventures (50%)	127	54	199	106
Consolidation adjustments	(2)	2	(15)	(7)
<b>Group's share in result of joint ventures accounted for under equity method</b>	<b>125</b>	<b>56</b>	<b>184</b>	<b>99</b>

#### 4.6. Loans, borrowings and bonds

	Non-current		Current		Total	
	30/06/2017 (unaudited)	31/12/2016	30/06/2017 (unaudited)	31/12/2016	30/06/2017 (unaudited)	31/12/2016
Loans	-	653	153	286	153	939
Borrowings	-	-	-	1	-	1
Bonds	6 351	6 793	504	702	6 855	7 495
	<b>6 351</b>	<b>7 446</b>	<b>657</b>	<b>989</b>	<b>7 008</b>	<b>8 435</b>

In the period covered by the foregoing half-year condensed consolidated financial statements, as well as after the reporting date, there were no instances of principal or interest non repayment nor loan covenant violations.

#### 4.7. Embedded derivatives and hedging instruments and other assets and liabilities

##### Embedded derivatives and hedging instruments and other assets

	Non-current		Current		Total	
	30/06/2017 (unaudited)	31/12/2016	30/06/2017 (unaudited)	31/12/2016	30/06/2017 (unaudited)	31/12/2016
Cash flows hedging instruments	245	66	342	92	587	158
<i>currency forwards</i>	236	12	228	32	464	44
<i>commodity swaps</i>	9	54	114	60	123	114
Derivatives not designated as hedge accounting	12	-	35	5	47	5
<i>currency forwards</i>	-	-	10	5	10	5
<i>commodity swaps</i>	12	-	25	-	37	-
Embedded derivatives	-	-	3	-	3	-
<i>currency swaps</i>	-	-	3	-	3	-
<b>Embedded derivatives and hedging instruments</b>	<b>257</b>	<b>66</b>	<b>380</b>	<b>97</b>	<b>637</b>	<b>163</b>
Other financial assets	16	33	145	152	161	185
<i>receivables on cash flows settled</i>	-	-	144	149	144	149
<i>hedging instruments</i>	-	-	-	-	-	-
<i>other</i>	16	33	1	3	17	36
Other non-financial assets	267	244	-	-	267	244
<i>investment property</i>	99	97	-	-	99	97
<i>perpetual usufruct of land</i>	109	107	-	-	109	107
<i>financial assets available for sale</i>	41	40	-	-	41	40
<i>other</i>	18	-	-	-	18	-
<b>Other assets</b>	<b>283</b>	<b>277</b>	<b>145</b>	<b>152</b>	<b>428</b>	<b>429</b>

**Embedded derivatives and hedging instruments and other liabilities**

	Non-current		Current		Total	
	30/06/2017 (unaudited)	31/12/2016	30/06/2017 (unaudited)	31/12/2016	30/06/2017 (unaudited)	31/12/2016
Cash flows hedging instruments	3	190	156	376	159	566
<i>currency forwards</i>	3	42	44	117	47	159
<i>commodity swaps</i>	-	28	112	228	112	256
<i>currency interest rate swaps</i>	-	120	-	31	-	151
Derivatives not designated as hedge accounting	116	90	39	25	155	115
<i>currency forwards</i>	-	-	22	4	22	4
<i>commodity swaps</i>	-	-	11	21	11	21
<i>interest rate swaps</i>	72	90	-	-	72	90
<i>currency interest rate swaps</i>	44	-	6	-	50	-
Embedded derivatives	-	-	-	2	-	2
<i>currency swaps</i>	-	-	-	2	-	2
<b>Embedded derivatives and hedging instruments</b>	<b>119</b>	<b>280</b>	<b>195</b>	<b>403</b>	<b>314</b>	<b>683</b>
Other financial liabilities	281	280	90	169	371	449
<i>liabilities on cash flows settled hedging instruments</i>	-	-	88	169	88	169
<i>investment liabilities</i>	112	111	-	-	112	111
<i>finance lease</i>	142	141	-	-	142	141
<i>other</i>	27	28	2	-	29	28
Other non-financial liabilities	9	9	266	145	275	154
<i>deferred income</i>	9	9	266	145	275	154
<b>Other liabilities</b>	<b>290</b>	<b>289</b>	<b>356</b>	<b>314</b>	<b>646</b>	<b>603</b>

**4.8. Provisions**

	Non-current		Current		Total	
	30/06/2017 (unaudited)	31/12/2016	30/06/2017 (unaudited)	31/12/2016	30/06/2017 (unaudited)	31/12/2016
Environmental	592	570	32	38	624	608
Jubilee bonuses and post-employment benefits	211	212	32	33	243	245
CO <sub>2</sub> emissions, energy certificates	-	-	161	365	161	365
Other	41	46	226	230	267	276
	<b>844</b>	<b>828</b>	<b>451</b>	<b>666</b>	<b>1 295</b>	<b>1 494</b>

**4.9. Methods applied in determining fair value (fair value hierarchy)**

As compared to the previous reporting period the Group did not change the valuation methods concerning derivative instruments. Methods applied in determining the fair value were described in the Consolidated Financial Statements for the year 2016 in note 7.3.3.

**Fair value hierarchy**

	30/06/2017 (unaudited)	31/12/2016
	Level 2	
<b>Financial assets</b>		
Embedded derivatives and hedging instruments	637	163
	<b>637</b>	<b>163</b>
<b>Financial liabilities</b>		
Embedded derivatives and hedging instruments	314	683
	<b>314</b>	<b>683</b>

The fair value of financial assets and liabilities quoted on active markets is determined based on market quotations (so-called Level 1). In other cases, the fair value is determined based on other input data which are directly or indirectly observable (so-called Level 2) or unobservable inputs (so-called Level 3).

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

#### 4.10. Finance lease payments

As at 30 June 2017 and as at 31 December 2016 the Group possessed as a lessee the finance lease agreements, concerning mainly buildings.

	30/06/2017 (unaudited)	31/12/2016
Value of future minimum lease payments	224	223
Present value of future minimum lease payments	171	170

#### 4.11. Future commitments resulting from signed investment contracts

As at 30 June 2017 and as at 31 December 2016 the value of future commitments resulting from investment contracts signed until that day amounted to PLN 1,886 million and PLN 1,941million, respectively.

#### 4.12. Issue, redemption and repayment of debt securities

PKN ORLEN in the 2<sup>nd</sup> quarter of 2017 redeemed of retail bonds A and B Series in the total amount of PLN 400 million issued under the public bond issue program conducted in 2013-2014.

In the period covered by the foregoing half-year condensed consolidated financial statements, short term bonds were issued/redeemed in favour of the Group companies as a part of liquidity optimisation in the ORLEN Group. These transactions are eliminated at the ORLEN Group level.

#### 4.13. Distribution of the profit for 2016

The Ordinary General Meeting of Shareholders of PKN ORLEN S.A. on 30 June 2017 distributed the net profit of PKN ORLEN for the year 2016 in the amount of PLN 5,364,455,552.64 as follows: the amount of PLN 1,283,127,183 was allocated as a dividend payment (PLN 3 per 1 share) and the remaining amount of net profit of PLN 4,081,328,369.64 as reserve capital. The dividend date was set at 14 July 2017 and the dividend payment date at 4 August 2017.

#### 4.14. Contingent assets and liabilities

##### 4.14.1. Contingent assets

On 13 August 2015 the steam cracker unit accident in Unipetrol Group took place. Based on the insurance policies Unipetrol Group expects insurers to cover reconstruction costs of installations lost business profits, which estimated at approximately PLN 2.17 billion translated using the exchange rate as at 30 June 2017 (representing CZK 13.5 billion).

In 2016 Group recognized in other operating income amounts of partial compensation received from insurers in the amount of PLN 1,280 million and in the 2<sup>nd</sup> quarter of 2017 in the amount of PLN 442 million. After consideration the above amounts the value of contingent asset as at 30 June 2017 due to described above damage was estimated in the amount of approximately PLN 0.45 billion translated using the exchange rate as at 30 June 2017 (representing CZK 2.8 billion).

The final amount of compensation will depend on the final agreement with insurers.

Part of the cash for the compensation recognized in other operating income in 2016 in the amount of PLN 200 million translated using the exchange rate as at 30 June 2017 (representing CZK 1.3 billion), Unipetrol Group received in the 1<sup>st</sup> quarter of 2017.

The steam cracker unit resumed work in the 4<sup>th</sup> quarter of 2016.

##### 4.14.2. Contingent liabilities

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

##### 4.14.2.1. Proceedings in which the companies of the ORLEN Group act as the defendant

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

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

The claim regarding the payment of compensation for losses related among others, to alleged unfair competition of PKN ORLEN included in Agrofert Holding a.s. (Agrofert) claim and alleged illegal violation of reputation of Agrofert in relation to purchase by PKN ORLEN of UNIPETROL shares. By judgment of 21 October 2010 the Court of Arbitration ("the Court of Arbitration") in Prague (Czech Republic) dismissed the entire claim of Agrofert against PKN ORLEN regarding the payment of PLN 3,136 million translated using the exchange rate as at 30 June 2017 (representing CZK 19,464 million) with interest and obliged Agrofert to cover the cost of proceedings born by PKN ORLEN. On 3 October 2011 PKN ORLEN received from the upper court in Prague Agrofert's claim which repealed the above judgment. The complaint was dismissed by the court with the ruling of 24 January 2014. On 7 April 2014 Agrofert appealed the above decision. On 7 April 2015 the court of appeals dismissed the appeal of Agrofert. On 4 September 2015 Agrofert appealed to the Czech Supreme Court against the above judgment. In September 2016, the Supreme Court dismissed Agrofert claim. In November 2016 Agrofert appealed to the Czech Constitutional Court against that decision. On 25 April 2017, the Czech Constitutional Court dismissed Agrofert's complaint as unfounded. In the opinion of PKN ORLEN the above proceeding was completed.

**4.14.2.2. Other significant proceedings with the total value not exceeding 10% of the Issuer's equity**
**I.P.-95 s.r.o. compensation claim against UNIPETROL RPA s.r.o.**

On 23 May 2012, UNIPETROL RPA s.r.o. received from the District Court in Ostrava a claim brought by I.P.-95 s.r.o. for compensation related to the filing by UNIPETROL RPA s.r.o. a motion for bankruptcy of I.P.-95 s.r.o. in November 2009. The total amount of the claim is approximately PLN 288 million, translated using the exchange rate as at 30 June 2017 (representing CZK 1,789 million). UNIPETROL RPA s.r.o. is one of eight defendants which the claim was brought against. Proceeding is pending concerning the accession to the claim as plaintiff NESTARMO TRADING LIMITED. I.P.-95 s.r.o. submitted annulment claim against the judgment refusing to consent to join the proceedings of the above mentioned company. The case is in the Czech Supreme Court. According to UNIPETROL RPA s.r.o. the claim is without merit. The parties expect the further steps in the proceedings.

**Claim of OBR S.A. (currently: Warter Fuels S.A.) for compensation**

On 5 September 2014, the company OBR S.A. filed an action against PKN ORLEN with the District Court in Łódź for a claim for payment in respect of an alleged breach by PKN ORLEN of patent rights: 'The technique of the separation of hydrodesulfurization products of heavy residue after extractive distillation of crude oil'. The amount of the claim in the lawsuit has been estimated by OBR S.A. in the amount of approximately PLN 83 million. The claim covers the adjudged sum of money from PKN ORLEN for OBR S.A. in the amount corresponding to the value of the license fee for the use of the solution under the above patent and adjudge the obligation to repay the benefits derived from the use of this solution. On 16 October 2014 PKN ORLEN responded to the lawsuit. By the procedural document from 11 December 2014 the value of the dispute was referred to by the plaintiff in the amount of approximately PLN 247 million. By the court order from 21 May 2015 the parties were directed to mediation. Mediation proceedings were completed. The case returned to the District Court in Łódź. The first hearing was held on 19 October 2016. At the hearing on 22 March 2017 witnesses were heard. Dates of next court hearings, where it is planned to examine further witnesses, were scheduled for September 2017. In the opinion of PKN ORLEN the above claims are without merit.

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

On 31 December 2014, ORLEN Lietuva filed a motion for arbitration against the company Lietuvos Geležinkeliai ("LG") in the court of arbitration in Vilnius. In this proceeding ORLEN Lietuva calls for the conversion of tariffs for rail transport in line with the contract with LG for the period from January 2014. ORLEN Lietuva applied also for the compensation due to an incorrect interpretation of the agreement on rail transport by LG by using incorrect rates. Consideration of the request of ORLEN Lietuva would lead - depending on the interpretation - to save in the amount estimated until October 2016 not less than PLN 173 million translated using the exchange rate as at 30 June 2017 (representing not less than EUR 41 million) or to receive compensation for the use of incorrect rates in the amount of PLN 423 million translated using the exchange rate as at 30 June 2017 (representing EUR 100 million).

By 31 December 2016, seven court proceedings were initiated in which LG demands from ORLEN Lietuva a payment of approximately PLN 158 million translated using the exchange rate as at 30 June 2017 (representing approximately EUR 37.5 million) from fees for rail transport of ORLEN Lietuva products. LG's appeals were considered by the first instance courts, but there have not been made any conclusions on their matter.

On 28 June 2017 ORLEN Lietuva and LG reached an agreement on changes to the rail transport agreement and to resolve the ongoing disputes. Signing the settlement, results in termination of the mutual claims described in the above proceeding.

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

**4.15. Related parties transactions**
**4.15.1. Related parties transactions of the ORLEN Group**

As at 30 June 2017 and 31 December 2016 and in the 6 and 3 month period ended 30 June 2017 and 30 June 2016 were no transactions of related parties with members of the Management Board and the Supervisory Board of the Parent Company, other key executive personnel of the Parent Company and their relatives.

In the 6 and 3 month period ended 30 June 2017 and 30 June 2016 there were transactions of related parties with key executive personnel of the ORLEN Group companies with related parties in the amount of PLN 0.3 million and PLN 0.1 million, PLN 0.2 million in both periods, respectively. The main amount regarded purchase of marketing services from a person related with key personnel of Anwil and ORLEN Serwis.

As at 30 June 2017 and 31 December 2016 there was no balance of trade and other liabilities.

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

	Sales				Purchases			
	6 MONTHS ENDED 30/06/2017 (unaudited)	3 MONTHS ENDED 30/06/2017 (unaudited)	6 MONTHS ENDED 30/06/2016 (unaudited)	3 MONTHS ENDED 30/06/2016 (unaudited)	6 MONTHS ENDED 30/06/2017 (unaudited)	3 MONTHS ENDED 30/06/2017 (unaudited)	6 MONTHS ENDED 30/06/2016 (unaudited)	3 MONTHS ENDED 30/06/2016 (unaudited)
Jointly-controlled entities	1 352	669	1 248	638	(72)	(37)	(22)	(10)
<i>joint ventures</i>	1 281	630	1 243	638	(20)	(10)	(19)	(10)
<i>joint operations</i>	71	39	5	-	(52)	(27)	(3)	-
Associates	18	11	19	11	(2)	(1)	(4)	(1)
	<b>1 370</b>	<b>680</b>	<b>1 267</b>	<b>649</b>	<b>(74)</b>	<b>(38)</b>	<b>(26)</b>	<b>(11)</b>

	Trade and other receivables		Trade and other liabilities	
	30/06/2017 (unaudited)	31/12/2016	30/06/2017 (unaudited)	31/12/2016
Jointly-controlled entities	<b>484</b>	<b>430</b>	<b>16</b>	<b>15</b>
<i>joint ventures</i>	471	415	8	3
<i>joint operations</i>	13	15	8	12
Associates	17	15	-	-
	<b>501</b>	<b>445</b>	<b>16</b>	<b>15</b>

The above transactions with related parties include mainly sales and purchases of refinery and petrochemicals products and services. In the 6 and 3 month period ended 30 June 2017 and 30 June 2016 there were no related parties transactions within the Group concluded on other than an arm's length basis.

#### 4.15.2. Transactions with entities related to the State Treasury

As at 30 June 2017 and 31 December 2016, the State Treasury owns 27.52% of the Parent Company's shares - PKN ORLEN and has a ability to exert a significant influence on it.

The Group identified transactions with related parties with the State Treasury on the basis of "The Council of Ministers Regulation of 3 January 2017 on the list of companies in which the rights of the State Treasury shares carry other than the President Council of Ministers members of the Council of Ministers', Government Plenipotentiaries or state legal entities".

In the 6 and 3 month period ended 30 June 2017 and 30 June 2016, the Group identified the following transactions:

	6 MONTHS ENDED 30/06/2017 (unaudited)	3 MONTHS ENDED 30/06/2017 (unaudited)	6 MONTHS ENDED 30/06/2016 (unaudited)	3 MONTHS ENDED 30/06/2016 (unaudited)
	Sales	509	212	540
Purchases	(1 569)	(832)	(1 118)	(586)

As at 30 June 2017 and 31 December 2016, trade and other receivables amounted to PLN 175 million and PLN 218 million, respectively, while trade and other liabilities amounted to PLN 235 million and PLN 272 million, respectively.

These transactions were concluded on an arm's length basis and were related to the Group's current operating activities, concerned mainly fuel sales, purchase and sale of natural gas, energy, transport and storage services.

Additionally, there are also financial transactions (bank fees, commission) with Bank PKO BP, Bank Pekao S.A. and Bank Gospodarstwa Krajowego.

#### 4.16. Guarantees

Excise tax guarantees and excise tax on goods and merchandise under the excise tax suspension procedure as at 30 June 2017 and as at 31 December 2016 amounted to PLN 2,249 million and PLN 2,066 million, respectively.

#### 4.17. Events after the end of the reporting period

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

# HALF-YEAR CONDENSED SEPARATE FINANCIAL STATEMENTS

FOR THE 6 AND 3 MONTH PERIOD ENDED 30 JUNE

2017

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

**B. HALF-YEAR CONDENSED SEPARATE FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION**
**Separate statement of profit or loss and other comprehensive income**

	NOTE	6 MONTHS ENDED 30/06/2017 (unaudited)	3 MONTHS ENDED 30/06/2017 (unaudited)	6 MONTHS ENDED 30/06/2016 (unaudited)	3 MONTHS ENDED 30/06/2016 (unaudited)
Sales revenues		33 597	16 546	23 418	12 850
<i>revenues from sales of finished goods and services</i>		16 164	7 793	13 700	7 545
<i>revenues from sales of merchandise and raw materials</i>		17 433	8 753	9 718	5 305
Cost of sales	4.1	(29 961)	(14 972)	(20 716)	(10 818)
<i>cost of finished goods and services sold</i>		(13 026)	(6 495)	(11 318)	(5 691)
<i>cost of merchandise and raw materials sold</i>		(16 935)	(8 477)	(9 398)	(5 127)
<b>Gross profit on sales</b>		<b>3 636</b>	<b>1 574</b>	<b>2 702</b>	<b>2 032</b>
Distribution expenses		(1 225)	(628)	(1 127)	(555)
Administrative expenses		(383)	(193)	(383)	(192)
Other operating income	4.2	160	109	59	34
Other operating expenses	4.2	(94)	(53)	(93)	(46)
<b>Profit from operations</b>		<b>2 094</b>	<b>809</b>	<b>1 158</b>	<b>1 273</b>
Finance income	4.3	2 301	1 115	1 593	1 476
Finance costs	4.3	(983)	(94)	(519)	(440)
<b>Net finance income and costs</b>		<b>1 318</b>	<b>1 021</b>	<b>1 074</b>	<b>1 036</b>
<b>Profit before tax</b>		<b>3 412</b>	<b>1 830</b>	<b>2 232</b>	<b>2 309</b>
Tax expense		(459)	(152)	(158)	(155)
<i>current tax</i>		(358)	(139)	-	-
<i>deferred tax</i>		(101)	(13)	(158)	(155)
<b>Net profit</b>		<b>2 953</b>	<b>1 678</b>	<b>2 074</b>	<b>2 154</b>
<b>Other comprehensive income:</b>					
<b>which will be reclassified into profit or loss</b>					
<i>hedging instruments</i>		706	(61)	(240)	(236)
<i>deferred tax</i>		(134)	12	45	44
		<b>572</b>	<b>(49)</b>	<b>(195)</b>	<b>(192)</b>
<b>Total net comprehensive income</b>		<b>3 525</b>	<b>1 629</b>	<b>1 879</b>	<b>1 962</b>
Net profit and diluted net profit per share (in PLN per share)		6.90	3.92	4.85	5.04

The accompanying notes disclosed on pages 27 – 36 are an integral part of the foregoing the half-year condensed separate financial statements.

**Separate statement of financial position**

	NOTE	30/06/2017 (unaudited)	31/12/2016
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		15 171	15 112
Intangible assets		777	853
Shares in related parties		8 605	8 905
Embedded derivatives and hedging instruments	4.5	172	66
Other assets	4.5	169	173
		<b>24 894</b>	<b>25 109</b>
<b>Current assets</b>			
Inventories		7 492	7 309
Trade and other receivables		6 139	6 561
Current tax assets		62	51
Cash		2 925	2 563
Non-current assets classified as held for sale		105	210
Embedded derivatives and hedging instruments	4.5	266	57
Other assets	4.5	1 060	1 212
		<b>18 049</b>	<b>17 963</b>
<b>Total assets</b>		<b>42 943</b>	<b>43 072</b>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
Share capital		1 058	1 058
Share premium		1 227	1 227
Hedging reserve		245	(327)
Retained earnings		21 880	20 210
<b>Total equity</b>		<b>24 410</b>	<b>22 168</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Loans, borrowings and bonds	4.4	6 331	7 503
Provisions	4.6	368	369
Deferred tax liabilities		788	553
Embedded derivatives and hedging instruments	4.5	118	280
Other liabilities	4.5	213	213
		<b>7 818</b>	<b>8 918</b>
<b>Current liabilities</b>			
Trade and other liabilities		8 999	8 850
Loans, borrowings and bonds	4.4	830	1 335
Provisions	4.6	236	342
Current tax liabilities		-	534
Deferred income		190	138
Embedded derivatives and hedging instruments	4.5	113	289
Other liabilities	4.5	347	498
		<b>10 715</b>	<b>11 986</b>
<b>Total liabilities</b>		<b>18 533</b>	<b>20 904</b>
<b>Total equity and liabilities</b>		<b>42 943</b>	<b>43 072</b>

The accompanying notes disclosed on pages 27 – 36 are an integral part of the foregoing the half-year condensed separate financial statements.



**Separate statement of changes in equity**

	Share capital and share premium	Hedging reserve	Retained earnings	Total equity
01/01/2017	2 285	(327)	20 210	22 168
Net profit	-	-	2 953	2 953
Items of other comprehensive income	-	572	-	572
<b>Total net comprehensive income</b>	-	<b>572</b>	<b>2 953</b>	<b>3 525</b>
Dividends	-	-	(1 283)	(1 283)
<b>30/06/2017</b>	<b>2 285</b>	<b>245</b>	<b>21 880</b>	<b>24 410</b>
(unaudited)				
01/01/2016	2 285	(143)	15 704	17 846
Net profit	-	-	2 074	2 074
Items of other comprehensive income	-	(195)	-	(195)
<b>Total net comprehensive income</b>	-	<b>(195)</b>	<b>2 074</b>	<b>1 879</b>
Dividends	-	-	(855)	(855)
<b>30/06/2016</b>	<b>2 285</b>	<b>(338)</b>	<b>16 923</b>	<b>18 870</b>
(unaudited)				

The accompanying notes disclosed on pages 27 – 36 are an integral part of the foregoing the half-year condensed separate financial statements.

**Separate statement of cash flows**

	6 MONTHS ENDED 30/06/2017 (unaudited)	3 MONTHS ENDED 30/06/2017 (unaudited)	6 MONTHS ENDED 30/06/2016 (unaudited)	3 MONTHS ENDED 30/06/2016 (unaudited)
<b>Cash flows from operating activities</b>				
<b>Profit before tax</b>	<b>3 412</b>	<b>1 830</b>	<b>2 232</b>	<b>2 309</b>
Adjustments for:				
Depreciation and amortisation	592	295	559	274
Foreign exchange (profit)/loss	(36)	73	280	246
Interest, net	86	41	102	50
Dividends	(1 524)	(935)	(1 463)	(1 440)
(Profit)/Loss on investing activities, incl.:	627	(7)	(39)	12
<i>recognition of impairment allowance of shares of ORLEN Lietuva</i>	517	-	-	-
Change in provisions	67	30	54	1
Change in working capital	(329)	948	445	(436)
<i>inventories</i>	(182)	544	652	(670)
<i>receivables</i>	795	(25)	(1 158)	(1 016)
<i>liabilities</i>	(942)	429	951	1 250
Other adjustments	(137)	(54)	(26)	23
Income tax received/(paid)	(847)	(205)	2	3
<b>Net cash from operating activities</b>	<b>1 911</b>	<b>2 016</b>	<b>2 146</b>	<b>1 042</b>
<b>Cash flows from investing activities</b>				
Acquisition of property, plant and equipment, intangible assets and perpetual usufruct of land	(845)	(339)	(1 433)	(444)
Acquisition of shares	(227)	(227)	(176)	(176)
Disposal of property, plant and equipment, intangible assets and perpetual usufruct of land	143	89	108	61
Disposal of shares	-	-	88	3
Interest received	10	5	2	1
Dividends received	1 139	548	1 037	1 026
Proceeds from non-current loans granted	3	2	3	2
Proceeds/(Expenses) from current loans granted	(27)	376	(91)	562
Proceeds/(Outflows) from cash pool facility	(22)	(8)	14	11
Other	9	60	(2)	-
<b>Net cash from/(used in) investing activities</b>	<b>183</b>	<b>506</b>	<b>(450)</b>	<b>1 046</b>
<b>Cash flows from financing activities</b>				
Proceeds from loans and borrowings received	-	-	7 308	4 905
Bonds issued	693	390	904	474
Repayments of loans and borrowings	(822)	(39)	(7 709)	(5 565)
Redemption of bonds	(1 288)	(1 033)	(574)	(352)
Interest paid	(206)	(170)	(169)	(116)
Outflows from cash pool facility	(94)	(46)	(234)	(9)
Other	(14)	(9)	(11)	(6)
<b>Net cash (used) in financing activities</b>	<b>(1 731)</b>	<b>(907)</b>	<b>(485)</b>	<b>(669)</b>
<b>Net increase in cash</b>	<b>363</b>	<b>1 615</b>	<b>1 211</b>	<b>1 419</b>
Effect of exchange rate changes	(1)	26	-	1
Cash, beginning of the period	2 563	1 284	964	755
<b>Cash, end of the period</b>	<b>2 925</b>	<b>2 925</b>	<b>2 175</b>	<b>2 175</b>

The accompanying notes disclosed on pages 27 – 36 are an integral part of the foregoing the half-year condensed separate financial statements.

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

The foregoing half-year condensed separate financial statements ("separate financial statements") were prepared in accordance with requirements of IAS 34 "Interim financial reporting" and in the scope required under the Minister of Finance Regulation of 19 February 2009 on current and periodic information provided by issuers of securities and conditions of recognition as equivalent information required by the law of a non member state (consolidated text: Official Journal 2014, item 133, as amended Official Journal 2016, item 860) ("Regulation") and present the PKN ORLEN S.A. ("Company", "Parent Company", "PKN ORLEN") financial position as at 30 June 2017 and as at 31 December 2016, financial results and cash flows for the 6 and 3 month period ended 30 June 2017 and 30 June 2016.

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

The duration of the Company is unlimited.

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

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

In the foregoing half-year condensed separate financial statements, the significant assumptions made by the Management Board regarding adoption by the Company of accounting principles and main uncertainties were the same as those presented in the specific explanatory notes in the Separate Financial Statements for the year 2016.

The Company intends to adopt IFRS amendments, published but not effective as at the date of publication of the foregoing half-year condensed separate financial statements, in accordance with their effective date. An estimate of the impact of changes and new IFRS on future separate financial statements was presented in the Separate Financial Statements for 2016 in note 5.6.

**1.3. Functional currency and presentation currency of financial statements**

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

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

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

**2. Financial situation of PKN ORLEN and changes in the structure of shares in related parties****2.1. PKN ORLEN's achievements accompanied by factors having a significant impact on half-year condensed separate financial statements****Profit or loss**

In the 6 month period of 2017 PKN ORLEN's increase of sales revenues by PLN 10,179 million (y/y) to PLN 33,597 million was recorded. Higher sale revenues are the effect of both of higher sale volumes in downstream segment by 10% (y/y) and retail segment by 7% (y/y) due to the improvement of the market situation including the introduction of a regulation package limiting influence of so-called shadow economy for fuel trade, as well as the increase of quotation of major products: fuel (by 18%), diesel oil (by 28%), Jet fuel (by 28%), light heating oil (by 29%), heavy heating oil (by 69%), ethylene (by 17%), propylene (by 39%) and benzene (by 43%).

Result of other operating activities amounted to PLN 66 million and included mainly received guarantee penalties related to Power Plant CCGT in Wloclawek.

As a result profit from operations for the 6 months of 2017 amounted to PLN 2,094 million and was higher by PLN 936 million (y/y)

Net finance income in the described period amounted to PLN 1,318 million and included mainly dividends income from related parties in the amount of PLN 1,524 million, foreign exchange gains in the amount of PLN 410 million, net interest expenses in the amount of PLN (78) million and recognized in the 1<sup>st</sup> quarter of 2017 impairment allowance of ORLEN Lietuva shares in the amount of (PLN 517) million.

After consideration of tax charges in the amount of PLN (459) million, the net profit of the PKN ORLEN for the 6 months of 2017 amounted to PLN 2,953 million and was higher by PLN 879 million (y/y).

**Statement of financial position**

As at 30 June 2017 total assets of PKN ORLEN amounted to PLN 42,943 million and was lower by PLN (129) million in comparison with 31 December 2016.

As at 30 June 2017, the value of non-current assets amounted to PLN 24,894 million and was lower by PLN (215) million in comparison with the end of the previous year, mainly due to decrease of the value of shares in related parties by PLN (300) million as a result of recognition in the 1<sup>st</sup> quarter of 2017 impairment allowance ORLEN Lietuva shares of in the amount of PLN (517) million and adoption of additional shares due to increase of the ORLEN Upstream share capital by PLN 227 million in the 2<sup>nd</sup> quarter of 2017 and increasing valuation of financial instruments by PLN 106 million.

The value of current assets increased by PLN 86 million, mainly as a result of increase in the balance of cash by PLN 362 million with decrease of trade and other receivables by PLN (422) million and increasing inventories by PLN 183 million and valuations of hedge instruments and other assets in the amount PLN 57 million.

As at 30 June 2017, total equity amounted to PLN 24,410 million and was higher by PLN 2,242 million in comparison with the end of 2016, mainly as a result of net profit for the 6 months of 2017 in the amount of PLN 2,953 million with consideration of dividends payment from the profit of the 2016 in the amount PLN (1,283) million.

The value of provisions as at 30 June 2017 amounted to PLN 604 million and was lower by PLN (107) million in comparison with the end of 2016, mainly due to a change in provisions of for estimated CO<sub>2</sub> emission, energy certificates in the amount of PLN (102) million, as a net result of the recognition of provisions for estimated CO<sub>2</sub> emission for the first half of 2017 in the amount of PLN 70 million and usage of provision in connection with the amortisation of rights of 2016 in the amount of PLN (169) million.

As at 30 June 2017 net financial indebtedness of the PKN ORLEN amounted to PLN 4,236 million and was lower by PLN (2,039) million in comparison with the end of 2016. Change of net financial indebtedness included net repayment of loans, borrowings and bonds in the amount of PLN (1,353) million, increase of cash balance by PLN (362) million and the net impact of positive exchange differences from revaluation and indebtedness valuation in total amount of PLN (324) million.

### **Statement of cash flows**

Proceeds of net cash from operating activities for the 6 month period of 2017 amounted to PLN 1,911 million and comprised mainly profit from operations increased by depreciation and amortisation in the amount of PLN 2,686 million, the negative impact of increase in a net working capital by PLN (329) million and paid income taxes in the amount of PLN (847) million.

Net cash used in investing activities for the 6 month period of 2017 amounted to PLN 183 million and comprised mainly net expenses for the acquisition of property, plant and equipment, intangible assets and perpetual usufruct of land in the amount of PLN (702) million and additional shares in ORLEN Upstream in the amount of PLN (227) million and dividends received in the amount of PLN 1,139 million.

Net expenses of cash used in financing activities for the 6 month period of 2017 amounted to PLN (1,731) million and comprised mainly the net repayment of loans and borrowings of PLN (822) million, net redemption of bonds in the amount of PLN (595) million and interest paid in the amount of PLN (206) million.

Taking into account the revaluation of cash due to exchange differences, the cash balance in the 6 month period of 2017 increased by PLN 362 million and as at 30 June 2017 amounted to PLN 2,925 million.

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

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

#### **2.2. Changes in the structure of shares**

As at 30 June 2017, a decrease of shares in related parties by PLN (300) million took place as a result of recognition in the 1<sup>st</sup> quarter of 2017 impairment allowance of ORLEN Lietuva shares of in the amount of PLN (517) million and adoption of additional shares due to increase of the ORLEN Upstream share capital by PLN 227 million in the 2<sup>nd</sup> quarter of 2017.

### **3. Segment reporting**

The operations of the Company is conducted in:

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

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

**Revenues, costs, financial results, investments expenditures**
**for the 6 month period ended 30 June 2017**

	NOTE	Downstream Segment (unaudited)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
External revenues		25 327	8 242	-	28	-	33 597
Inter-segment revenues		5 318	-	-	41	(5 359)	-
Sales revenues		30 645	8 242	-	69	(5 359)	33 597
Operating expenses		(28 905)	(7 667)	-	(366)	5 359	(31 569)
Other operating income	4.2	123	22	-	15	-	160
Other operating expenses	4.2	(19)	(41)	-	(34)	-	(94)
<b>Profit/(Loss) from operations</b>		<b>1 844</b>	<b>556</b>	<b>-</b>	<b>(306)</b>	<b>-</b>	<b>2 094</b>
Net finance income and costs	4.3						1 318
<b>Profit before tax</b>							<b>3 412</b>
Tax expense							(459)
<b>Net profit</b>							<b>2 953</b>
<b>Depreciation and amortisation</b>	4.1	<b>421</b>	<b>131</b>	<b>-</b>	<b>40</b>	<b>-</b>	<b>592</b>
<b>EBITDA</b>		<b>2 265</b>	<b>687</b>	<b>-</b>	<b>(266)</b>	<b>-</b>	<b>2 686</b>
<b>CAPEX</b>		<b>510</b>	<b>102</b>	<b>-</b>	<b>70</b>	<b>-</b>	<b>682</b>

**for the 3 month period ended 30 June 2017**

	NOTE	Downstream Segment (unaudited)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
External revenues		12 239	4 291	-	16	-	16 546
Inter-segment revenues		2 705	-	-	22	(2 727)	-
Sales revenues		14 944	4 291	-	38	(2 727)	16 546
Operating expenses		(14 386)	(3 942)	-	(192)	2 727	(15 793)
Other operating income	4.2	88	9	-	12	-	109
Other operating expenses	4.2	(10)	(26)	-	(17)	-	(53)
<b>Profit/(Loss) from operations</b>		<b>636</b>	<b>332</b>	<b>-</b>	<b>(159)</b>	<b>-</b>	<b>809</b>
Net finance income and costs	4.3						1 021
<b>Profit before tax</b>							<b>1 830</b>
Tax expense							(152)
<b>Net profit</b>							<b>1 678</b>
<b>Depreciation and amortisation</b>	4.1	<b>209</b>	<b>65</b>	<b>-</b>	<b>21</b>	<b>-</b>	<b>295</b>
<b>EBITDA</b>		<b>845</b>	<b>397</b>	<b>-</b>	<b>(138)</b>	<b>-</b>	<b>1 104</b>
<b>CAPEX</b>		<b>315</b>	<b>54</b>	<b>-</b>	<b>46</b>	<b>-</b>	<b>415</b>

**for the 6 month period ended 30 June 2016**

	NOTE	Downstream Segment (unaudited)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
External revenues		16 808	6 582	-	28	-	23 418
Inter-segment revenues		4 086	-	-	43	(4 129)	-
Sales revenues		20 894	6 582	-	71	(4 129)	23 418
Operating expenses		(19 815)	(6 150)	(13)	(377)	4 129	(22 226)
Other operating income	4.2	20	24	-	15	-	59
Other operating expenses	4.2	(32)	(29)	-	(32)	-	(93)
<b>Profit/(Loss) from operations</b>		<b>1 067</b>	<b>427</b>	<b>(13)</b>	<b>(323)</b>	<b>-</b>	<b>1 158</b>
Net finance income and costs	4.3						1 074
<b>Profit before tax</b>							<b>2 232</b>
Tax expense							(158)
<b>Net profit</b>							<b>2 074</b>
<b>Depreciation and amortisation</b>	4.1	<b>398</b>	<b>123</b>	<b>-</b>	<b>38</b>	<b>-</b>	<b>559</b>
<b>EBITDA</b>		<b>1 465</b>	<b>550</b>	<b>(13)</b>	<b>(285)</b>	<b>-</b>	<b>1 717</b>
<b>CAPEX</b>		<b>513</b>	<b>67</b>	<b>-</b>	<b>48</b>	<b>-</b>	<b>628</b>

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

	NOTE	Downstream Segment (unaudited)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
External revenues		9 166	3 671	-	13	-	12 850
Inter-segment revenues		2 337	-	-	23	(2 360)	-
Sales revenues		11 503	3 671	-	36	(2 360)	12 850
Operating expenses		(10 309)	(3 416)	(4)	(196)	2 360	(11 565)
Other operating income	4.2	11	19	-	4	-	34
Other operating expenses	4.2	(11)	(17)	-	(18)	-	(46)
<b>Profit/(Loss) from operations</b>		<b>1 194</b>	<b>257</b>	<b>(4)</b>	<b>(174)</b>	<b>-</b>	<b>1 273</b>
Net finance income and costs	4.3						1 036
<b>Profit before tax</b>							<b>2 309</b>
Tax expense							(155)
<b>Net profit</b>							<b>2 154</b>
<b>Depreciation and amortisation</b>	4.1	<b>193</b>	<b>62</b>	<b>-</b>	<b>19</b>	<b>-</b>	<b>274</b>
<b>EBITDA</b>		<b>1 387</b>	<b>319</b>	<b>(4)</b>	<b>(155)</b>	<b>-</b>	<b>1 547</b>
<b>CAPEX</b>		<b>204</b>	<b>37</b>	<b>-</b>	<b>31</b>	<b>-</b>	<b>272</b>

EBITDA – profit/(loss) from operations increased by depreciation and amortisation

CAPEX - increase of property, plant and equipment, intangible assets and perpetual usufruct of land together with the capitalisation of borrowing costs

**Assets by operating segments**

	30/06/2017 (unaudited)	31/12/2016
Downstream Segment	24 989	25 782
Retail Segment	3 631	3 641
Upstream Segment	2	-
<b>Segment assets</b>	<b>28 622</b>	<b>29 423</b>
Corporate Functions	14 321	13 649
	<b>42 943</b>	<b>43 072</b>

**4. Other notes**
**4.1. Operating expenses**
**Cost by nature**

	6 MONTHS ENDED 30/06/2017 (unaudited)	3 MONTHS ENDED 30/06/2017 (unaudited)	6 MONTHS ENDED 30/06/2016 (unaudited)	3 MONTHS ENDED 30/06/2016 (unaudited)
Materials and energy	(12 123)	(5 712)	(9 809)	(5 198)
Cost of merchandise and raw materials sold	(16 935)	(8 477)	(9 398)	(5 127)
External services	(1 181)	(610)	(1 094)	(549)
Employee benefits	(397)	(189)	(387)	(190)
Depreciation and amortisation	(592)	(295)	(559)	(274)
Taxes and charges	(447)	(216)	(450)	(226)
Other	(186)	(111)	(204)	(105)
	<b>(31 861)</b>	<b>(15 610)</b>	<b>(21 901)</b>	<b>(11 669)</b>
Change in inventories	96	(300)	(519)	(4)
Cost of products and services for own use	102	64	101	62
<b>Operating expenses</b>	<b>(31 663)</b>	<b>(15 846)</b>	<b>(22 319)</b>	<b>(11 611)</b>
Distribution expenses	1 225	628	1 127	555
Administrative expenses	383	193	383	192
Other operating expenses	94	53	93	46
<b>Cost of sales</b>	<b>(29 961)</b>	<b>(14 972)</b>	<b>(20 716)</b>	<b>(10 818)</b>

**4.2. Other operating income and expenses**
**Other operating income**

	6 MONTHS ENDED 30/06/2017 (unaudited)	3 MONTHS ENDED 30/06/2017 (unaudited)	6 MONTHS ENDED 30/06/2016 (unaudited)	3 MONTHS ENDED 30/06/2016 (unaudited)
Profit on sale of non-current non-financial assets	27	20	21	10
Reversal of provisions	2	1	1	-
Reversal of receivables impairment allowances	6	2	3	1
Reversal of impairment allowances of property, plant and equipment and intangible assets	15	8	8	8
Penalties and compensation	63	59	8	4
Other	47	19	18	11
	<b>160</b>	<b>109</b>	<b>59</b>	<b>34</b>

**Other operating expenses**

	6 MONTHS ENDED 30/06/2017 (unaudited)	3 MONTHS ENDED 30/06/2017 (unaudited)	6 MONTHS ENDED 30/06/2016 (unaudited)	3 MONTHS ENDED 30/06/2016 (unaudited)
Loss on sale of non-current non-financial assets	(16)	(10)	(19)	(6)
Recognition of provisions	(5)	(3)	(17)	(7)
Recognition of receivables impairment allowances	(4)	(2)	(6)	(3)
Recognition of impairment allowances of property, plant and equipment and intangible assets	(30)	(23)	(12)	(8)
Penalties, damages and compensation	(9)	(3)	(5)	(2)
Other	(30)	(12)	(34)	(20)
	<b>(94)</b>	<b>(53)</b>	<b>(93)</b>	<b>(46)</b>

**4.3. Finance income and costs**
**Finance income**

	6 MONTHS ENDED 30/06/2017 (unaudited)	3 MONTHS ENDED 30/06/2017 (unaudited)	6 MONTHS ENDED 30/06/2016 (unaudited)	3 MONTHS ENDED 30/06/2016 (unaudited)
Interest	19	10	25	13
Foreign exchange gain surplus	410	88	-	-
Dividends	1 524	935	1 463	1 440
Settlement and valuation of derivative financial instruments	333	75	20	10
Other	15	7	85	13
	<b>2 301</b>	<b>1 115</b>	<b>1 593</b>	<b>1 476</b>

**Finance costs**

	6 MONTHS ENDED 30/06/2017 (unaudited)	3 MONTHS ENDED 30/06/2017 (unaudited)	6 MONTHS ENDED 30/06/2016 (unaudited)	3 MONTHS ENDED 30/06/2016 (unaudited)
Interest	(97)	(46)	(105)	(52)
Foreign exchange loss, net	-	-	(380)	(363)
Settlement and valuation of derivative financial instruments	(362)	(45)	(30)	(23)
Recognition of impairment allowance of shares of ORLEN Lietuva	(517)	-	-	-
Other	(7)	(3)	(4)	(2)
	<b>(983)</b>	<b>(94)</b>	<b>(519)</b>	<b>(440)</b>

In the 1<sup>st</sup> quarter of 2017 PKN ORLEN recognized an impairment allowance on the value of ORLEN Lietuva shares in the amount of PLN (517) million. The indicator to conduct impairment tests of shares in ORLEN Lietuva, was payment of dividends in the 1<sup>st</sup> quarter of 2017 by ORLEN Lietuva to PKN ORLEN of approximately PLN 591 million.

Borrowing costs capitalized in the 6 and 3 month period ended 30 June 2017 and 30 June 2016 amounted to PLN (41) million and PLN (20) million, PLN (29) million and PLN (16) million, respectively.

**4.4. Loans, borrowings and bonds**

	Non-current		Current		Total	
	30/06/2017 (unaudited)	31/12/2016	30/06/2017 (unaudited)	31/12/2016	30/06/2017 (unaudited)	31/12/2016
Loans	-	653	-	104	-	757
Borrowings	5 218	5 536	37	42	5 255	5 578
Bonds	1 113	1 314	793	1 189	1 906	2 503
	<b>6 331</b>	<b>7 503</b>	<b>830</b>	<b>1 335</b>	<b>7 161</b>	<b>8 838</b>

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



**4.5. Embedded derivatives and hedging instruments and other assets and liabilities**
**Embedded derivatives and hedging instruments and other assets**

	Non-current		Current		Total	
	30/06/2017 (unaudited)	31/12/2016	30/06/2017 (unaudited)	31/12/2016	30/06/2017 (unaudited)	31/12/2016
Cash flows hedging instruments	160	66	243	57	403	123
<i>currency forwards</i>	151	12	194	32	345	44
<i>commodity swaps</i>	9	54	49	25	58	79
Derivatives not designated as hedge accounting	12	-	20	-	32	-
<i>currency forwards</i>	-	-	10	-	10	-
<i>commodity swaps</i>	12	-	10	-	22	-
Embedded derivatives	-	-	3	-	3	-
<i>currency swaps</i>	-	-	3	-	3	-
<b>Embedded derivatives and hedging instruments</b>	<b>172</b>	<b>66</b>	<b>266</b>	<b>57</b>	<b>438</b>	<b>123</b>
Other financial assets	35	38	1 060	1 212	1 095	1 250
<i>loans granted</i>	35	38	937	1 066	972	1 104
<i>cash pool</i>	-	-	51	29	51	29
<i>receivables on cash flows settled hedging instruments</i>	-	-	72	117	72	117
Other non-financial assets	134	135	-	-	134	135
<i>perpetual usufruct of land</i>	94	95	-	-	94	95
<i>financial assets available for sale</i>	40	40	-	-	40	40
<b>Other assets</b>	<b>169</b>	<b>173</b>	<b>1 060</b>	<b>1 212</b>	<b>1 229</b>	<b>1 385</b>

**Embedded derivatives and hedging instruments and other liabilities**

	Non-current		Current		Total	
	30/06/2017 (unaudited)	31/12/2016	30/06/2017 (unaudited)	31/12/2016	30/06/2017 (unaudited)	31/12/2016
Cash flows hedging instruments	2	190	85	287	87	477
<i>commodity swaps</i>	-	28	41	139	41	167
<i>currency interest rate swaps</i>	-	120	-	31	-	151
<i>currency forwards</i>	2	42	44	117	46	159
Derivatives not designated as hedge accounting	116	90	28	-	144	90
<i>interest rate swaps</i>	72	90	-	-	72	90
<i>commodity swaps</i>	-	-	11	-	11	-
<i>currency interest rate swaps</i>	44	-	6	-	50	-
<i>currency forwards</i>	-	-	11	-	11	-
Embedded derivatives	-	-	-	2	-	2
<i>currency swaps</i>	-	-	-	2	-	2
<b>Embedded derivatives and hedging instruments</b>	<b>118</b>	<b>280</b>	<b>113</b>	<b>289</b>	<b>231</b>	<b>569</b>
Other financial liabilities	213	213	347	498	560	711
<i>liabilities on cash flows settled hedging instruments</i>	-	-	45	103	45	103
<i>investment liabilities</i>	110	111	-	-	110	111
<i>finance lease</i>	103	102	-	-	103	102
<i>cash pool</i>	-	-	302	395	302	395
<b>Other liabilities</b>	<b>213</b>	<b>213</b>	<b>347</b>	<b>498</b>	<b>560</b>	<b>711</b>

**4.6. Provisions**

	Non-current		Current		Total	
	30/06/2017 (unaudited)	31/12/2016	30/06/2017 (unaudited)	31/12/2016	30/06/2017 (unaudited)	31/12/2016
Environmental	253	254	24	30	277	284
Jubilee bonuses and post-employment benefits	115	115	20	20	135	135
CO <sub>2</sub> emissions, energy certificates	-	-	78	180	78	180
Other	-	-	114	112	114	112
	<b>368</b>	<b>369</b>	<b>236</b>	<b>342</b>	<b>604</b>	<b>711</b>

**4.7. Methods applied in determining fair value (fair value hierarchy)**

As compared to the previous reporting period the Company did not change valuation methods concerning derivative instruments. Methods applied in determining the fair value were described in the Separate Financial Statements for the year 2016 in note 7.3.3.

**Fair value hierarchy**

	30/06/2017 (unaudited)	31/12/2016
	LEVEL 2	
<b>Financial assets</b>		
Embedded derivatives and hedging instruments	438	123
	<b>438</b>	<b>123</b>
<b>Financial liabilities</b>		
Embedded derivatives and hedging instruments	231	569
	<b>231</b>	<b>569</b>

The fair value of financial assets and liabilities quoted on active markets is determined based on market quotations (so-called Level 1). In other cases, the fair value is determined based on other input data which are directly or indirectly observable (so-called Level 2) or unobservable inputs (so-called Level 3).

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

**4.8. Finance lease payments**

As at 30 June 2017 and as at 31 December 2016 the Company possessed as a lessee the finance lease agreements, concerning mainly petrol stations.

	30/06/2017 (unaudited)	31/12/2016
Value of future minimum lease payments	152	150
Present value of future minimum lease payments	127	125

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

As at 30 June 2017 and as at 31 December 2016 the value of future commitments resulting from investment contracts signed until that day amounted to PLN 982 million and PLN 1,024 million, respectively.

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

In the 6 and 3 month period ended 30 June 2017 and 30 June 2016 PKN ORLEN issued and redeemed of short-terms bonds in favour of the Group companies as a part of liquidity optimisation in the ORLEN Group in the amounts: issue: PLN 693 million and PLN 390 million, PLN 904 million and PLN 474 million, respectively; redemption: PLN 888 million, PLN 633 million and PLN 574 million and PLN 352 million, respectively. Additionally, in the 2<sup>nd</sup> quarter of 2017 PKN ORLEN redeemed of retail bonds A and B Series in the total amount of PLN 400 million issued under the public bond issue program conducted in 2013-2014.

**4.11. Distribution of the profit for 2016**

The Ordinary General Meeting of Shareholders of PKN ORLEN S.A. on 30 June 2017 distributed the net profit of PKN ORLEN for the year 2016 in the amount of PLN 5,364,455,552.64 as follows: the amount of PLN 1,283,127,183 was allocated as a dividend payment (PLN 3 per 1 share) and the remaining amount of net profit of PLN 4,081,328,369.64 as reserve capital. The dividend date was set at 14 July 2017 and the dividend payment date at 4 August 2017.

**4.12. Contingent liabilities**

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

**Claim of OBR S.A. (currently: Warter Fuels S.A.) for compensation**

On 5 September 2014, the company OBR S.A. filed an action against PKN ORLEN with the District Court in Łódź for a claim for payment in respect of an alleged breach by PKN ORLEN of patent rights: 'The technique of the separation of hydrodesulfurization products of heavy residue after extractive distillation of crude oil'. The amount of the claim in the lawsuit has been estimated by OBR S.A. in the amount of approximately PLN 83 million. The claim covers the adjudged sum of money from PKN ORLEN for OBR S.A. in the amount corresponding to the value of the license fee for the use of the solution under the above patent and adjudge the obligation to repay the benefits derived from the use of this solution. On 16 October 2014 PKN ORLEN responded to the lawsuit. By the procedural document from 11 December 2014 the value of the dispute was referred to by the plaintiff in the amount of approximately PLN 247 million. By the court order from 21 May 2015 the parties were directed to mediation. Mediation proceedings were completed. The case returned to the District Court in Łódź. The first hearing was held on 19 October 2016. At the hearing on 22 March 2017 witnesses were heard. Dates of next court hearings, where it is planned to examine further witnesses, were scheduled for September 2017. In the opinion of PKN ORLEN the above claims are without merit.

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

**4.13. Related parties transactions**
**4.13.1. Related parties transactions of the ORLEN Group**

As at 30 June 2017 and 31 December 2016 and in the 6 and 3 month period ended 30 June 2017 and 30 June 2016 there were no transactions of related parties with members of the Management Board and the Supervisory Board of the Company, other key executive personnel of the Company and their relatives.

**Transactions and balances of settlements of the Company with related parties**

	Subsidiaries		Jointly- controlled entities		Total	
	6 MONTHS ENDED 30/06/2017 (unaudited)	3 MONTHS ENDED 30/06/2017 (unaudited)	6 MONTHS ENDED 30/06/2017 (unaudited)	3 MONTHS ENDED 30/06/2017 (unaudited)	6 MONTHS ENDED 30/06/2017 (unaudited)	3 MONTHS ENDED 30/06/2017 (unaudited)
	Sales	17 700	8 445	1 276	625	18 976
Purchases	(3 110)	(1 410)	(14)	(7)	(3 124)	(1 417)
Finance income, incl.: <i>dividends</i>	1 363 1 347	767 758	173 173	173 173	1 536 1 520	940 931
Finance costs	(54)	(27)	-	-	(54)	(27)

	Subsidiaries		Jointly- controlled entities		Total	
	6 MONTHS ENDED 30/06/2016 (unaudited)	3 MONTHS ENDED 30/06/2016 (unaudited)	6 MONTHS ENDED 30/06/2016 (unaudited)	3 MONTHS ENDED 30/06/2016 (unaudited)	6 MONTHS ENDED 30/06/2016 (unaudited)	3 MONTHS ENDED 30/06/2016 (unaudited)
	Sales	10 834	5 936	1 243	632	12 077
Purchases	(1 735)	(993)	(13)	(7)	(1 748)	(1 000)
Finance income, incl.: <i>dividends</i>	1 375 1 277	1 262 1 254	181 181	181 181	1 556 1 458	1 443 1 435
Finance costs	(35)	(20)	-	-	(35)	(20)

	Subsidiaries		Jointly- controlled entities		Total	
	30/06/2017 (unaudited)	31/12/2016	30/06/2017 (unaudited)	31/12/2016	30/06/2017 (unaudited)	31/12/2016
	Trade and other receivables	2 881	3 267	470	407	3 351
Other assets	1 023	1 133	-	-	1 023	1 133
Trade and other liabilities	677	560	7	2	684	562
Borrowings and bonds	5 546	6 065	-	-	5 546	6 065
Other liabilities	309	403	-	-	309	403

The above transactions with related parties include mainly sales and purchases of refinery and petrochemicals products and services. In 6 and 3 month period ended 30 June 2017 and 30 June 2016, there were no significant related parties transaction in the Company concluded on other than as arm's length basis.

**4.13.2. Transactions with entities related to the State Treasury**

As at 30 June 2017 and 31 December 2016, the State Treasury owns 27.52% of the PKN ORLEN shares and has ability to exert a significant influence on it.

The Company identified transactions with related parties with the State Treasury on the basis of "The Council of Ministers Regulation of 3 January 2017 on the list of companies in which the rights of the State Treasury shares carry other than the President Council of Ministers members of the Council of Ministers', Government Plenipotentiaries or state legal entities".

In the 6 and 3 month period ended 30 June 2017 and 30 June 2016, the Group identified the following transactions:

	6 MONTHS ENDED 30/06/2017 (unaudited)	3 MONTHS ENDED 30/06/2017 (unaudited)	6 MONTHS ENDED 30/06/2016 (unaudited)	3 MONTHS ENDED 30/06/2016 (unaudited)
Sales	342	135	456	236
Purchases	(1 179)	(659)	(610)	(326)

As at 30 June 2017 and 31 December 2016, trade and other receivables amounted to PLN 155 million and PLN 195 million, respectively, while trade and other liabilities amounted to PLN 178 million and PLN 203 million, respectively.

These transactions were concluded on an arm's length basis and were related to the Company's current operating activities, concerned mainly fuel sales, purchase and sale of natural gas, energy, transport and storage services.

Additionally, there are also financial transactions (bank fees, commission) with Bank PKO BP, Bank Pekao S.A. and Bank Gospodarstwa Krajowego.

**4.14. Guarantees**

Excise tax guarantees and excise tax on goods and merchandise under the excise tax suspension procedure as at 30 June 2017 and as at 31 December 2016 amounted to PLN 1,850 million and PLN 1,508 million, respectively.

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

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

MANAGEMENT BOARD REPORT ON THE OPERATIONS OF THE  
GROUP

FOR THE 1<sup>st</sup> HALF **2017**



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

### 1. Principal activity of the ORLEN Group

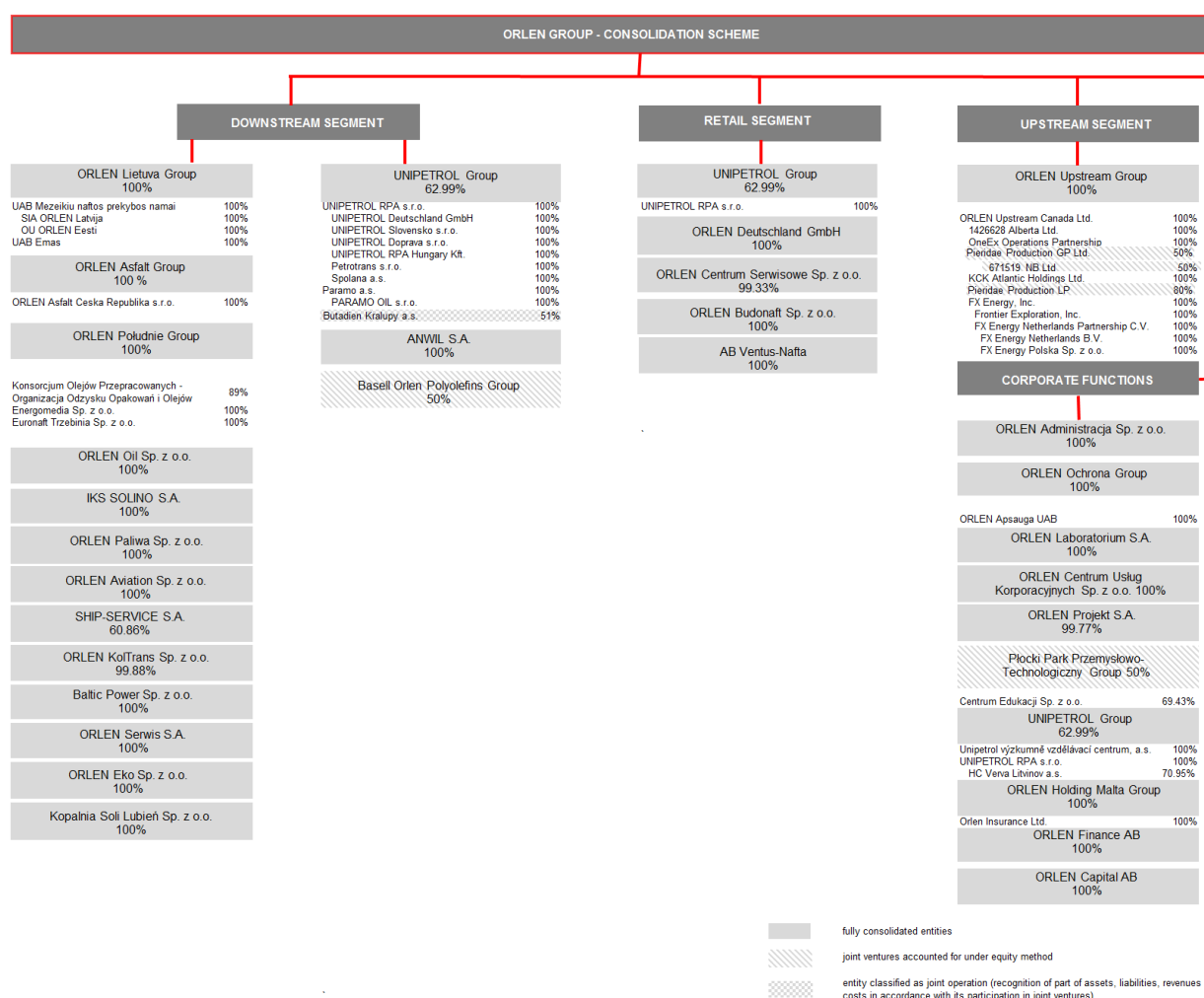
The Parent Company of the Polski Koncern Naftowy ORLEN S.A. Capital Group is Polski Koncern Naftowy ORLEN S.A. ("PKN ORLEN", "Company", "Parent Company") domiciled in Plock, 7 Chemików Street.

The core business of the ORLEN Group is crude oil processing and production of fuel, petrochemical and chemical goods, as well as, wholesale and retail sale of products. The ORLEN Group conducts also exploration, recognition and extraction of hydrocarbons, and generates, distributes and trades of electricity and heat.

The activity of the ORLEN Group companies is also service-related activity: storage of crude oil and fuels, transportation, maintenance and overhaul services, laboratory, security, design, administrative, insurance and financial services.

### 2. Organization of the ORLEN Group

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



### 3. Financial situation

#### 3.1. Major factors having impact on EBITDA LIFO (profit on operations increased by depreciation and amortisation by LIFO method of inventory valuation)

Profit from operations increased by depreciation and amortisation (so-called EBITDA) for the 6 months of 2017 amounted to PLN 5,539 million and was higher by PLN 1,547 million (y/y).

ORLEN Group's inventories are valued in the financial statements in accordance with International Financial Reporting Standards at the weighted average cost method or purchase price method. Therefore, an upward trend in crude oil prices has a positive effect and a downtrend

has a negative impact on reported results. The positive impact of crude oil prices on inventory valuation for the 6 months of 2017 amounted to PLN 175 million and was higher by PLN 703 million (y/y).

Profit from operations increased by depreciation and amortisation before consideration of changes of crude oil prices on inventory valuation (so-called EBITDA LIFO) for the 6 months of 2017 amounted to PLN 5,364 million and was higher by PLN 844 million (y/y).

The positive impact of the macroeconomic parameters amounted to PLN 227 million (y/y) and included mainly margins on refining products and olefins, aromatics and plastics in the part limited by the reduction of margins on polyolefines and fertilizers.

Total sales volume for the 6 month period of 2017 was higher in all operating segments and increased in total by 7% (y/y), which translated into a positive volume effect in the amount of PLN 540 million (y/y).

The positive impact of the other factors amounted to PLN 77 million (y/y) and included mainly the effect of higher fuels and non-fuel margins in the retail segment after consideration of increase costs of operations of fuel stations as a result of higher retail sales.

### 3.2. The most significant events in the period from 1 January 2017 up to the date of preparation of the foregoing report

#### JANUARY 2017

##### **Power plant in Wloclawek**

PKN ORLEN informs that the Power plant in Wloclawek is expected to be commissioned by the consortium of companies (General Electric International Inc. acting via General Electric International S.A., office in Poland and SNC-LAVALIN POLSKA sp. z o.o.) in the 2<sup>nd</sup> quarter of 2017. Currently the Power plant is shut down and the contractor is conducting the repairs of earlier detected defects. After their completion guarantee measurements and trial run will be conducted, and next the Power plant will be commissioned by the contractor to PKN ORLEN.

#### APRIL 2017

##### **Moody's Investors Service upgraded PKN ORLEN's credit assessment**

On 13 April 2017 a credit rating agency Moody's Investors Service upgraded issuer rating of PKN ORLEN from the level of Baa3 to Baa2 and also upgraded the baseline credit assessment from ba1 to baa3.

Concurrently, the agency also upgraded the rating, from the level of Baa3 to Baa2, of two Eurobonds programme:

- EUR 500 million due 2021 and
- EUR 750 million due 2023

issued by ORLEN Capital AB and guaranteed by PKN ORLEN.

The outlook on all of upgraded ratings is stable.

##### **Consent of the Supervisory Board of PKN ORLEN for public issue of bonds**

On 26 April 2017 the Supervisory Board of PKN ORLEN gave consent for issue by PKN ORLEN bonds within the second retail bond issue programme. The bond issue programme assumes the issue of several bond series up to the total amount of PLN 1 billion during 12 months. The bonds will be offered in a public offering. PKN ORLEN plans to introduce the bonds to trading on the Catalyst regulated market. The parameters of each issue will be determined based on the current market environment and PKN ORLEN needs.

The public offering within the second retail bond issue programme also requires the prior approval of the prospectus relating to this offer by the Polish Financial Supervision Authority.

#### MAY 2017

##### **Submission of the prospectus relating to bond issue programme to the Polish Financial Supervision Authority**

On 24 May 2017 PKN ORLEN submitted to the Polish Financial Supervision Authority the prospectus relating to the public bond issue programme approved by the Company's Supervisory Board.

#### JUNE 2017

##### **Realisation of the Power plant in Wloclawek investment completed**

On 19 June 2017 PKN ORLEN signed with the consortium of companies (General Electric International Inc. acting via General Electric International S.A., office in Poland and SNC-LAVALIN POLSKA sp. z o.o.) a certificate on the base of which the realisation of investment of the Power plant in Wloclawek building was completed.

The total investment expenditures spent by PKN ORLEN for the project of the Power plant building amounted to approximately PLN 1,4 billion.

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

On 26 June 2017 the Supervisory Board of PKN ORLEN appointed Mr Wojciech Jasiński to the position of the President of the PKN ORLEN Management Board, for the common three year term of office, starting from the day coming after the day of the Ordinary Shareholders Meeting of PKN ORLEN approving financial statements for 2016.

At the same time Mr Sławomir Jędrzejczyk, Vice-President of the PKN ORLEN Management Board, Chief Financial Officer and Mr Piotr Chelmiński, Member of PKN ORLEN Management Board, Business Development/Power and Heat Generation Officer submitted a statements that they will not stand for re-election for the position of Member of the PKN ORLEN Management Board.

On 29 June 2017 the Supervisory Board of PKN ORLEN appointed Mr. Wiesław Protasewicz to serve as a Member of the Management Board of PKN ORLEN and Ms. Maria Sosnowska to serve as a Member of the Management Board of PKN ORLEN.

Composition of the Management Board at the date of publication of the foregoing consolidated half-year report

Wojciech Jasiński	– President of the Management Board, General Director
Miroslaw Kochalski	– Vice-President of the Management Board
Zbigniew Leszczyński	– Member of the Management Board, Sales
Krzysztof Pater	– Member of the Management Board, Production
Wiesław Protasewicz	– Member of the Management Board, Chief Financial Officer
Maria Sosnowska	– Member of the Management Board, Investment and Purchasing

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

On 29 June 2017 Mr Wiesław Protasewicz submitted a statement of resignation from the position of the PKN ORLEN Supervisory Board Member with the effect from 29 June 2017, justified his decision with a fact that he candidates to the PKN ORLEN Management Board.

On 30 June 2017 the Ordinary General Meeting of Shareholders of PKN ORLEN appointed to the Supervisory Board Ms Izabela Felczak-Poturnicka and Mr Wojciech Kryński.

Composition of the Supervisory Board at the date of publication of the foregoing consolidated half-year report

Angelina Anna Sarota	– Chairman of the Supervisory Board
Radosław Leszek Kwaśnicki	– Deputy Chairman of the Supervisory Board
Mateusz Henryk Bochacik	– Secretary of the Supervisory Board
Adrian Dworzyński	– Independent Member of the Supervisory Board
Izabela Felczak-Poturnicka	– Member of the Supervisory Board
Artur Gabor	– Independent Member of the Supervisory Board
Wojciech Kryński	– Independent Member of the Supervisory Board
Agnieszka Krzętowska	– Independent Member of the Supervisory Board

### JULY 2017

#### Fitch Ratings assigned provisional rating to planned bond issue programme

On 5 July 2017 a credit rating agency Fitch Ratings assigned an expected A(pol)(EXP) rating to the planned by PKN ORLEN retail bond issue programme.

#### Mr Artur Gabor resigned from the position of the PKN ORLEN Supervisory Board Member with the effect from 1 September 2017

On 13 July 2017 Mr Artur Gabor submitted a statement of resignation from the position of the PKN ORLEN Supervisory Board Member with the effect from 1 September 2017.

#### Polish Financial Supervision Authority approved the prospectus relating to bond issue programme

On 20 July 2017 the Polish Financial Supervision Authority approved the prospectus relating to the bond issue programme directed to the individual investor. The bond issue programme assumes the issue of several bond series up to the total amount of PLN 1 billion during 12 months. The bonds will be offered in a public offering. PKN ORLEN plans to introduce the bonds to trading on the Catalyst regulated market. The parameters of each issue will be determined based on the current market environment and PKN ORLEN needs.

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

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

The ORLEN Group applies a consistent set of rules for managing the financial risks defined in the policy for risk management and under the control and supervision of the Financial Risk Committee, the Management Board and the Supervisory Board.

Main financial risks in respect of the ORLEN Group's operations include:

- market risk: commodity risk, exchange rates risk and interest rates risk;
- credit and liquidity risk.

The above risks are described detailed in the Consolidated Financial Statements for the year 2016 in note 7.3.5 and in point 3.3 of the Management Board Report on the Operations of the Group for the year 2016.

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

### 3.4. Hedge accounting

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

The cash flows hedging strategies in the ORLEN Group are identical to those described in the Consolidated Financial Statements for the year 2016 in note 7.3.4.

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

## 4. Forecasted development of the ORLEN Group

In the 1<sup>st</sup> half of 2017 the ORLEN Group consistently pursued the objectives set out in the ORLEN Group Strategy for 2017-2021.

The Strategy has been based on 3 pillars: value growth, financial strength and people and the ways in which they are presented respond to the global challenges of new energy development, technological progress and social change.



The Strategy of the ORLEN Group assumes to focus on further strengthening its market position, customer orientation, use of an integrated value chain, including the growing role of petrochemicals and a cautious continuation of development in the Upstream segment. An important element of the strategy are also innovations creating value.

Detailed description of the ORLEN Group Strategy in particular areas and the main parameters of financial operations are included in Chapter 2 Management Board Report on the operations for the year ended 31 December 2016.

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

## 5. Other information

### 5.1. 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 foregoing report

Shareholder	Percentage share in total voting rights at Shareholder's Meeting as at submission date			Number of shares as at submission date		
	foregoing half-year report*	change p.p.	previous quarterly report**	foregoing half-year report*	change	previous quarterly report**
State Treasury	27.52%	-	27.52%	117 710 196	-	117 710 196
Nationale-Nederlanden OFE*	7.72%	-0.60%	8.32%	33 000 000	(2 590 112)	35 590 112
Aviva OFE*	6.99%	-0.02%	7.01%	29 900 000	(100 000)	30 000 000
Other	57.77%	0.62%	57.15%	247 098 865	2 690 112	244 408 753
	<b>100.00%</b>		<b>100.00%</b>	<b>427 709 061</b>		<b>427 709 061</b>

\*According to the information from the Ordinary General Shareholders' Meeting of PKN ORLEN of 30 June 2017

\*\* According to the information from the Extraordinary General Shareholders' Meeting of PKN ORLEN of 24 January 2017

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

	Number of shares as at the submission date of the foregoing half-year report*
<b>Supervisory Board</b>	<b>3 200</b>
Artur Gabor	3 200

\* According to the received confirmations as at 14 July 2017

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

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

	Nominal value		Subscription date	Expiration date	Rating	Value of guarantee issued	
	EUR	PLN				EUR	PLN
Eurobonds	750	3 318 **	7.06.2016	7.06.2023	BBB-, Baa2	1 100	4 649
Eurobonds	500	2 131 *	30.06.2014	30.06.2021	BBB-, Baa2	1 000	4 227
	<b>1 250</b>	<b>5 449</b>				<b>2 100</b>	<b>8 876</b>

The bonds have a fixed interest rate of 2.5%.

\* translated using exchange rate as at 31 December 2014

\*\* translated using exchange rate as at 31 December 2016

The value of guarantees granted was translated using the exchange rate as at 30 June 2017

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

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

## 6. Information on applied corporate governance rules

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

In the 1<sup>st</sup> half of 2017 PKN ORLEN applied all the obligatory corporate governance rules contained in the "Code of Best Practice".

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

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

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

The Management Board of PKN ORLEN declares that Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k., as the entity authorized to conduct a review of the half-year condensed consolidated and separate financial statements, was selected in compliance with the law and that the entity and auditor conducting the audit met the conditions to issue an independent opinion in compliance with relevant regulations and professional standards.

The foregoing half-year report was approved by the Management Board of the Parent Company on 20 July 2017.

.....  
Wojciech Jasiński  
President of the Board

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

.....  
Zbigniew Leszczyński  
Member of the Board

.....  
Krystian Pater  
Member of the Board

.....  
Wiesław Protasewicz  
Member of the Board

.....  
Maria Sosnowska  
Member of the Board

Signature of a person responsible for  
keeping accounting books

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