Polski Koncern Naftowy ORLEN
Spółka Akcyjna

ORLEN GROUP

CONSOLIDATED HALF-YEAR REPORT

FOR THE 1st HALF 2018

ORLEN GROUP - SELECTED DATA

	PLN million		EUR million	
	6 MONTHS ENDED 30/06/2018	6 MONTHS ENDED 30/06/2017	6 MONTHS ENDED 30/06/2018	6 MONTHS ENDED 30/06/2017
Sales revenues	49 942	45 900	11 780	10 807
Profit from operations increased by depreciation and amortisation (EBITDA)	5 087	5 539	1 200	1 304
Profit from operations (EBIT)	3 788	4 396	894	1 035
Profit before tax	3 477	4 662	820	1 098
Net profit	**2 817**	**3 842**	**664**	**905**
Total net comprehensive income	3 054	4 026	720	948
Net profit attributable to equity owners of the parent	2 786	3 461	657	815
Total net comprehensive income attributable to equity owners of the parent	2 974	3 630	701	855
Net cash from operating activities	2 389	4 166	564	981
Net cash (used) in investing activities	(1 912)	(1 847)	(451)	(435)
Net cash (used) in financing activities	(1 488)	(1 377)	(351)	(324)
Net increase/(decrease) in cash and cash equivalents	(1 011)	942	(238)	222
Net profit and diluted net profit per share attributable to equity owners of the parent (in PLN/EUR per share)	6.51	8.09	1.54	1.90

	30/06/2018	31/12/2017	30/06/2018	31/12/2017
Non-current assets	32 264	31 740	7 397	7 610
Current assets	32 307	28 924	7 407	6 935
Total assets	**64 571**	**60 664**	**14 804**	**14 545**
Share capital	1 058	1 058	243	254
Equity attributable to equity owners of the parent	32 912	32 197	7 546	7 719
Total equity	**33 442**	**35 211**	**7 667**	**8 441**
Non-current liabilities	10 912	9 071	2 502	2 176
Current liabilities	20 217	16 382	4 635	3 928
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)	76.95	75.28	17.64	18.05

PKN ORLEN – SELECTED DATA

	PLN million		EUR million	
	6 MONTHS ENDED 30/06/2018	6 MONTHS ENDED 30/06/2017	6 MONTHS ENDED 30/06/2018	6 MONTHS ENDED 30/06/2017
Sales revenues	39 206	33 597	9 248	7 910
Profit from operations increased by depreciation and amortisation (EBITDA)	3 369	2 686	795	632
Profit from operations (EBIT)	2 706	2 094	638	493
Profit before tax	3 155	3 412	744	803
Net profit	**2 719**	**2 953**	**641**	**695**
Total net comprehensive income	2 530	3 525	597	830
Net cash from operating activities	840	1 911	198	450
Net cash from/(used in) investing activities	(3 642)	183	(859)	43
Net cash from/(used in) financing activities	1 880	(1 731)	444	(408)
Net increase/(decrease) in cash	(922)	363	(217)	85
Net profit and diluted net profit per share (in PLN/EUR per share)	6.36	6.90	1.50	1.62

	30/06/2018	31/12/2017	30/06/2018	31/12/2017
Non-current assets	29 981	26 407	6 874	6 331
Current assets	25 219	22 945	5 782	5 501
Total assets	**55 200**	**49 352**	**12 656**	**11 832**
Share capital	1 058	1 058	243	254
Total equity	**28 788**	**27 565**	**6 600**	**6 609**
Non-current liabilities	9 939	8 253	2 279	1 979
Current liabilities	16 473	13 534	3 777	3 244
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)	67.31	64.45	15.43	15.45

The above data for the 6 month period of 2018 and 2017 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 2018 – 4.2395 EUR/PLN and from 1 January to 30 June 2017 – 4.2474 EUR/PLN;
- items of assets, equity and liabilities – by the average exchange rate published by the National Bank of Poland as at 30 June 2018 – 4.3616 EUR/PLN and as at 31 December 2017– 4.1709 EUR/PLN.

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HALF-YEAR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE 6 AND 3 MONTH PERIOD ENDED 30 JUNE 2018

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

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

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

Consolidated statement of profit or loss and other comprehensive income

	NOTE	6 MONTHS ENDED 30/06/2018 (unaudited)	3 MONTHS ENDED 30/06/2018 (unaudited)	6 MONTHS ENDED 30/06/2017 (unaudited)	3 MONTHS ENDED 30/06/2017 (unaudited)
Sales revenues	5.1	49 942	26 701	45 900	23 025
revenues from sales of finished goods and services		*40 922*	*21 830*	*34 392*	*16 605*
revenues from sales of merchandise and raw materials		*9 020*	*4 871*	*11 508*	*6 420*
Cost of sales	5.2	(43 605)	(23 169)	(39 600)	(20 151)
cost of finished goods and services sold		*(35 517)*	*(18 794)*	*(29 045)*	*(14 292)*
cost of merchandise and raw materials sold		*(8 088)*	*(4 375)*	*(10 555)*	*(5 859)*
Gross profit on sales		**6 337**	**3 532**	**6 300**	**2 874**
Distribution expenses		(2 275)	(1 140)	(2 020)	(983)
Administrative expenses		(765)	(387)	(736)	(369)
Other operating income	5.4	858	514	861	612
Other operating expenses	5.4	(456)	(194)	(133)	(69)
(Loss)/reversal of loss due to impairment of financial instruments		1	(4)	-	-
Share in profit from investments accounted for under equity method		88	53	124	55
Profit from operations		**3 788**	**2 374**	**4 396**	**2 120**
Finance income	5.5	925	422	880	201
Finance costs	5.5	(1 235)	(564)	(614)	(198)
Net finance income and costs		**(310)**	**(142)**	**266**	**3**
(Loss)/reversal of loss due to impairment of financial instruments		(1)	-	-	-
Profit before tax		**3 477**	**2 232**	**4 662**	**2 123**
Tax expense		(660)	(459)	(820)	(369)
current tax		*(592)*	*(405)*	*(635)*	*(297)*
deferred tax		*(68)*	*(54)*	*(185)*	*(72)*
Net profit		**2 817**	**1 773**	**3 842**	**1 754**
Other comprehensive income:					
which will not be reclassified subsequently into profit or loss		**(3)**	**(9)**	**-**	**-**
gains/(losses) on investments in equity instruments at fair value through other comprehensive income		*(4)*	*(12)*	-	-
deferred tax		*1*	*3*	-	-
which will be reclassified into profit or loss		**240**	**233**	**184**	**108**
hedging instruments		*(382)*	*(343)*	*873*	*41*
hedging costs		*50*	*26*	-	-
exchange differences on translating foreign operations		*508*	*492*	*(520)*	*78*
deferred tax		*64*	*58*	*(169)*	*(11)*
		237	**224**	**184**	**108**
Total net comprehensive income		**3 054**	**1 997**	**4 026**	**1 862**
Net profit attributable to		**2 817**	**1 773**	**3 842**	**1 754**
equity owners of the parent		*2 786*	*1 744*	*3 461*	*1 541*
non-controlling interest		*31*	*29*	*381*	*213*
Total net comprehensive income attributable to		**3 054**	**1 997**	**4 026**	**1 862**
equity owners of the parent		*2 974*	*1 968*	*3 630*	*1 529*
non-controlling interest		*80*	*29*	*396*	*333*
Net profit and diluted net profit per share attributable to equity owners of the parent (in PLN per share)		6.51	4.07	8.09	3.60

The accompanying notes disclosed on pages 10 – 27 are an integral part of the foregoing half-year condensed consolidated financial statements.

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

Consolidated statement of financial position

	NOTE	30/06/2018 (unaudited)	31/12/2017
ASSETS			
Non-current assets			
Property, plant and equipment		29 963	29 071
Intangible assets		1 202	1 272
Investments accounted for under equity method		641	715
Deferred tax assets		26	49
Derivatives	5.8	95	303
Other assets	5.8	337	330
		32 264	**31 740**
Current assets			
Inventories		14 446	12 440
Trade and other receivables		11 826	9 518
Current tax assets		86	80
Cash and cash equivalents		5 278	6 244
Non-current assets classified as held for sale		22	75
Derivatives	5.8	572	434
Other assets	5.8	77	133
		32 307	**28 924**
Total assets		**64 571**	**60 664**
EQUITY AND LIABILITIES			
EQUITY			
Share capital		1 058	1 058
Share premium		1 227	1 227
Hedging reserve		48	331
Revaluation reserve		2	5
Exchange differences on translating foreign operations		808	334
Retained earnings		29 769	29 242
Equity attributable to equity owners of the parent		**32 912**	**32 197**
Non-controlling interests		**530**	**3 014**
Total equity		**33 442**	**35 211**
LIABILITIES			
Non-current liabilities			
Loans and bonds	5.7	8 499	6 688
Provisions	5.9	931	902
Deferred tax liabilities		1 079	1 095
Derivatives	5.8	70	75
Other liabilities	5.8	333	311
		10 912	**9 071**
Current liabilities			
Trade and other liabilities		17 047	14 469
Liabilities from contracts with customers		227	-
Loans and bonds	5.7	1 035	317
Provisions	5.9	564	673
Current tax liabilities		481	290
Derivatives	5.8	576	313
Other liabilities	5.8	287	320
		20 217	**16 382**
Total liabilities		**31 129**	**25 453**
Total equity and liabilities		**64 571**	**60 664**

The accompanying notes disclosed on pages 10 – 27 are an integral part of the foregoing half-year condensed consolidated financial statements.

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

Consolidated statement of changes in equity

	Equity attributable to equity owners of the parent							
	Share capital and share premium	Hedging reserve	Revaluation reserve	Exchange differences on translating foreign operations	Retained earnings	Total	Non-controlling interests	Total equity
01/01/2018 (approved data)	2 285	331	5	334	29 242	32 197	3 014	35 211
Impact of IFRS 9 adoption	-	-	-	-	(9)	(9)	-	(9)
01/01/2018 (converted data)	2 285	331	5	334	29 233	32 188	3 014	35 202
Net profit	-	-	-	-	2 786	2 786	31	2 817
Items of other comprehensive income	-	(283)	(3)	474	-	188	49	237
Total net comprehensive income	**-**	**(283)**	**(3)**	**474**	**2 786**	**2 974**	**80**	**3 054**
Change in structure	-	-	-	-	(967)	(967)	(2 564)	(3 531)
Dividends	-	-	-	-	(1 283)	(1 283)	-	(1 283)
30/06/2018	**2 285**	**48**	**2**	**808**	**29 769**	**32 912**	**530**	**33 442**
(unaudited)								
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
Total net comprehensive income	**-**	**648**	**-**	**(479)**	**3 461**	**3 630**	**396**	**4 026**
Dividends	-	-	-	-	(1 283)	(1 283)	(89)	(1 372)
30/06/2017	**2 285**	**293**	**5**	**467**	**26 060**	**29 110**	**2 829**	**31 939**
(unaudited)								

The accompanying notes disclosed on pages 10 – 27 are an integral part of the foregoing half-year condensed consolidated financial statements.

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

Consolidated statement of cash flows

	6 MONTHS ENDED 30/06/2018 (unaudited)	3 MONTHS ENDED 30/06/2018 (unaudited)	6 MONTHS ENDED 30/06/2017 (unaudited)	3 MONTHS ENDED 30/06/2017 (unaudited)
Cash flows from operating activities				
Profit before tax	**3 477**	**2 232**	**4 662**	**2 123**
Adjustments for:				
Share in profit from investments accounted for under equity method	(88)	(53)	(124)	(55)
Depreciation and amortisation	1 299	673	1 143	581
Foreign exchange (gain)/loss	382	314	(92)	45
Interest, net	96	47	103	53
Dividends	(4)	(4)	(4)	(4)
(Profit)/Loss on investing activities	(47)	(192)	203	93
Change in provisions	279	129	133	62
Change in working capital	(2 108)	(710)	(418)	1 317
inventories	*(1 804)*	*(924)*	*(15)*	*915*
receivables	*(1 861)*	*(1 581)*	*(52)*	*20*
liabilities	*1 557*	*1 795*	*(351)*	*382*
Other adjustments, incl.:	(484)	(347)	(520)	(531)
change in balances of settlements due to compensation from insurers in Unipetrol Group	*(264)*	*(264)*	*(275)*	*(475)*
rights received free of charge	*(214)*	*(84)*	*(129)*	*(59)*
Income tax (paid)	(413)	(210)	(920)	(191)
Net cash from operating activities	**2 389**	**1 879**	**4 166**	**3 493**
Cash flows from investing activities				
Acquisition of property, plant and equipment, intangible assets and perpetual usufruct of land	(2 205)	(1 056)	(2 001)	(1 112)
Acquisition of shares	(25)	(25)	-	-
Disposal of property, plant and equipment, intangible assets and perpetual usufruct of land	105	47	68	18
Dividends received	129	129	177	177
Settlement of derivatives not designated as hedge accounting	88	258	(89)	(26)
Other	(4)	-	(2)	3
Net cash (used) in investing activities	**(1 912)**	**(647)**	**(1 847)**	**(940)**
Cash flows from financing activities				
Redemption of non-controlling shares	(3 531)	-	-	-
Proceeds from loans and borrowings received	2 133	7	242	223
Bonds issued	400	400	-	-
Repayments of loans and borrowings	(91)	(90)	(1 014)	(229)
Redemption of bonds	(200)	(200)	(400)	(400)
Interest paid	(180)	(152)	(190)	(156)
Dividends paid	(1)	(1)	-	-
Payments of liabilities under finance lease agreements	(17)	(9)	(14)	(7)
Other	(1)	-	(1)	-
Net cash (used) in financing activities	**(1 488)**	**(45)**	**(1 377)**	**(569)**
Net increase/(decrease) in cash and cash equivalents	**(1 011)**	**1 187**	**942**	**1 984**
Effect of exchange rate changes	45	11	(181)	33
Cash and cash equivalents, beginning of the period	6 244	4 080	5 072	3 816
Cash and cash equivalents, end of the period	**5 278**	**5 278**	**5 833**	**5 833**

The accompanying notes disclosed on pages 10 – 27 are an integral part of the foregoing half-year condensed consolidated financial statements.

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

EXPLANATORY NOTES TO THE HALF-YEAR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Principal activity of the ORLEN Group

The Parent Company of the Polski Koncern Naftowy ORLEN S.A. Capital Group is Polski Koncern Naftowy ORLEN S.A. ("PKN ORLEN", "Company", "Parent Company") seated in Płock, 7 Chemików Street.
The core business of the ORLEN Group is crude oil processing and production of fuel, petrochemical and chemical goods, as well as, wholesale and retail 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. Information on principles adopted for the preparation of the half-year condensed consolidated financial statements

2.1. Statement of compliance and general principles for preparation

The foregoing half-year condensed consolidated financial statements were prepared in accordance with requirements of IAS 34 "Interim financial reporting" and in the scope required under the Minister of Finance Regulation of 29 March 2018 on current and periodical information provided by issuers of securities and terms of deeming information required by the regulations of a non-member state equivalent (Official Journal 2018, item 757) ("Regulation") and present the Polski Koncern Naftowy ORLEN S.A. Capital Group's ("Group", "ORLEN Group") financial position as at 30 June 2018 and as at 31 December 2017, financial results and cash flows for the 6 and 3 month period ended 30 June 2018 and 30 June 2017.

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.

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

2.2.1. Accounting principles

In the foregoing half-year condensed consolidated financial statements, the significant accounting policies applied by the Group and significant values based on judgments and estimates were the same as described in individual explanatory notes in the Consolidated Financial Statements for 2017, except for the adopted new IFRS 15 "Revenue from Contracts with Customers" and IFRS 9 "Financial Instruments" described in note 2.2.2.

Selected accounting principles - Consolidated financial statements of ORLEN Group for the year ended 31 December 2017	Note
Investments in subsidiaries, jointly controlled entities and associates	6.1
Operating segments	8.1
Sales revenues	9.1.1
Costs	9.1.3
Income tax expenses (tax expense)	9.1.7
Property, plant and equipment	9.2.1
Exploration and extraction of mineral resources	9.2.1
Intangible assets	9.2.2
Investments accounted for under equity method	9.2.4
Impairment of property, plant and equipment and intangible assets	9.2.5
Inventories	9.2.6.1
Trade and other receivables	9.2.6.2
Trade and other liabilities	9.2.6.3
Net debt	9.2.7
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The Group adopted the requirements of IFRS 9 and IFRS 15 with a modified retrospective approach with effect from 1 January 2018. According to the option allowed by the standard, the Group resigned from converting comparable data. As at 31 December 2017 and for the 1st half of 2017 data were prepared based on IAS 39, IAS 18 and IAS 11.
The previously adopted selected accounting principles within sales revenues (IAS 18, IAS 11) and financial instruments (IAS 39) were disclosed in the financial statements for 2017.

2.2.2. Amendments to International Financial Reporting Standards (IFRS)

➢ IFRS 9 Financial instruments

Selected accounting principles

Measurement of financial assets and liabilities

From 1 January 2018, the Group classifies financial assets into one of the following categories:
- measured at amortized cost,
- measured at fair value through other comprehensive income,
- measured at fair value through profit or loss,
- hedging financial instruments.

The Group classifies debt financial assets to the appropriate category depending on the business model of financial assets management and on the characteristics of contractual cash flows for a given financial asset.

The Group as assets measured at amortized cost classifies trade receivables, loans granted, other financial receivables as well as cash and cash equivalents.

At the moment of initial recognition, the Group classifies equity instruments, i.e. shares in other entities, to the category of financial instruments measured at fair value through other comprehensive income.

The Group classifies to assets measured at fair value through profit or loss derivatives that are not designated for hedge accounting and hedged items that are measured in accordance with hedge accounting principles.

The Group classifies financial liabilities into one of the following categories:
- measured at amortized cost,
- measured at fair value through profit or loss,
- hedging financial instruments.

The Group as liabilities measured at amortized cost classifies trade liabilities, loans, borrowings and bonds. Liabilities on derivatives not designated for hedge accounting are classified by the Group as measured at fair value through profit or loss.

The Group classifies to the category of hedging financial instruments, financial assets and liabilities which constitute derivative hedging cash flows and fair value.

Measurement of financial assets at amortized cost

The Group applies the effective interest rate method to measure financial assets at amortized cost.
Trade receivables after initial recognition are measured at amortized cost using the effective interest rate method, including impairment allowances, while trade receivables with a maturity of less than 12 months from the date of recognition (i.e. not including the financing component) and not appointed to factoring, are not discounted and are measured at nominal value.

Measurement of financial assets at fair value through other comprehensive income

Gains and losses on a financial asset constituting an equity instrument for which was applied the option of fair value through other comprehensive income is recognized in other comprehensive income, except for revenues from received dividends.

Measurement of financial assets at fair value through profit or loss

Gains or losses on the measurement of a financial asset that is classified as measured at fair value through profit or loss are recognized in profit or loss during the period in which they were recognized. Gains or losses from the valuation of items measured at fair value through profit or loss also include interest and dividend income.

Measurement of hedging financial instruments

Hedging financial instruments are measured in accordance with the principles of hedge accounting.

Impairment of financial assets

IFRS 9 introduces a new approach to estimating the impairment of financial assets measured at amortized cost or at fair value through other comprehensive income (with the exception of investments in capital assets and contract assets). The impairment model is based on the expected loss calculation as opposed to the currently applied model resulting from IAS 39, which was based on the concept of incurred loss. The most significant item of financial assets in the Group's financial statements, which is subject to the new principles of calculating expected credit losses, are trade receivables.

The Group uses the following models for determining impairment allowances:
- general model (basic),
- simplified model.

The general model is used by the Group for financial assets measured at amortized cost - other than trade receivables and assets measured at fair value through other comprehensive income.
In the general model, the Group monitors the changes in the level of credit risk associated with a given financial asset and classifies financial assets to one of the three stages of impairment allowances based on the observation of the change in the credit risk level in relation to the initial recognition of the instrument.
Depending on the classification to particular stages, the impairment allowance is estimated in the 12-month horizon (stage 1) or in the life horizon of the instrument (stage 2 and stage 3).

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

On each day ending the reporting period, the Group considers the indications resulting in the classification of financial assets to particular stages of determining impairment allowances. Indications may include changes in the debtor's rating, serious financial problems of the debtor, a significant unfavourable change in its economic, legal or market environment.
For the purposes of estimating the expected credit loss, the Group uses default probability levels based on market credit quotes of derivatives for entities with a given rating and from a given sector.
The Group includes information on the future in the parameters of the expected loss estimation model by calculating the probability parameters of insolvency based on current market quotes.

The simplified model is used by the Group for trade receivables.
In the simplified model, the Group does not monitor changes in the credit risk level during the life of the instrument and estimates the expected credit loss in the horizon up to maturity of the instrument.
In particular, for the insolvency event, the Group recognizes when the contractor has not satisfied the obligation after 90 days from the due receivables date.
For the purpose of estimating the expected credit loss, the Group uses a provision matrix estimated on the basis of historical levels of repayment and recoveries from receivables from contractors.
The Group includes information about the future in the parameters used in the expected loss estimation model, through the management adjustment of the basic insolvency probability parameters. To calculate the expected credit loss, the Group determines the probability parameter of receivables defaults estimated on the basis of the analysis of the number of unpaid invoices in the last five years, and the liabilities default rate estimated on the basis of the value of unpaid invoices in the last five years.
The expected credit loss is calculated when the receivable is recognized in the statement of financial position and is updated on each subsequent day ending the reporting period, depending on the number of days for which the receivable is due.

<u>(Loss)/reversal of losses due to impairment of financial instruments</u>
The (losses)/reversals of losses due to impairment of financial instruments include, in particular, (losses)/reversals of losses due to impairment of trade receivables and (losses)/reversals of losses due to impairment of granted loans.

Hedge accounting
Derivatives designated as hedging instruments from which it is expected that their fair value or resulting from them cash flows will offset changes in fair value or cash flows of hedged item are recognized in accordance with the principles of fair value hedge accounting or cash flows hedges.
The Group assesses the effectiveness of hedging both at the moment of establishing the hedging and in subsequent periods, at least at each end of the reporting period. Verification of satisfaction of the conditions for the effectiveness of linking is made on a prospective basis, based on a qualitative analysis. If necessary, the Group uses a quantitative analysis (linear regression method) to confirm an economic relation between the hedging instrument and the hedged item.
In the case of cash flows hedge accounting, the Group:
- the part of profits or losses related to the hedging instrument, which constitute an effective hedge due to the hedged risk, recognizes in other comprehensive income,
- in addition (in the case of FX hedging - spot risk element), a change in the fair value due to the forward element (including the cross-currency margin) recognizes within the equity in a separate position (hedging cost),
- the inefficient part of profits or losses related to the hedging instrument recognizes in the statement of profit or loss. In the case of hedging cash flows from operating activities, the ineffective part recognizes in other operating income/expenses, and in the case of hedging cash flows of financing activities in finance income/costs.
- reclassifies profits or losses from equity to the statement of profit or loss to the line in which the hedged item is presented,
- excludes profits or losses from equity and adjusts the initial value of the hedged item (if the realization of the hedged item results in the recognition of a non-financial asset - for example, an inventory).

In the case of fair value hedge (operating activity), changes in the fair value of the hedging instrument and the hedged item are recognized in the statement of profit or loss in the item other operating income/expenses.

The table below presents the impact of the implementation of IFRS 9 on the change in the classification and measurement of the Group's financial assets as at 1 January 2018:

Financial instruments by class	Classification		Carrying amount	
	IAS 39	IFRS 9	IAS 39	IFRS 9
Unquoted shares	Available for sale	At fair value through other comprehensive income	84	84
Trade	Loans and receivables	Measured at amortized cost	8 476	8 467
Derivatives not designated as hedge accounting	At fair value through profit or loss	At fair value through profit or loss	123	123
Cash flow hedging instruments	Hedging financial instruments	Hedging financial instruments	614	614
Cash and cash equivalents	Loans and receivables	Measured at amortized cost	6 244	6 244
Receivables on settled derivatives	Loans and receivables	Measured at amortized cost	126	126

The item of unquoted shares consists of equity instruments not held for trading, in accordance with IAS 39 classified as available for sale, which were valued by the Group at the purchase price less impairment allowances. The instruments were not acquired for trading in relation to the above, these assets will be measured at fair value through other comprehensive income, without the option of subsequent transferring the result from these instruments to the statement of profit or loss.

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In the area of hedge accounting, the Group applies the requirements of IFRS 9 in the construction of hedging relationships. In particular, it concerns matching of the definitions of commodity risk hedging to the exposure characteristics and applied risk management strategies. The Group aims to limit the underlying risk in hedging relationships (resulting from various commodity indices on the side of the hedging instrument and the hedged item).

The Group applied principles of recognition the hedging cost within FX hedging transactions, where the forward component and the cross-currency margin is recorded in a separate item in other comprehensive income.

➢ IFRS 15 Revenue from Contracts with Customers

Selected accounting principles

The Group applies the principles of IFRS 15 in a five-step model in relation to the portfolio of contracts (or performance obligations) with similar characteristics, if the entity reasonably expects that the impact of the following principles on the financial statements will not significantly differ from the application of the following principles to individual contracts (or performance obligations).

Requirements to identify a contract with a customer
A contract with a customer meets its definition when all of the following criteria are met: the parties of the contract have approved the contract and are committed to perform their obligations; the Group can identify each party's rights regarding goods or services to be transferred; the Group can identify the payment terms for the goods or services to be transferred; the contract has commercial substance and it is probable that the Group will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

Identification of performance obligations
At contract inception the Group assesses the goods or services promised in the contract with a customer and identifies as a performance obligation each promise to transfer to the customer: goods or services (or a bundle of goods or services) that can be separated or groups of separate goods or services which are basically the same and for which the transfer to the customer is of the same nature.

Determination of the transaction price
The Group considers the terms of the contract and its customary business practices to determine the transaction price. The transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (for example, some sales taxes, fuel charges, excise taxes). The consideration promised in the contract with a customer may include fixed amounts, variable amounts or both.

To estimate variable consideration, the Group decided to apply the most probable value method for contracts with one value threshold and the expected value method for contracts with more value thresholds from which a rebate is granted to the customer.

Allocating the transaction price to individual performance obligations
The Group allocates the transaction price to each performance obligation (or distinct good or service) at an amount that reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

Recognition of revenue when performance obligations are satisfied
The Group recognises revenue when (or as) the Group satisfies performance obligations by transferring a promised good or service (i.e. an asset) to a customer (the customer obtains control of that asset). Revenue is recognised as amounts equal to the transaction price that has been allocated to a given performance obligation.
The Group transfers control of good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:
- the customer simultaneously receives and consumes the benefits from performance as the Group performs,
- the asset is created or enhanced as a result of the performance, and the customer controls the asset as it is created or enhanced,
- as a result of the performance of the service, an alternative component for the Group is not created, and the Group has an enforceable right to payment for performance completed to date.

Impact of the implementation of new IFRS 9 and IFRS 15

The table below summarizes the impact of the implementation of IFRS 9 and IFRS 15 on the Group's consolidated financial statements as at 1 January 2018:

	IFRS / IAS applied	31 December 2017 Carrying amount	Change resulting from change in classification	Change resulting from change in measurement	1 January 2018 Carrying amount	1 January 2018 Impact on retained earnings
Financial assets available for sale	IAS 39	84	(84)	-	-	-
Financial assets at fair value through other comprehensive income	IFRS 9	-	84	-	84	-
Trade and other receivables	IAS39/IFRS 9	9 518	-	(9)	9 509	(9)
Other short-term liabilities due to loyalty programs	IAS 18	145	(145)	-	-	-
Other short-term liabilities due to prepaid cards	IAS 18	19	(19)	-	-	-
Other current liabilities due to advances on deliveries	IFRS 15	34	(34)	-	-	-
Liabilities from contracts with customers	IFRS 15	-	198	-	198	-

The change in trade and other receivables results from the change in the measurement of impairment allowances estimated in accordance with IFRS 9, considering the requirements of the expected credit losses model.
The impact of the application of IFRS 15 on the items of the consolidated financial statements of the Group in the 1st half of 2018 compared to IAS 11, IAS 18 and related interpretations was immaterial.
Additionally, the Group disclosed information on the estimated impact of applying IFRS 9 and IFRS 15 in the annual consolidated financial statements of the Group for 2017 in note 5.5.

2.2.3. IFRSs, announced and adopted by the European Union, not yet effective

The Group intends to adopt the published, but not effective as at the date of publication of the foregoing half-year condensed consolidated financial statements amendments to IFRS, in accordance with their effective date.

➢ IFRS 16 Lease

The Council of International Accounting Standards issued International Financial Reporting Standard 16 Leases ("IFRS 16") in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure.
IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted for entities that use IFRS 15 from or before the first application of IFRS 16. The Group has not decided to IFRS 16 early adoption.
As at the date of approval of the foregoing consolidated financial statements, the Group is in the process of assessing the impact of the application of IFRS 16 on the accounting principles applied by the Group with respect to the Group's operations or its financial results

The Group identified current finance lease agreements, operating lease agreements and agreements not previously recognized as lease which can meet lease definition according to IFRS 16. The Group defined accounting principles and a detailed methodology for the implementation of the new standard. Currently, the Group estimates the potential impact of the application of IFRS 16 on future financial statements.

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

2.3.1. Functional currency and presentation currency

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

2.3.2. Methods applied to translation of financial statements

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

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

CURRENCY	Average exchange rate for the reporting period				Exchange rate as at the end of the reporting period	
	6 MONTHS ENDED 30/06/2018	3 MONTHS ENDED 30/06/2018	6 MONTHS ENDED 30/06/2017	3 MONTHS ENDED 30/06/2017	30/06/2018	31/12/2017
EUR/PLN	4.2205	4.2608	4.2701	4.2174	4.3616	4.1709
USD/PLN	3.4880	3.5760	3.9472	3.8347	3.7440	3.4813
CZK/PLN	0.1655	0.1665	0.1594	0.1588	0.1683	0.1632
CAD/PLN	2.7302	2.7700	2.9604	2.8527	2.8317	2.7765

2.4. 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.

3. Financial situation and description of ORLEN Group organization

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

Profit or loss

The increase of sales revenues of the ORLEN Group by PLN 4,042 million (y/y) to PLN 49,942 million reflects a 3% (y/y) increase in sales volumes in all operating segments and 36% (y/y) increase in crude oil prices and also as a result of the quotation of main refinery and petrochemical products. In the 6 month period of 2018, there was an increase (y/y) on quotation in gasoline prices (by 25%), diesel oil (by 34%), light heating oil (by 33%), heavy heating oil (by 33%), ethylene (by 6%) and propylene (by 13%).

The operating activity expenses increased by PLN (4,289) million (y/y) to PLN (46,645) million. The largest item in this cost structure constitute the costs of materials and energy consumption related mainly to the crude oil used in technological processes. The increase in the costs of materials and energy consumption by 25% (y/y) resulted mainly from higher by 19 USD/bbl (y/y) crude oil prices on global markets and a higher by 3% (y/y) crude oil processing, which amounted to 16.0 million tons.

Positive result of other operating activities amounted to PLN 402 million and included mainly settlement effect of compensation due to the steam cracker unit accident in Unipetrol Group of August 2015 in the amount PLN 264 million and compensation for improper execution of the contract of the power plant CCGT in Płock in the amount of PLN 191 million..

Result of other operating activities decreased by PLN (326) million (y/y) mainly due to lack of compensation received in the 1st half of 2017 related to the accident on installation FCC (Fluid Catalytic Cracking) in the amount of PLN (211) million and decrease (y/y) of compensation due to the steam cracker unit in the amount of PLN (178) million (y/y) in Unipetrol Group.

Share in profit from investments accounted for under equity method decreased by PLN (36) million (y/y) and amounted to PLN 88 million.

As a result profit from operations amounted to PLN 3,788 million and was lower by PLN (608) million (y/y) – additional comment on the change in operating profit is presented in note C.1.

Net finance expenses in the described period amounted to PLN (310) million and included mainly net foreign exchange losses in the amount of PLN (343) million, net interest expenses in the amount of PLN (82) million and settlement and valuation of net financial instruments in the amount of PLN 116 million.

After consideration of tax charges in the amount of PLN (660) million, the net profit of the ORLEN Group for the 6 months of 2018 amounted to PLN 2,817 million and was lower by PLN (1,025)million (y/y).

Statement of financial position

As at 30 June 2018, total assets of the ORLEN Group amounted to PLN 64,571 million and was higher by PLN 3,907 million in comparison with 31 December 2017.

As at 30 June 2018, the value of non-current assets amounted to PLN 32,264 million and was higher by PLN 524 million in comparison with the end of the previous year, mainly due to increasing of property, plant and equipment and intangible assets by PLN 822 million, decreasing valuation of financial instruments by PLN (208) million and decrease of investments accounted for under equity method by PLN (74) million.

Balance change of property, plant and equipment and intangible assets comprised mainly investment expenditures in the amount of PLN 1,872 million, primarily for the projects of Construction of the Polyethylene 3 installation in Unipetrol Group, heat and power plants CCGT in Płock with the infrastructure and Metathesis Installation in Płock, upstream projects in Canada, depreciation and amortisation in the amount of PLN (1,299) million and net balance change in rights in the amount of PLN (65) million and exchange differences from recalculation of balances of foreign entities of the ORLEN Group on PLN in the amount of PLN 362 million.

The value of current assets increased by PLN 3,383 million, mainly as result of increase of trade and other receivables by PLN 2,308 million, inventories by PLN 2,006 million and other financial assets which comprised valuations of hedge instruments by PLN 138 million with decrease in the balance of cash and cash equivalents by PLN (966) million.
The increase in value of inventories is mainly the effect of higher crude oil prices. The increase in trade receivables results mainly from higher volume of sales and higher goods prices.

As at 30 June 2018, total equity amounted to PLN 33,442 million and was lower by PLN (1,769) million in comparison with the end of 2017, mainly due to the redemption of shares in non-controlling interests of Unipetrol a.s. in the amount of PLN (3,531) million, consideration of dividend from the 2017 profit in the total amount of PLN (1,283) million, impact of exchange differences on translating foreign operations in the amount of PLN 474 million, negative impact of change of balance of hedging reserve in the amount PLN (283) million and recognition of net profit for 6 months of 2018 in the amount of PLN 2,817 million.

As at 30 June 2017, net financial indebtedness of the ORLEN Group amounted to PLN 4,256 million and was higher by PLN 3,495 million in comparison with the end of 2017. Change of net financial indebtedness included net proceeds of loans, borrowings and bonds in the amount of PLN 2,242 million, decrease of cash balance by PLN 966 million and the net impact of negative exchange differences from revaluation and indebtedness valuation in total amount of PLN 287 million.

Statement of cash flows

Proceeds of net cash from operating activities for the 6 month period of 2018 amounted to PLN 2,389 million and comprised mainly profit from operations increased by depreciation and amortisation in the amount of PLN 5,087 million and the negative impact of increase in a net working capital by PLN (2,108) million and paid income taxes in the amount of PLN (413) million.

Net cash used in investing activities for the 6 month period of 2018 amounted to PLN (1,912) million and comprised mainly net expenses for and acquisition of property, plant and equipment, intangible assets and perpetual usufruct of land in the net amount of PLN (2,100) million and proceeds from dividends received in the amount of PLN 129 million, mainly from the jointly-controlled entities.

Net proceeds of cash from financing activities for the 6 month period of 2018 amounted to PLN 1,488 million and comprised mainly the redemption of shares of Unipetrol a.s. in the amount PLN (3,531) million and net proceeds of loans and borrowings of PLN 2,042 million, redemption of retail bonds in the amount of PLN (200) million, issue of retail bonds in the amount of PLN 400 million and interest paid in the amount of PLN (180) million.

After consideration the revaluation of cash due to exchange differences, the cash balance in the 6 month period of 2018 decreased by PLN (966) million and as at 30 June 2018 amounted to PLN 5,278 million.

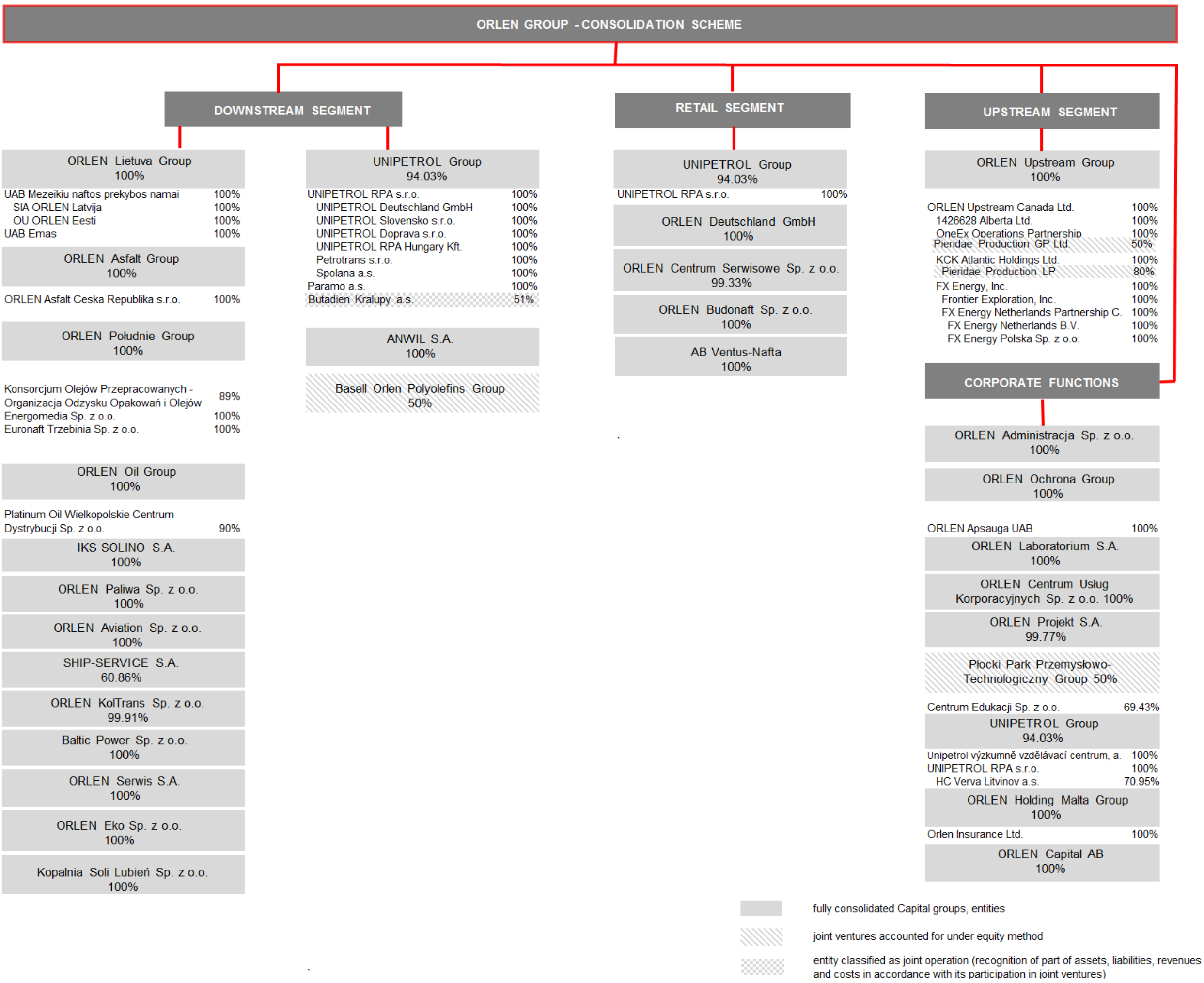
Factors and events which may influence future results

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

3.2. Organization of the ORLEN Group

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

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



3.3. Changes in the structure of the ORLEN Group from 1 January 2018 up to the date of preparation of the foregoing report

- On 2 February 2018, PKN ORLEN SA acquired 17 shares from minority shareholders of ORLEN KolTrans Sp. z o.o. Currently, in the share capital of ORLEN KolTrans Sp. z o.o, PKN ORLEN owns 99.91% of shares, and non-controlling shareholders - 0.09% of shares.
- On 23 February 2018 PKN ORLEN purchased 56,280,592 of Unipetrol, a.s. shares for PLN 3,531 million, which were subscribed for the sale in response to the announcement of a voluntary tender offer. The Unipetrol shares purchased by PKN ORLEN represent 31.04% of the Unipetrol share capital. The above transaction was result in a decrease in equity of the non-controlling interests in the amount of PLN (2,564) million and decrease retained earnings by PLN (967) million. Currently, in the share capital of Unipetrol a.s. PKN ORLEN owns 94.03% of shares.
- On 17 April 2018, the name of the company ORLEN Finance AB to Polish Sky Finance AB was changed.
- On 9 May 2018 deletion from the Czech trade registry Paramo Oil s.r.o. in liquidation (Unipetrol Capital Group) took place.
- On 18 June 2018, PKN ORLEN sold 100% shares in the special purpose company Polish Sky Finance AB (formerly ORLEN Finance AB) to S-bolag Börsen AB.

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.

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4. 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 3.2.

Revenues, costs, financial results, investments expenditures

for the 6 month period ended 30 June 2018

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

for the 3 month period ended 30 June 2018

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

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

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	5.1	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	5.4	807	30	1	23	-	861
Other operating expenses	5.4	(44)	(46)	(1)	(42)	-	(133)
Share in profit from investments accounted for under equity method		125	-	(1)	-	-	124
Profit/(Loss) from operations		**4 011**	**730**	**8**	**(353)**	**-**	**4 396**
Net finance income and costs	5.5						266
Profit before tax							**4 662**
Tax expense							(820)
Net profit							**3 842**
Depreciation and amortisation	5.2	**735**	**206**	**153**	**49**	**-**	**1 143**
EBITDA		**4 746**	**936**	**161**	**(304)**	**-**	**5 539**
CAPEX		**1 124**	**212**	**492**	**93**	**-**	**1 921**

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	5.1	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	5.4	584	13	1	14	-	612
Other operating expenses	5.4	(18)	(29)	-	(22)	-	(69)
Share in profit from investments accounted for under equity method		56	-	(1)	-	-	55
Profit/(Loss) from operations		**1 833**	**461**	**4**	**(178)**	**-**	**2 120**
Net finance income and costs	5.5						3
Profit before tax							**2 123**
Tax expense							(369)
Net profit							**1 754**
Depreciation and amortisation	5.2	**374**	**103**	**78**	**26**	**-**	**581**
EBITDA		**2 207**	**564**	**82**	**(152)**	**-**	**2 701**
CAPEX		**678**	**124**	**339**	**57**	**-**	**1 198**

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

	30/06/2018 (unaudited)	31/12/2017
Downstream Segment	46 180	42 159
Retail Segment	6 901	6 511
Upstream Segment	4 075	3 839
Segment assets	**57 156**	**52 509**
Corporate Functions	7 485	8 206
Adjustments	(70)	(51)
	64 571	**60 664**

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

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

5. Other notes

5.1. Sales revenues

Performance obligations

While establishing contracts, the Group commits to deliver mainly refining, petrochemical, energy and crude oil and gas products and merchandise to customers. Within the contracts, the Group acts as a principal.
There are no obligations for returns, refunds and other similar obligations.
The guarantees provided within the contracts are guarantees assuring the customer that the product complies with the established specification. They do not involving the performance of a separate service.

Within the Downstream segment, in the sales of refinery and petrochemical products, the moment of performance all obligations within the contract follows the delivery of the good, and the moment of recognition of revenue from individual performance obligations depends on the applied delivery terms. Within the Downstream segment, there is mainly sales with deferred payment dates.

Within the Retail segment, there are both cash sales as well as sales with deferred payment dates, performed based on so-called fleet contracts. The moment of satisfaction of the performance obligation is the moment of release of the good.
In contracts with customers of the Downstream and Retail segments, in most cases are payment dates that do not exceed 30 days.

Within the Upstream segment, revenues relate mainly to the sale of gas and crude oil. The Group transfers control over the sold products over the time, measures the degree of satisfaction of the performance obligation on a monthly basis and based on it recognizes revenues. In contracts with customers of the Upstream segment, in most cases are applied payment dates that do not exceed 60 days.

Variability of consideration in contracts with customers is related mainly with volume rebates. The Group also defers the part of revenue related to the VITAY loyalty program, according to which the customer is entitled to future benefits (i.e. VITAY points).

5.1.1. Sales revenues by assortments

	6 MONTHS ENDED 30/06/2018 (unaudited)	3 MONTHS ENDED 30/06/2018 (unaudited)	6 MONTHS ENDED 30/06/2017 (unaudited)	3 MONTHS ENDED 30/06/2017 (unaudited)
Downstream Segment				
Medium distillates	15 337	8 546	12 980	6 326
Light distillates	5 748	3 092	5 843	2 874
Heavy fractions	3 130	1 770	2 512	1 208
Monomers	1 714	800	1 473	759
Polymers	1 418	706	1 269	622
PTA	802	420	728	296
Plastics	783	400	771	355
Fertilizers	379	170	356	135
Aromas	611	290	489	213
Other	2 561	1 128	2 739	1 539
	32 483	**17 322**	**29 160**	**14 327**
Retail Segment				
Medium distillates	9 078	4 953	8 112	4 185
Light distillates	6 528	3 629	6 490	3 357
Other *	1 504	609	1 840	1 008
	17 110	**9 191**	**16 442**	**8 550**
Upstream Segment				
NGL **	174	95	116	58
Crude oil	50	32	32	13
Natural Gas	83	36	114	60
Other	3	2	5	2
	310	**165**	**267**	**133**
Corporate Functions	39	23	31	15
	49 942	**26 701**	**45 900**	**23 025**

*** The line other in retail segment includes mainly sale of non-fuel merchandise*
*** NGL (Natural Gas Liquids)*

In the 6 month period ended 30 June 2018 revenues from contracts with customers amounted to PLN 49,868 million, while other revenues related to rent and lease services amounted to PLN 74 million.
In the 6 and 3 month period ended 30 June 2018 and 30 June 2017 no leading customers were identified in the Group, for which turnover would individually exceeded 10% of total revenues from sale of the ORLEN Group.

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

5.1.2. Sales revenues geographical division - disclosed by customer's premises countries

	6 MONTHS ENDED 30/06/2018 (unaudited)	3 MONTHS ENDED 30/06/2018 (unaudited)	6 MONTHS ENDED 30/06/2017 (unaudited)	3 MONTHS ENDED 30/06/2017 (unaudited)
Poland	23 605	12 848	20 243	10 167
Germany	7 968	3 937	8 409	4 283
Czech Republic	6 256	3 444	6 220	3 235
Lithuania, Latvia, Estonia	4 045	2 355	3 599	1 734
Other countries	8 068	4 117	7 429	3 606
	49 942	**26 701**	**45 900**	**23 025**

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

5.2. Operating expenses

Cost by nature

	6 MONTHS ENDED 30/06/2018 (unaudited)	3 MONTHS ENDED 30/06/2018 (unaudited)	6 MONTHS ENDED 30/06/2017 (unaudited)	3 MONTHS ENDED 30/06/2017 (unaudited)
Materials and energy	(33 668)	(17 210)	(26 874)	(12 812)
Cost of merchandise and raw materials sold	(8 088)	(4 375)	(10 555)	(5 859)
External services	(2 161)	(1 128)	(1 962)	(952)
Employee benefits	(1 311)	(652)	(1 172)	(586)
Depreciation and amortisation	(1 299)	(673)	(1 143)	(581)
Taxes and charges	(703)	(351)	(542)	(258)
Other	(223)	(138)	(233)	(130)
	(47 453)	**(24 527)**	**(42 481)**	**(21 178)**
Change in inventories	665	(262)	3	(390)
Cost of products and services for own use	143	93	122	65
Operating expenses	**(46 645)**	**(24 696)**	**(42 356)**	**(21 503)**
Distribution expenses	2 275	1 140	2 020	983
Administrative expenses	765	387	736	369
Cost of sales	**(43 605)**	**(23 169)**	**(39 600)**	**(20 151)**

5.3. Impairment allowances of inventories to net realizable value

	6 MONTHS ENDED 30/06/2018 (unaudited)	3 MONTHS ENDED 30/06/2018 (unaudited)	6 MONTHS ENDED 30/06/2017 (unaudited)	3 MONTHS ENDED 30/06/2017 (unaudited)
Increase	(35)	(10)	(88)	(73)
Decrease	38	19	75	63

5.4. Other operating income and expenses

Other operating income

	6 MONTHS ENDED 30/06/2018 (unaudited)	3 MONTHS ENDED 30/06/2018 (unaudited)	6 MONTHS ENDED 30/06/2017 (unaudited)	3 MONTHS ENDED 30/06/2017 (unaudited)
Profit on sale of non-current non-financial assets	7	3	20	8
Reversal of provisions	5	1	9	2
Reversal of receivables impairment allowances	-	-	7	3
Reversal of impairment allowances of property, plant and equipment and intangible assets and other non-current assets	20	11	18	11
Penalties and compensations	488	388	739	563
Settlement and valuation of derivative financial instruments related to operational exposure	176	47	-	-
Ineffective part related to operational exposure	56	17	-	-
Other	106	47	68	25
received/due energy certificates	*62*	*13*	*41*	*17*
	858	**514**	**861**	**612**

On 13 August 2015 the steam cracker unit accident in Unipetrol Group took place. In the second quarter of 2018, as a result of arrangements with insurers, the final amount of compensation was determined to cover reconstruction costs of installations and lost business profits, therefore during the 6 and 3 month period ended 30 June 2018 the Group recognized in the line penalties and compensation the amount PLN 264 million.

The line penalties and compensation in the 6 and 3 month period ended 30 June 2018 includes additionally penalties for delayed execution of the contract of the power plant CCGT in Płock in the amount of PLN 191 million and 117 PLN million, respectively.

In the 6 and 3 month period ended 30 June 2017 the line penalties and comensation includes amounts of claims settlement in Unipetrol Group due to the accident on installation FCC of May 2016 in the amount PLN 211 million and PLN 48 million respectively and due to the steam cracker unit accident of August 2015 in the amount of PLN 442 million received in the second quarter of 2017.

The total value of compensation due to the steam cracker unit accident in Unipetrol Group recognized in other operating income in 2016 - 2018 amounted to PLN 1,986 million.

Other operating expenses

	6 MONTHS ENDED 30/06/2018 (unaudited)	3 MONTHS ENDED 30/06/2018 (unaudited)	6 MONTHS ENDED 30/06/2017 (unaudited)	3 MONTHS ENDED 30/06/2017 (unaudited)
Loss on sale of non-current non-financial assets	(22)	(8)	(21)	(12)
Recognition of provisions	(8)	(2)	(13)	(4)
Recognition of receivables impairment allowances	-	-	(8)	(3)
Recognition of impairment allowances of property, plant and equipment and intangible assets and other non-current assets	(33)	(27)	(33)	(24)
Penalties, damages and compensations	(9)	(9)	(15)	(6)
Update CO_2 provision reversed in 2017	(23)	(23)	-	-
Settlement and valuation of derivative financial instruments related to operational exposure	(205)	(57)	-	-
Ineffective part related to operational exposure	(82)	(35)	-	-
Other	(74)	(33)	(43)	(20)
	(456)	**(194)**	**(133)**	**(69)**

Beginning from 1 January 2018 the Group presents settlement and valuation of derivatives not designated as hedge accounting and the ineffective part of hedged derivatives related to hedging exposures to risk related to operating activities, in other operating income and expenses. In the previous period, the Group presented the above transactions within financing activities. Comparative data were not converted due to their immaterial impact. As a result of changes in the presentation, the Group recognizes both changes in the value of the hedged item and the effects of hedging transactions within the result from operating activities.

5.5. Finance income and costs

Finance income

	6 MONTHS ENDED 30/06/2018 (unaudited)	3 MONTHS ENDED 30/06/2018 (unaudited)	6 MONTHS ENDED 30/06/2017 (unaudited)	3 MONTHS ENDED 30/06/2017 (unaudited)
Interest calculated using the effective interest rate method	17	7	14	5
Net foreign exchange gain	-	-	456	92
Dividends	4	4	4	4
Settlement and valuation of derivative financial instruments	846	384	395	96
Other	58	27	11	4
	925	**422**	**880**	**201**

Finance costs

	6 MONTHS ENDED 30/06/2018 (unaudited)	3 MONTHS ENDED 30/06/2018 (unaudited)	6 MONTHS ENDED 30/06/2017 (unaudited)	3 MONTHS ENDED 30/06/2017 (unaudited)
Interest calculated using the effective interest rate method	(95)	(47)	(92)	(39)
Other interest	(4)	(2)	(4)	(2)
Net foreign exchange loss	(343)	(333)	-	-
Settlement and valuation of derivative financial instruments	(730)	(160)	(502)	(151)
Other	(63)	(22)	(16)	(6)
	(1 235)	**(564)**	**(614)**	**(198)**

Borrowing costs capitalized in the 6 and 3 month period ended 30 June 2018 and 30 June 2017 amounted to PLN (21) million and PLN (12) million, PLN (32) million and PLN (14) million, respectively.

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5.6. Investments accounted for under equity method

	30/06/2018 (unaudited)	31/12/2017
Joint ventures, incl.:	635	709
Basell ORLEN Polyolefins Sp. z o.o.	*603*	*677*
Associates	6	6
	641	**715**

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

	30/06/2018 (unaudited)	31/12/2017
Non-current assets	841	845
Current assets	1 259	1 242
cash	*253*	*329*
other current assets	*1 006*	*913*
Total assets	**2 100**	**2 087**
Total equity	**1 232**	**1 375**
Non-current liabilities	51	50
Current liabilities, incl.:	817	662
trade and other liabilities	*795*	*646*
Total liabilities	**868**	**712**
Total equity and liabilities	**2 100**	**2 087**
Net debt	**(253)**	**(329)**
Net assets	1 232	1 375
Group's share in joint ventures (50%)	616	688
Consolidation adjustments	(13)	(11)
Joint ventures investments accounted for under equity method	**603**	**677**

Share in profit from investments accounted for under equity method

	6 MONTHS ENDED 30/06/2018 (unaudited)	3 MONTHS ENDED 30/06/2018 (unaudited)	6 MONTHS ENDED 30/06/2017 (unaudited)	3 MONTHS ENDED 30/06/2017 (unaudited)
Joint ventures, incl.:	88	53	124	55
Basell ORLEN Polyolefins Sp. z o.o.	*88*	*53*	*125*	*56*
	88	**53**	**124**	**55**

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

	6 MONTHS ENDED 30/06/2018 (unaudited)	3 MONTHS ENDED 30/06/2018 (unaudited)	6 MONTHS ENDED 30/06/2017 (unaudited)	3 MONTHS ENDED 30/06/2017 (unaudited)
Sales revenues	1 818	905	1 741	850
Cost of sales, incl.:	(1 551)	(787)	(1 363)	(689)
depreciation and amortisation	*(38)*	*(19)*	*(43)*	*(22)*
Gross profit on sales	**267**	**118**	**378**	**161**
Distribution expenses	(49)	(25)	(44)	(22)
Administrative expenses	(12)	(6)	(12)	(6)
Other operating income and expenses, net	2	3	(1)	-
Profit from operations	**208**	**90**	**321**	**133**
Net finance income and costs	**15**	**12**	**(7)**	**-**
Profit before tax	**223**	**102**	**314**	**133**
Tax expense	(43)	(20)	(60)	(25)
Net profit	**180**	**82**	**254**	**108**
Total net comprehensive income	**180**	**82**	**254**	**108**
Dividends received from joint ventures	**162**	**162**	**173**	**173**
Net profit	180	82	254	108
Group's share in joint ventures (50%)	90	41	127	54
Consolidation adjustments	(2)	12	(2)	2
Group's share in result of joint ventures accounted for under equity method	**88**	**53**	**125**	**56**

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5.7. Loans and bonds

	Non-current		Current		Total	
	30/06/2018 (unaudited)	31/12/2017	30/06/2018 (unaudited)	31/12/2017	30/06/2018 (unaudited)	31/12/2017
Loans	2 182	-	21	48	2 203	48
Bonds	6 317	6 688	1 014	269	7 331	6 957
	8 499	**6 688**	**1 035**	**317**	**9 534**	**7 005**

As at 30 June 2018, indebtedness due to loans relates to a loan reimbursed by PKN ORLEN from a consortium of banks under the Agreement for a multi-currency revolving loan of 25 April 2014 in the amount PLN 2,182 million translated using the exchange rate as at 30 June 2018 (which corresponds to EUR 500 million).
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.

5.8. Derivatives and other assets and liabilities

Derivatives and other assets

	Non-current		Current		Total	
	30/06/2018 (unaudited)	31/12/2017	30/06/2018 (unaudited)	31/12/2017	30/06/2018 (unaudited)	31/12/2017
Cash flow hedging instruments	71	303	403	311	474	614
currency forwards	*71*	*303*	*137*	*225*	*208*	*528*
commodity swaps	*-*	*-*	*266*	*86*	*266*	*86*
Derivatives not designated as hedge accounting	8	-	154	123	162	123
currency forwards	*-*	*-*	*37*	*89*	*37*	*89*
commodity swaps	*-*	*-*	*117*	*33*	*117*	*33*
currency interest rate swaps	*1*	*-*	*-*	*1*	*1*	*1*
interest rate swaps	*7*	*-*	*-*	*-*	*7*	*-*
Fair value hedging instruments	16	-	15	-	31	-
commodity swaps	*16*	*-*	*15*	*-*	*31*	*-*
Derivatives	**95**	**303**	**572**	**434**	**667**	**737**
Other financial assets	100	93	77	133	177	226
receivables on settled derivatives	*-*	*-*	*68*	*126*	*68*	*126*
financial assets at fair value through other comprehensive income	*88*	*-*	*-*	*-*	*88*	*-*
financial assets available for sale	*-*	*84*	*-*	*-*	*-*	*84*
hedged item adjustment	*2*	*-*	*1*	*-*	*3*	*-*
other	*10*	*9*	*8*	*7*	*18*	*16*
Other non-financial assets	237	237	-	-	237	237
investment property	*106*	*104*	*-*	*-*	*106*	*104*
perpetual usufruct of land	*115*	*115*	*-*	*-*	*115*	*115*
other	*16*	*18*	*-*	*-*	*16*	*18*
Other assets	**337**	**330**	**77**	**133**	**414**	**463**

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Derivatives and other liabilities

	Non-current 30/06/2018 (unaudited)	Non-current 31/12/2017	Current 30/06/2018 (unaudited)	Current 31/12/2017	Total 30/06/2018 (unaudited)	Total 31/12/2017
Cash flow hedging instruments	12	-	364	141	376	141
currency forwards	*12*	*-*	*21*	*7*	*33*	*7*
commodity swaps	*-*	*-*	*343*	*134*	*343*	*134*
Derivatives not designated as hedge accounting	56	75	211	172	267	247
currency forwards	*-*	*-*	*29*	*100*	*29*	*100*
commodity swaps	*-*	*-*	*127*	*72*	*127*	*72*
interest rate swaps	*-*	*56*	*-*	*-*	*-*	*56*
currency interest rate swaps	*6*	*19*	*55*	*-*	*61*	*19*
foreign currency swap	*50*	*-*	*-*	*-*	*50*	*-*
Fair value hedging instruments	2	-	1	-	3	-
commodity swaps	*2*	*-*	*1*	*-*	*3*	*-*
Derivatives	**70**	**75**	**576**	**313**	**646**	**388**
Other financial liabilities	324	302	91	125	415	427
liabilities on settled derivatives	*-*	*-*	*77*	*125*	*77*	*125*
investment liabilities	*111*	*108*	*-*	*-*	*111*	*108*
finance lease	*170*	*166*	*-*	*-*	*170*	*166*
hedged item adjustment	*14*	*-*	*9*	*-*	*23*	*-*
other	*29*	*28*	*5*	*-*	*34*	*28*
Other non-financial liabilities	9	9	196	195	205	204
deferred income, incl.:	*9*	*9*	*196*	*195*	*205*	*204*
VITAY loyalty program, prepaid cards	*-*	*-*	*-*	*164*	*-*	*164*
rights granted free of charge	*-*	*-*	*161*	*-*	*161*	*-*
Other liabilities	**333**	**311**	**287**	**320**	**620**	**631**

5.9. Provisions

	Non-current 30/06/2018 (unaudited)	Non-current 31/12/2017	Current 30/06/2018 (unaudited)	Current 31/12/2017	Total 30/06/2018 (unaudited)	Total 31/12/2017
Environmental	650	626	50	67	700	693
Jubilee bonuses and post-employment benefits	239	238	39	39	278	277
CO_2 emissions, energy certificates	-	-	310	376	310	376
Other	42	38	165	191	207	229
	931	**902**	**564**	**673**	**1 495**	**1 575**

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

As compared to the previous reporting period the Group did not change the valuation methods concerning derivative instruments.
Methods applied in determining the fair value were described in the Consolidated Financial Statements for 2017 in note 9.3.3.
In the item financial assets at fair value through other comprehensive income, quoted/unquoted shares not held for trading are included. In 2017, in accordance with IAS 39, these assets were classified as available for sale and valued at purchase price less impairment allowances.

Fair value hierarchy

	Carrying amount (unaudited)	Fair value (unaudited)	Fair value hierarchy Level 1	Fair value hierarchy Level 2
Financial assets				
Financial assets at fair value through profit or loss	88	88	48	40
Derivatives	667	667	-	667
	755	**755**	**48**	**707**
Financial liabilities				
Loans	2 203	2 203	-	2 203
Bonds	7 331	7 753	7 753	-
Derivatives	646	646	-	646
	10 180	**10 602**	**7 753**	**2 849**

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

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5.11. Finance lease payments

As at 30 June 2018 and as at 31 December 2017 the Group possessed as a lessee the finance lease agreements, concerning mainly buildings.

	30/06/2018 (unaudited)	31/12/2017
Value of future minimum lease payments	256	254
Present value of future minimum lease payments	201	198

5.12. Future commitments resulting from signed investment contracts

As at 30 June 2018 and as at 31 December 2017 the value of future commitments resulting from investment contracts signed until that day amounted to PLN 1,773 million and PLN 1,538 million, respectively.

5.13. Issue, redemption and repayment of debt securities

PKN ORLEN in the 1st half of 2018 under the public bond issue program:
- redeemed of retail bonds E Series in the amount of PLN 200 million issued in the first program conducted in 2013 - 2014,
- issued retail bonds C and D Series in the total amount of PLN 400 million under the second program conducted in 2017-2018.

Under the first public bond issue program, the F Series remains open with a nominal value of PLN 100 million, and under the second public bond issue program, the A-D Series with a total nominal value of PLN 800 million.

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 using the corporate bond issue program from 2012. These transactions are eliminated at the ORLEN Group level.

5.14. Distribution of the profit for 2017

The Ordinary General Meeting of Shareholders of PKN ORLEN S.A. on 26 June 2018 distributed the net profit of PKN ORLEN for 2017 in the amount of PLN 6,101,792,575.09 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 4,818,665,392.09 as reserve capital. The dividend date was set at 20 July 2018 and the dividend payment date at 3 August 2018.

5.15. Contingent liabilities

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

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 301 million, translated using the exchange rate as at 30 June 2018 (representing CZK 1,789 million). Unipetrol RPA s.r.o. is one of eight defendants which the claim was brought against. At the request of the I.P.-95 s.r.o proceeding is pending concerning the accession to the claim as plaintiff NESTARMO TRADING LIMITED. The court refused the Company to permission to enter to the case. In February 2018, the court dismissed in entirety claim ruling in favour of Unipetrol RPA s.r.o. On 3 April 2018, I.P.-95 s.r.o. appealed against the decision of the court of first instance. On 22 May 2018, the District Court in Ostrava obliged I.P. - 95 s.r.o. to pay the appeal fee. The parties are awaiting the date of the appellate hearing. According to UNIPETROL RPA s.r.o. the claim is without merit.

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

On 5 September 2014, OBR S.A. (currently: Warter Fuels S.A.) filled an action against PKN ORLEN with the District Court in Łódź for a claim for payment in respect of an alleged breach by PKN ORLEN of patent rights. The amount of the claim in the lawsuit was estimated by Warter Fuels S.A. in the amount of approximately PLN 83 million. The claim covers the adjudged sum of money from PKN ORLEN for Warter Fuels S.A. in the amount corresponding to the value of the license fee for the use of the solution under the above patent and adjudge the obligation to repay the benefits derived from the use of this solution. On 16 October 2014 PKN ORLEN responded to the lawsuit. By the procedural document from 11 December 2014 the value of the dispute was referred to by the plaintiff in the amount of approximately PLN 247 million. By the court order from 21 May 2015 the parties were directed to mediation. Mediation proceedings were completed in the 2nd quarter of 2016. 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. The case is before the court of first instance. During three subsequent hearings held in May 2018, the Court heard further witnesses, and the PKN ORLEN attorney submitted a request to suspend the proceedings due to parallel proceedings for determining the right to the disputed patent, the outcome of which will have significance for the resolution in the case of breach. The request was not considered yet. The next hearing date was set on September 2018. In the opinion of PKN ORLEN the above claims are without merit.

Polocktransneft Druzhba claim against AB ORLEN Lietuva

On 21 September 2017, AB ORLEN Lietuva received from the court a claim brought by the Belarusian company Polocktransneft Druzhba (operator of the Belarus section of the Druzhba pipeline) for payment of compensation for crude oil (so-called 'technological oil') back in 1992 it was located in Lithuanian section of the Druzhba pipeline belonging to ORLEN Lietuva. Operation of this section was stopped in 2006. Polocktransneft Druzhba believes that this oil was its property. The value of the claim is approximately PLN 314 million converted by exchange rate as at 30 June 2018 (representing USD 84 million). The claim also includes a request for procedural interest and litigation cost. ORLEN Lietuva responded to the claim. On 15 March 2018 a hearing took place. On 29 March 2018, the court dismissed the plaintiff's claim. Polokotransneft Druzhba appealed against the judgment dismissing the claim. ORLEN Lietuva responded to the appeal. The appellate hearing date was not set. According to ORLEN Lietuva, the above claim is without merit.

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

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5.16. Related parties transactions

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

As at 30 June 2018 and as at 31 December 2017 and in the 6 and 3 month period ended 30 June 2018 and 30 June 2017, on the basis of submitted declarations, there were no transactions of related parties with members of the Management Board and the Supervisory Board of the Parent Company.

In the 6 and 3 month period ended 30 June 2018 and 30 June 2017 on the basis of submitted declarations, there were transactions of close relatives with the other key executive personnel of the Parent Company and key executive personnel of the ORLEN Group companies with related parties in the amount of PLN 0.2 million and PLN 0.3 million and PLN 0.08 million and PLN 0.1 million, respectively; included the main amounts regarded purchase of legal services and marketing services.

As at 30 June 2018 there were no trade and other liabilities due to the above transactions and as at 31 December 2017 balance of liabilities was not significant.

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

	6 MONTHS ENDED 30/06/2018 (unaudited)	3 MONTHS ENDED 30/06/2018 (unaudited)	6 MONTHS ENDED 30/06/2017 (unaudited)	3 MONTHS ENDED 30/06/2017 (unaudited)
Parent Company				
Short-term employee benefits	20.9	9.8	23.0	11.7
Termination benefits (severance pay and other remuneration)	7.6	3.0	0.4	0.3
Subsidiaries				
Short-term employee benefits	74.3	42.2	76.9	44.3
Post-employment benefits	0.1	0.1	0.1	0.1
Termination benefits (severance pay and other remuneration)	3.6	2.1	2.0	1.2
	106.5	**57.2**	**102.4**	**57.6**

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

The value of provisions for post-employment benefits and other long term employee benefits for the key management personnel of the Parent Company and subsidiaries are at the same level as presented in the consolidated financial statements of the ORLEN Group for the year ended 31 December 2017 in note 9.4.6.1. and are updated on an annual basis.

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

	Sales				Purchases			
	6 MONTHS ENDED 30/06/2018 (unaudited)	3 MONTHS ENDED 30/06/2018 (unaudited)	6 MONTHS ENDED 30/06/2017 (unaudited)	3 MONTHS ENDED 30/06/2017 (unaudited)	6 MONTHS ENDED 30/06/2018 (unaudited)	3 MONTHS ENDED 30/06/2018 (unaudited)	6 MONTHS ENDED 30/06/2017 (unaudited)	3 MONTHS ENDED 30/06/2017 (unaudited)
Jointly-controlled entities	**1 534**	**735**	**1 352**	**669**	**(72)**	**(35)**	**(72)**	**(37)**
joint ventures	*1 447*	*689*	*1 281*	*630*	*(21)*	*(10)*	*(20)*	*(10)*
joint operations	*87*	*46*	*71*	*39*	*(51)*	*(25)*	*(52)*	*(27)*
Associates	**-**	**-**	**18**	**11**	**-**	**-**	**(2)**	**(1)**
	1 534	**735**	**1 370**	**680**	**(72)**	**(35)**	**(74)**	**(38)**

	Trade and other receivables		Trade and other liabilities	
	30/06/2018 (unaudited)	31/12/2017	30/06/2018 (unaudited)	31/12/2017
Jointly-controlled entities	**595**	**484**	**17**	**16**
joint ventures	*573*	*463*	*6*	*8*
joint operations	*22*	*21*	*11*	*8*
	595	**484**	**17**	**16**

The above transactions with related parties include mainly sales and purchases of refinery and petrochemicals products and services.
In the 6 and 3 month period ended 30 June 2018 and 30 June 2017 there were no related parties transactions within the Group concluded on other than an arm's length basis.

5.16.4. Transactions with entities related to the State Treasury

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

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In the 6 and 3 month period ended 30 June 2018 and 30 June 2017 and as at 30 June 2018 and 31 December 2017, the Group identified the following transactions:

	6 MONTHS ENDED 30/06/2018 (unaudited)	3 MONTHS ENDED 30/06/2018 (unaudited)	6 MONTHS ENDED 30/06/2017 (unaudited)	3 MONTHS ENDED 30/06/2017 (unaudited)
Sales	942	487	509	212
Purchases	(2 445)	(1 320)	(1 569)	(832)

	30/06/2018 (unaudited)	31/12/2017
Trade and other receivables	307	298
Trade and other liabilities	575	559

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

5.17. Guarantees

Excise tax guarantees and excise tax on goods and merchandise under the excise tax suspension procedure as at 30 June 2018 and as at 31 December 2017 amounted to PLN 2,684 million and PLN 2,577 million, respectively.

5.18. Events after the end of the reporting period

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

HALF-YEAR CONDENSED SEPARATE FINANCIAL STATEMENTS

FOR THE 6 AND 3 MONTH PERIOD ENDED 30 JUNE 2018

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

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

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

Separate statement of profit or loss and other comprehensive income

	NOTE	6 MONTHS ENDED 30/06/2018 (unaudited)	3 MONTHS ENDED 30/06/2018 (unaudited)	6 MONTHS ENDED 30/06/2017 (unaudited)	3 MONTHS ENDED 30/06/2017 (unaudited)
Sales revenues	5.1	39 206	20 883	33 597	16 546
revenues from sales of finished goods and services		*21 189*	*11 388*	*16 164*	*7 793*
revenues from sales of merchandise and raw materials		*18 017*	*9 495*	*17 433*	*8 753*
Cost of sales	5.2	(34 991)	(18 491)	(29 961)	(14 972)
cost of finished goods and services sold		*(17 600)*	*(9 320)*	*(13 026)*	*(6 495)*
cost of merchandise and raw materials sold		*(17 391)*	*(9 171)*	*(16 935)*	*(8 477)*
Gross profit on sales		**4 215**	**2 392**	**3 636**	**1 574**
Distribution expenses		(1 370)	(695)	(1 225)	(628)
Administrative expenses		(395)	(205)	(383)	(193)
Other operating income	5.3	385	198	160	109
Other operating expenses	5.3	(120)	(59)	(94)	(53)
(Loss)/reversal of loss due to impairment of financial instruments		(9)	(3)	-	-
Profit from operations		**2 706**	**1 628**	**2 094**	**809**
Finance income	5.4	1 802	1 217	2 301	1 115
Finance costs	5.4	(1 359)	(657)	(983)	(94)
Net finance income and costs		**443**	**560**	**1 318**	**1 021**
(Loss)/reversal of loss due to impairment of financial instruments		6	1	-	-
Profit before tax		**3 155**	**2 189**	**3 412**	**1 830**
Tax expense		(436)	(258)	(459)	(152)
current tax		*(451)*	*(267)*	*(358)*	*(139)*
deferred tax		*15*	*9*	*(101)*	*(13)*
Net profit		**2 719**	**1 931**	**2 953**	**1 678**
Other comprehensive income:					
which will not be reclassified subsequently into profit or loss		**(5)**	**(5)**	**-**	**-**
gains/(losses) on investments in equity instruments at fair value through other comprehensive income		*(6)*	*(6)*	-	-
deferred tax		*1*	*1*	-	-
which will be reclassified into profit or loss		***(184)***	***(153)***	**572**	**(49)**
hedging instruments		*(277)*	*(207)*	*706*	*(61)*
hedging costs		*50*	*18*	-	-
deferred tax		*43*	*36*	*(134)*	*12*
		(189)	**(158)**	**572**	**(49)**
Total net comprehensive income		**2 530**	**1 773**	**3 525**	**1 629**
Net profit and diluted net profit per share (in PLN per share)		6.36	4.51	6.90	3.92

The accompanying notes disclosed on pages 33 – 48 are an integral part of the foregoing half-year condensed separate financial statements.

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

Separate statement of financial position

	NOTE	30/06/2018 (unaudited)	31/12/2017
ASSETS			
Non-current assets			
Property, plant and equipment		15 618	15 690
Intangible assets		771	772
Shares in related parties		13 293	9 564
Derivatives	5.6	76	189
Other assets	5.6	223	192
		29 981	**26 407**
Current assets			
Inventories		9 490	8 239
Trade and other receivables		9 323	7 335
Current tax assets		57	58
Cash		4 605	5 477
Non-current assets classified as held for sale		77	170
Derivatives	5.6	738	396
Other assets	5.6	929	1 270
		25 219	**22 945**
Total assets		**55 200**	**49 352**
EQUITY AND LIABILITIES			
EQUITY			
Share capital		1 058	1 058
Share premium		1 227	1 227
Hedging reserve		69	253
Revaluation reserve		(5)	-
Retained earnings		26 439	25 027
Total equity		**28 788**	**27 565**
LIABILITIES			
Non-current liabilities			
Loans, borrowings and bonds	5.5	8 472	6 736
Provisions	5.7	440	440
Deferred tax liabilities		719	782
Derivatives	5.6	70	75
Other liabilities	5.6	238	220
		9 939	**8 253**
Current liabilities			
Trade and other liabilities		11 609	9 897
Liabilities from contracts with customers		166	-
Loans, borrowings and bonds	5.5	1 404	552
Provisions	5.7	255	321
Current tax liabilities		239	66
Derivatives	5.6	739	278
Other liabilities	5.6	2 061	2 420
		16 473	**13 534**
Total liabilities		**26 412**	**21 787**
Total equity and liabilities		**55 200**	**49 352**

The accompanying notes disclosed on pages 33 – 48 are an integral part of the foregoing half-year condensed separate financial statements.

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

Separate statement of changes in equity

	Share capital and share premium	Hedging reserve	Revaluation reserve	Retained earnings	Total equity
01/01/2018 (approved data)	2 285	253	-	25 027	27 565
Impact of IFRS 9 adoption	-	-	-	(24)	(24)
01/01/2018 (converted data)	2 285	253	-	25 003	27 541
Net profit	-	-	-	2 719	2 719
Items of other comprehensive income	-	(184)	(5)	-	(189)
Total net comprehensive income	**-**	**(184)**	**(5)**	**2 719**	**2 530**
Dividends	-	-	-	(1 283)	(1 283)
30/06/2018	**2 285**	**69**	**(5)**	**26 439**	**28 788**
(unaudited)					
01/01/2017	2 285	(327)	-	20 210	22 168
Net profit	-	-	-	2 953	2 953
Items of other comprehensive income	-	572	-	-	572
Total net comprehensive income	**-**	**572**	**-**	**2 953**	**3 525**
Dividends	-	-	-	(1 283)	(1 283)
30/06/2017	**2 285**	**245**	**-**	**21 880**	**24 410**
(unaudited)					

The accompanying notes disclosed on pages 33 – 48 are an integral part of the foregoing half-year condensed separate financial statements.

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

Separate statement of cash flows

	6 MONTHS ENDED 30/06/2018 (unaudited)	3 MONTHS ENDED 30/06/2018 (unaudited)	6 MONTHS ENDED 30/06/2017 (unaudited)	3 MONTHS ENDED 30/06/2017 (unaudited)
Cash flows from operating activities				
Profit before tax	**3 155**	**2 189**	**3 412**	**1 830**
Adjustments for:				
Depreciation and amortisation	663	346	592	295
Foreign exchange (gain)/loss	347	270	(36)	73
Interest, net	125	82	86	41
Dividends	(840)	(837)	(1 524)	(935)
(Profit)/Loss on investing activities	(96)	(189)	627	(7)
Change in provisions	101	44	67	30
Change in working capital	(2 222)	(1 265)	(329)	948
inventories	*(1 249)*	*(778)*	*(182)*	*544*
receivables	*(1 603)*	*(1 798)*	*795*	*(25)*
liabilities	*630*	*1 311*	*(942)*	*429*
Other adjustments, incl.:	(115)	(41)	(137)	(54)
rights received free of charge	*(127)*	*(43)*	*(78)*	*(35)*
Income tax (paid)	(278)	(122)	(847)	(205)
Net cash from operating activities	**840**	**477**	**1 911**	**2 016**
Cash flows from investing activities				
Acquisition of property, plant and equipment, intangible assets and perpetual usufruct of land	(839)	(377)	(845)	(339)
Acquisition of shares	(3 757)	(226)	(227)	(227)
Disposal of property, plant and equipment, intangible assets and perpetual usufruct of land	157	105	143	89
Interest received	15	8	10	5
Dividends received	476	473	1 139	548
Expenses from non-current loans granted	(35)	(35)	-	-
Proceeds from non-current loans granted	3	3	3	2
Proceeds/(Expenses) from current loans granted	(60)	(61)	(27)	376
Proceeds/(Outflows) from cash pool facility	289	104	(22)	(8)
Settlement of derivatives not designated as hedge accounting	110	225	12	60
Other	(1)	-	(3)	-
Net cash from/(used in) investing activities	**(3 642)**	**219**	**183**	**506**
Cash flows from financing activities				
Proceeds from loans received	2 075	-	-	-
Bonds issued	749	634	693	390
Repayments of loans	-	-	(822)	(39)
Redemption of bonds	(510)	(313)	(1 288)	(1 033)
Interest paid	(201)	(169)	(206)	(170)
Proceeds/(Outflows from cash pool facility	(220)	243	(94)	(46)
Other	(13)	(6)	(14)	(9)
Net cash from/(used in) financing activities	**1 880**	**389**	**(1 731)**	**(907)**
Net increase/(decrease) in cash and cash equivalents	**(922)**	**1 085**	**363**	**1 615**
Effect of exchange rate changes	50	32	(1)	26
Cash, beginning of the period	5 477	3 488	2 563	1 284
Cash, end of the period	**4 605**	**4 605**	**2 925**	**2 925**

The accompanying notes disclosed on pages 33 – 48 are an integral part of the foregoing half-year condensed separate financial statements.

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

EXPLANATORY NOTES TO THE HALF-YEAR CONDENSED SEPARATE FINANCIAL STATEMENTS

1. Principal activity of PKN ORLEN

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

The core business of the Company is crude oil processing, production of fuel, petrochemical and chemical goods, as well as, retail and wholesale of fuel products. PKN ORLEN generates, distributes and trades of electricity and heat.
Since 26 November 1999 PKN ORLEN shares are quoted on the main market of the Warsaw Stock Exchange in the continuous trading system.

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

2.1. Statement of compliance and general principles for preparation

The foregoing half-year condensed separate financial statements were prepared in accordance with requirements of IAS 34 "Interim financial reporting" and in the scope required under the Minister of Finance Regulation of 29 March 2018 on current and periodical information provided by issuers of securities and terms of deeming information required by the regulations of a non-member state equivalent (Official Journal 2018, item 757) ("Regulation") and present the PKN ORLEN S.A. ("Company", "Parent Company", "PKN ORLEN") financial position as at 30 June 2018 and as at 31 December 2017, financial results and cash flows for the 6 and 3 month period ended 30 June 2018 and 30 June 2017.

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.

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

2.2.1. Accounting principles

In the foregoing half-year condensed separate financial statements, the significant accounting policies applied by PKN ORLEN and significant values based on judgments and estimates were the same as described in separate explanatory notes in the Financial Statements for 2017, except for the adopted new IFRS 15 "Revenue from Contracts with Customers" and IFRS 9 "Financial Instruments" described in note 2.2.2.

Selected accounting principles – Separate financial statements of PKN ORLEN for the year ended 31 December 2017	Note
Operating segments	6.1
Sales revenues	7.1.1
Costs	7.1.3
Income tax expenses (tax expense)	7.1.7
Property, plant and equipment	7.2.1
Intangible assets	7.2.2
Impairment of property, plant and equipment	7.2.4
Inventories	7.2.5.1
Trade and other receivables	7.2.5.2
Trade and other liabilities	7.2.5.3
Net debt	7.2.6
Equity	7.2.7
Provisions	7.2.9
Financial instruments	7.3
Fair value measurement	7.3
Lease	7.4.3
Contingent assets and liabilities	7.4.5

PKN ORLEN adopted the requirements of IFRS 9 and IFRS 15 with a modified retrospective approach with effect from 1 January 2018. According to the option allowed by the standard, PKN ORLEN resigned from converting comparable data. As at 31 December 2017 and for the 1st half of 2017 data were prepared based on IAS 39, IAS 18 and IAS 11.
The previously adopted selected accounting principles within sales revenues (IAS 18, IAS 11) and financial instruments (IAS 39) were disclosed in the financial statements for 2017.

2.2.2. Amendments to International Financial Reporting Standards (IFRS)

➢ **IFRS 9 Financial instruments**

Selected accounting principles

Measurement of financial assets and liabilities
From 1 January 2018, PKN ORLEN classifies financial assets into one of the following categories:
- measured at amortized cost,
- measured at fair value through other comprehensive income,
- measured at fair value through profit or loss,
- hedging financial instruments.

PKN ORLEN classifies debt financial assets to the appropriate category depending on the business model of financial assets management and on the characteristics of contractual cash flows for a given financial asset.

PKN ORLEN as assets measured at amortized cost classifies trade receivables, loans granted, other financial receivables as well as cash and cash equivalents.

At the moment of initial recognition, PKN ORLEN classifies equity instruments, i.e. shares in other entities, to the category of financial instruments measured at fair value through other comprehensive income.

PKN ORLEN classifies to assets measured at fair value through profit or loss derivatives that are not designated for hedge accounting and hedged items that are measured in accordance with hedge accounting principles.

PKN ORLEN classifies financial liabilities into one of the following categories:
- measured at amortized cost,
- measured at fair value through profit or loss,
- hedging financial instruments.

PKN ORLEN as liabilities measured at amortized cost classifies trade liabilities, loans, borrowings and bonds. Liabilities on derivatives not designated for hedge accounting are classified by PKN ORLEN as measured at fair value through profit or loss.

PKN ORLEN classifies to the category of hedging financial instruments, financial assets and liabilities which constitute derivative hedging cash flows and fair value.

Measurement of financial assets at amortized cost
PKN ORLEN applies the effective interest rate method to measure financial assets at amortized cost.
Trade receivables after initial recognition are measured at amortized cost using the effective interest rate method, including impairment allowances, while trade receivables with a maturity of less than 12 months from the date of recognition (i.e. not including the financing component) and not appointed to factoring, are not discounted and are measured at nominal value.

Measurement of financial assets at fair value through other comprehensive income
Gains and losses on a financial asset constituting an equity instrument for which was applied the option of fair value through other comprehensive income is recognized in other comprehensive income, except for revenues from received dividends.

Measurement of financial assets at fair value through profit or loss
Gains or losses on the measurement of a financial asset that is classified as measured at fair value through profit or loss are recognized in profit or loss during the period in which they were recognized. Gains or losses from the valuation of items measured at fair value through profit or loss also include interest and dividend income.

Measurement of hedging financial instruments
Hedging financial instruments are measured in accordance with the principles of hedge accounting.

Impairment of financial assets
IFRS 9 introduces a new approach to estimating the impairment of financial assets measured at amortized cost or at fair value through other comprehensive income (with the exception of investments in capital assets and contract assets). The impairment model is based on the expected loss calculation as opposed to the currently applied model resulting from IAS 39, which was based on the concept of incurred loss. The most significant item of financial assets in the PKN ORLEN's financial statements, which is subject to the new principles of calculating expected credit losses, are trade receivables.

PKN ORLEN uses the following models for determining impairment allowances:
- general model (basic),
- simplified model.

The general model is used by PKN ORLEN for financial assets measured at amortized cost - other than trade receivables and assets measured at fair value through other comprehensive income.
In the general model, PKN ORLEN monitors the changes in the level of credit risk associated with a given financial asset and classifies financial assets to one of the three stages of impairment allowances based on the observation of the change in the credit risk level in relation to the initial recognition of the instrument.
Depending on the classification to particular stages, the impairment allowance is estimated in the 12-month horizon (stage 1) or in the life horizon of the instrument (stage 2 and stage 3).

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

On each day ending the reporting period, PKN ORLEN considers the indications resulting in the classification of financial assets to particular stages of determining impairment allowances. Indications may include changes in the debtor's rating, serious financial problems of the debtor, a significant unfavourable change in its economic, legal or market environment.
For the purposes of estimating the expected credit loss, PKN ORLEN uses default probability levels based on market credit quotes of derivatives for entities with a given rating and from a given sector.
PKN ORLEN includes information on the future in the parameters of the expected loss estimation model by calculating the probability parameters of insolvency based on current market quotes.

The simplified model is used by PKN ORLEN for trade receivables.
In the simplified model, PKN ORLEN does not monitor changes in the credit risk level during the life of the instrument and estimates the expected credit loss in the horizon up to maturity of the instrument.
In particular, for the insolvency event, PKN ORLEN recognizes when the contractor has not satisfied the obligation after 90 days from the due receivables date.
For the purpose of estimating the expected credit loss, PKN ORLEN uses a provision matrix estimated on the basis of historical levels of repayment and recoveries from receivables from contractors.
PKN ORLEN includes information about the future in the parameters used in the expected loss estimation model, through the management adjustment of the basic insolvency probability parameters. To calculate the expected credit loss, PKN ORLEN determines the probability parameter of receivables defaults estimated on the basis of the analysis of the number of unpaid invoices in the last five years, and the liabilities default rate estimated on the basis of the value of unpaid invoices in the last five years.
The expected credit loss is calculated when the receivable is recognized in the statement of financial position and is updated on each subsequent day ending the reporting period, depending on the number of days for which the receivable is due.

(Loss)/reversal of losses due to impairment of financial instruments
The (losses)/reversal of losses due to impairment of financial instruments include, in particular, (losses)/reversals of losses due to impairment of trade receivables and (losses)/reversals of losses due to impairment of granted loans.

Hedge accounting
Derivatives designated as hedging instruments from which it is expected that their fair value or resulting from them cash flows will offset changes in fair value or cash flows of hedged item are recognized in accordance with the principles of fair value hedge accounting or cash flow hedges.
PKN ORLEN assesses the effectiveness of hedging both at the moment of establishing the hedging and in subsequent periods, at least at each end of the reporting period. Verification of satisfaction of the conditions for the effectiveness of linking is made on a prospective basis, based on a qualitative analysis. If necessary, PKN ORLEN uses a quantitative analysis (linear regression method) to confirm an economic relation between the hedging instrument and the hedged item.
In the case of cash flow hedge accounting, PKN ORLEN:

- the part of profits or losses related to the hedging instrument, which constitute an effective hedge due to the hedged risk, recognizes in other comprehensive income,
- in addition (in the case of FX hedging - spot risk element), a change in the fair value due to the forward element (including the cross-currency margin) recognizes within the equity in a separate position (hedging cost),
- the inefficient part of profits or losses related to the hedging instrument recognizes in the statement of profit or loss. In the case of hedging cash flows from operating activities, the ineffective part recognizes in other operating income/expenses, and in the case of hedging cash flows of financing activities in finance income/costs.
- reclassifies profits or losses from equity to the statement of profit or loss to the line in which the hedged item is presented,
- excludes profits or losses from equity and adjusts the initial value of the hedged item (if the realization of the hedged item results in the recognition of a non-financial asset - for example, an inventory).

In the case of fair value hedge (operating activity), changes in the fair value of the hedging instrument and the hedged item are recognized in the statement of profit or loss in the item other operating income/expenses.
The table below presents the impact of the implementation of IFRS 9 on the change in the classification and measurement of the PKN ORLEN's financial assets as at 1 January 2018.

Financial instruments by class	Classification		Carrying amount	
	IAS 39	IFRS 9	IAS 39	IFRS 9
Unquoted shares	Available for sale	At fair value through other comprehensive income	41	41
Loans granted	Loans and receivables	Measured at amortized cost	750	740
Trade	Loans and receivables	Measured at amortized cost	6 711	6 694
Derivatives not designated as hedge accounting	At fair value through profit or loss	At fair value through profit or loss	90	90
Cash flow hedging instruments	Hedging financial instruments	Hedging financial instruments	347	347
Cash	Loans and receivables	Measured at amortized cost	5 477	5 477
Receivables on settled derivatives	Loans and receivables	Measured at amortized cost	204	204

The item of unquoted shares consists of equity instruments not held for trading, in accordance with IAS 39 classified as available for sale, which were valued by the Company at the purchase price less impairment allowances. The instruments were not acquired for trading in relation to the above, these assets will be measured at fair value through other comprehensive income, without the option of subsequent transferring the result from these instruments to the statement of profit or loss.

In the area of hedge accounting, PKN ORLEN applies the requirements of IFRS 9 in the construction of hedging relationships. In particular, it concerns matching of the definitions of commodity risk hedging to the exposure characteristics and applied risk management strategies. PKN ORLEN aims to limit the underlying risk in hedging relationships (resulting from various commodity indices on the side of the hedging instrument and the hedged item).

PKN ORLEN applied principles of recognition the hedging cost within FX hedging transactions, where the forward component and the cross-currency margin is recorded in a separate item in other comprehensive income.

➢ IFRS 15 Revenue from Contracts with Customers

Selected accounting principles

PKN ORLEN applies the principles of IFRS 15 in a five-step model in relation to the portfolio of contracts (or performance obligations) with similar characteristics, if the entity reasonably expects that the impact of the following principles on the financial statements will not significantly differ from the application of the following principles to individual contracts (or performance obligations).

Requirements to identify a contract with a customer
A contract with a customer meets its definition when all of the following criteria are met: the parties of the contract have approved the contract and are committed to perform their obligations; PKN ORLEN can identify each party's rights regarding goods or services to be transferred; PKN ORLEN can identify the payment terms for the goods or services to be transferred; the contract has commercial substance and it is probable that PKN ORLEN will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

Identification of performance obligations
At contract inception PKN ORLEN assesses the goods or services promised in the contract with a customer and identifies as a performance obligation each promise to transfer to the customer: goods or services (or a bundle of goods or services) that can be separated or PKN ORLENs of separate goods or services which are basically the same and for which the transfer to the customer is of the same nature.

Determination of the transaction price
PKN ORLEN considers the terms of the contract and its customary business practices to determine the transaction price. The transaction price is the amount of consideration to which PKN ORLEN expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (for example, some sales taxes, fuel charges, excise taxes). The consideration promised in the contract with a customer may include fixed amounts, variable amounts or both.

To estimate variable consideration, PKN ORLEN decided to apply the most probable value method for contracts with one value threshold and the expected value method for contracts with more value thresholds from which a rebate is granted to the customer.

Allocating the transaction price to individual performance obligations
PKN ORLEN allocates the transaction price to each performance obligation (or distinct good or service) at an amount that reflects the amount of consideration to which PKN ORLEN expects to be entitled in exchange for transferring the promised goods or services to the customer.

Recognition of revenue when performance obligations are satisfied
PKN ORLEN recognises revenue when (or as) PKN ORLEN satisfies performance obligations by transferring a promised good or service (i.e. an asset) to a customer (the customer obtains control of that asset). Revenue is recognised as amounts equal to the transaction price that has been allocated to a given performance obligation.
PKN ORLEN transfers control of good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:
- the customer simultaneously receives and consumes the benefits from performance as PKN ORLEN performs,
- the asset is created or enhanced as a result of the performance, and the customer controls the asset as it is created or enhanced,
- as a result of the performance of the service, an alternative component for PKN ORLEN is not created, and PKN ORLEN has an enforceable right to payment for performance completed to date.

Impact of the implementation of new IFRS 9 and IFRS 15

The table below summarizes the impact of the implementation of IFRS 9 and IFRS 15 on PKN ORLEN financial statements as at 1 January 2018:

	IFRS / IAS applied	31 December 2017 Carrying amount	Change resulting from change in classification	Change resulting from change in measurement	1 January 2018 Carrying amount	1 January 2018 Impact on retained earnings
Financial assets available for sale	IAS 39	41	(41)	-	-	-
Financial assets at fair value through other comprehensive income	IFRS 9	-	41	-	41	-
Trade and other receivables	IAS39/IFRS 9	7 335	-	(17)	7 318	(17)
Other assets (loans granted)	IAS39/IFRS 9	750	-	(10)	740	(10)
Other short-term liabilities due to loyalty programs	IAS 18	145	(145)	-	-	-
Other short-term liabilities due to prepaid cards	IAS 18	19	(19)	-	-	-
Liabilities from contracts with customers	IFRS 15	-	164	-	164	-
Deferred tax liabilities		782	-	(3)	779	3

The change in trade and other receivables results from the change in the measurement of impairment allowances estimated in accordance with IFRS 9, considering the requirements of the expected credit losses model.
The impact of the application of IFRS 15 on the items of the financial statements of PKN ORLEN in the 1st half of 2018 compared to IAS 11, IAS 18 and related interpretations was immaterial.
Additionally, PKN ORLEN disclosed information on the estimated impact of applying IFRS 9 and IFRS 15 in the annual financial statements of PKN ORLEN for 2017 in note 5.5.

2.2.3. IFRSs, announced and adopted by the European Union, not yet effective

PKN ORLEN intends to adopt the published, but not effective as at the date of publication of the foregoing half-year condensed separate financial statements, amendments to IFRS, in accordance with their effective date.

➢ **IFRS 16 Lease**

The Council of International Accounting Standards issued International Financial Reporting Standard 16 Leases ("IFRS 16") in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure.
IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted for entities that use IFRS 15 from or before the first application of IFRS 16. The Company has not decided to IFRS 16 early adoption.
As at the date of approval of the foregoing consolidated financial statements, the Company is in the process of assessing the impact of the application of IFRS 16 on the accounting principles applied by the Company with respect to the Company's operations or its financial results.

The Company identified current finance lease agreements, operating lease agreements and agreements not previously recognized as lease which can meet lease definition according to IFRS 16. The Company defined accounting principles and a detailed methodology for the implementation of the new standard. Currently, the Company estimates the potential impact of the application of IFRS 16 on future financial statements.

2.3. 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.

2.4. 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.

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

3.1. 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 2018 sales revenues of the ORLEN Group increased by PLN 5,609 million (y/y) to PLN 39,206 million.
Higher sale revenues are the effect of increasing of quotations of major products: fuel (by 25%), diesel oil (by 34%), light heating oil (by 33%), heavy heating oil (by 33%), ethylene (by 6%), propylene (by 13%), including due to the increase in crude oil prices by 36% (y/y) and higher sales volumes in the downstream segment by 1% (y/y) and retail segment by 6% (y/y).

Result of other operating activities amounted to PLN 265 million and included mainly penalties received for improper execution of the contract of the power plant CCGT in Płock in the amount of PLN 191 million

As a result profit from operations for the 6 months of 2018 amounted to PLN 2,706 million and was higher by PLN 612 million (y/y).

Net finance income in the described period amounted to PLN 443 million and included mainly dividend income from related parties in the amount of PLN 836 million settlement and valuation of net financial instruments in the amount of PLN 81 million and foreign exchange gains in the amount of PLN (367) million and net interest expenses in the amount of PLN (115) million.

After consideration of tax charges in the amount of PLN (436) million, the net profit of the ORLEN Group for the 6 months of 2018 amounted to PLN 2,719 million and was lower by PLN (234) million (y/y).

Statement of financial position

As at 30 June 2018 total assets of PKN ORLEN amounted to PLN 55,200 million and was higher by PLN 5,848 million in comparison with 31 December 2017.

As at 30 June 2018, the value of non-current assets amounted to PLN 29,981 million and was higher by PLN 3,574 million in comparison with the end of the previous year, mainly due to increase of the value of shares in related parties by PLN 3,729 million as a result of acquisition of Unipetrol a.s. shares in the amount of PLN 3,532 million and additional shares of the ORLEN Upstream by PLN 200 million and decreasing valuation of financial instruments by PLN (113) million.

The value of current assets increased by PLN 2,274 million, mainly as a result of increase of trade and other receivables by PLN 1,988 million, increasing inventories by PLN 1,251 million and decrease in the balance of cash by PLN (872) million.
The increase in value of inventories is mainly the effect of higher crude oil prices. The increase in trade receivables results mainly from higher volume of sales and higher goods prices.

As at 30 June 2018, total equity amounted to PLN 28,788 million and was higher by PLN 1,223 million in comparison with the end of 2017, mainly as a result of net profit for the 6 months of 2018 in the amount of PLN 2,719 million with consideration of dividends from the profit of the 2017 in the amount PLN (1,283) million and negative impact of change of balance of hedging reserve in the amount PLN (184) million.

As at 30 June 2018 net financial indebtedness of PKN ORLEN amounted to PLN 5,271 million and was higher by PLN 3,460 million in comparison with the end of 2017. Change of net financial indebtedness included net proceeds of loans, borrowings and bonds in the amount of PLN 2,315 million, decrease of cash balance by PLN 872 million and the net impact of negative exchange differences from revaluation and indebtedness valuation in total amount of PLN 273 million.

Statement of cash flows

Proceeds of net cash from operating activities for the 6 month period of 2018 amounted to PLN 840 million and comprised mainly profit from operations increased by depreciation and amortisation in the amount of PLN 3,369 million, the negative impact of increase in a net working capital by PLN (2,222) million and paid income taxes in the amount of PLN (278) million.

Net cash used in investing activities for the 6 month period of 2018 amounted to PLN (3,642) million and comprised mainly net expenses for the acquisition of shares of Unipetrol a.s. in the amount PLN (3,532) and acquisition of property, plant and equipment, intangible assets and perpetual usufruct of land in the amount of PLN (682) million and dividends received in the amount of PLN 476 million.

Net proceeds of cash from financing activities for the 6 month period of 2018 amounted to PLN 1,880 million and comprised mainly the net proceeds of loans and borrowings of PLN 2,075 million, net redemption of bonds in the amount of PLN (510) million, issue of retail bonds in the amount of PLN 749 million and interest paid in the amount of PLN (201) million and proceeds from cash pool facility in the amount of PLN (220) million.

After consideration the revaluation of cash due to exchange differences, the cash balance in the 6 month period of 2018 decreased by PLN (872) million and as at 30 June 2018 amounted to PLN 4,605 million.

Factors and events which may influence future results

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

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

- On 2 February 2018, PKN ORLEN SA acquired 17 shares from minority shareholders of ORLEN KolTrans Sp. z o.o. Currently, in the share capital of ORLEN KolTrans Sp. z o.o, PKN ORLEN owns 99.91% of shares, and non-controlling shareholders - 0.09% of shares.
- On 23 February 2018 PKN ORLEN purchased 56,280,592 of Unipetrol, a.s. shares for PLN 3,532 million, which were subscribed for the sale in response to the announcement of a voluntary tender offer. The Unipetrol shares purchased by PKN ORLEN represent 31.04% of the Unipetrol share capital.
- On 25 April 2018, the PKN ORLEN made cash contribution to ORLEN Upstream Sp. z o.o. in the total amount of PLN 200 million through increasing in share capital and subscription of 4,000 new shares of ORLEN Upstream with a nominal value of PLN 500 per share.
- On 18 June 2018, PKN ORLEN sold 100% shares in the special purpose company Polish Sky Finance AB (formerly ORLEN Finance AB) to S-bolag Börsen AB.

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4. 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, in which the activity related to exploration and extraction of mineral resources is provided by ORLEN Upstream Group,

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 2018

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

for the 3 month period ended 30 June 2018

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

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for the 6 month period ended 30 June 2017

	NOTE	Downstream Segment (unaudited)	Retail Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
External revenues	5.1	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)	(356)	5 359	(31 569)
Other operating income	5.3	123	22	15	-	160
Other operating expenses	5.3	(19)	(41)	(34)	-	(94)
Profit/(Loss) from operations		**1 844**	**556**	**(306)**	**-**	**2 094**
Net finance income and costs	5.4					1 318
Profit before tax						**3 412**
Tax expense						(459)
Net profit						**2 953**
Depreciation and amortisation	5.2	**421**	**131**	**40**	**-**	**592**
EBITDA		**2 265**	**687**	**(266)**	**-**	**2 686**
CAPEX		**510**	**102**	**70**	**-**	**682**

for the 3 month period ended 30 June 2017

	NOTE	Downstream Segment (unaudited)	Retail Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
External revenues	5.1	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	5.3	88	9	12	-	109
Other operating expenses	5.3	(10)	(26)	(17)	-	(53)
Profit/(Loss) from operations		**636**	**332**	**(159)**	**-**	**809**
Net finance income and costs	5.4					1 021
Profit before tax						**1 830**
Tax expense						(152)
Net profit						**1 678**
Depreciation and amortisation	5.2	**209**	**65**	**21**	**-**	**295**
EBITDA		**845**	**397**	**(138)**	**-**	**1 104**
CAPEX		**315**	**54**	**46**	**-**	**415**

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

	30/06/2018 (unaudited)	31/12/2017
Downstream Segment	30 216	27 650
Retail Segment	3 975	3 851
Segment assets	**34 191**	**31 501**
Corporate Functions	21 009	17 851
	55 200	**49 352**

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

5. Other notes

5.1. Sales revenues

Performance obligations

While establishing contracts, the Group commits to deliver mainly refining, petrochemical and energy products and merchandise to customers. Within the contracts, the Group acts as a principal.

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There are no obligations for returns, refunds and other similar obligations.
The guarantees provided within the contracts are guarantees assuring the customer that the product complies with the established specification. They do not involving the performance of a separate service.

Within the Downstream segment, in the sales of refinery and petrochemical products, the moment of performance all obligations within the contract follows the delivery of the good, and the moment of recognition of revenue from individual performance obligations depends on the applied delivery terms. Within the Downstream segment, there is mainly sales with deferred payment dates.

Within the Retail segment, there are both cash sales as well as sales with deferred payment dates, performed based on fleet contracts. The moment of satisfaction of the performance obligation is the moment of release of the good.
In contracts with customers of the Downstream and Retail segments, in most cases are payment dates that do not exceed 30 days.

Variability of consideration in contracts with customers is related mainly with volume rebates. The Group also defers the part of revenue related to the VITAY loyalty program, according to which the customer is entitled to future benefits (i.e. VITAY points).

5.1.1. Sales revenues by assortments

	6 MONTHS ENDED 30/06/2018 (unaudited)	3 MONTHS ENDED 30/06/2018 (unaudited)	6 MONTHS ENDED 30/06/2017 (unaudited)	3 MONTHS ENDED 30/06/2017 (unaudited)
Downstream Segment				
Crude oil	14 027	7 252	12 556	6 059
Medium distillates	8 331	4 583	6 450	3 133
Light distillates	1 938	1 058	1 695	821
Monomers	1 601	749	1 448	711
Heavy fractions	1 565	885	1 194	554
PTA	802	420	728	296
Aromas	274	126	252	78
Other	1 300	574	1 004	587
	29 838	**15 647**	**25 327**	**12 239**
Retail Segment				
Medium distillates	5 024	2 789	4 382	2 269
Light distillates	2 962	1 655	2 714	1 390
Other*	1 346	772	1 146	632
	9 332	**5 216**	**8 242**	**4 291**
Corporate Functions	36	20	28	16
	39 206	**20 883**	**33 597**	**16 546**

* The line other in retail segment includes mainly sale of non-fuel merchandise

In the 6 month period ended 30 June 2018 revenues from contracts with customers amounted to PLN 39,183 million, while other revenues related to rent and lease services amounted to PLN 23 million.
In the 6 month period ended 30 June 2018 and 30 June 2017 the Company generated sales revenues from three customers of downstream segment finished goods and merchandise in the total amount of PLN 23 089 million and PLN 19 741 million respectively, which individually exceeded 10% of total revenues from sale. These customers were entities related to PKN ORLEN.

5.1.2. Sales revenues geographical division - disclosed by customer's premises countries

	6 MONTHS ENDED 30/06/2018 (unaudited)	3 MONTHS ENDED 30/06/2018 (unaudited)	6 MONTHS ENDED 30/06/2017 (unaudited)	3 MONTHS ENDED 30/06/2017 (unaudited)
Poland	22 514	12 278	19 023	9 589
Germany	577	309	523	216
Czech Republic	6 410	3 419	6 037	2 901
Lithuania, Latvia, Estonia	7 985	4 016	6 444	3 037
Other countries	1 720	861	1 570	803
	39 206	**20 883**	**33 597**	**16 546**

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

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5.2. Operating expenses

Cost by nature

	6 MONTHS ENDED 30/06/2018 (unaudited)	3 MONTHS ENDED 30/06/2018 (unaudited)	6 MONTHS ENDED 30/06/2017 (unaudited)	3 MONTHS ENDED 30/06/2017 (unaudited)
Materials and energy	(16 883)	(8 926)	(12 123)	(5 712)
Cost of merchandise and raw materials sold	(17 391)	(9 171)	(16 935)	(8 477)
External services	(1 292)	(668)	(1 181)	(610)
Employee benefits	(427)	(207)	(397)	(189)
Depreciation and amortisation	(663)	(346)	(592)	(295)
Taxes and charges	(534)	(263)	(447)	(216)
Other	(96)	(62)	(92)	(58)
	(37 286)	**(19 643)**	**(31 767)**	**(15 557)**
Change in inventories	382	158	96	(300)
Cost of products and services for own use	148	94	102	64
Operating expenses	**(36 756)**	**(19 391)**	**(31 569)**	**(15 793)**
Distribution expenses	1 370	695	1 225	628
Administrative expenses	395	205	383	193
Cost of sales	**(34 991)**	**(18 491)**	**(29 961)**	**(14 972)**

5.3. Other operating income and expenses

Other operating income

	6 MONTHS ENDED 30/06/2018 (unaudited)	3 MONTHS ENDED 30/06/2018 (unaudited)	6 MONTHS ENDED 30/06/2017 (unaudited)	3 MONTHS ENDED 30/06/2017 (unaudited)
Profit on sale of non-current non-financial assets	16	13	27	20
Reversal of provisions	2	-	2	1
Reversal of receivables impairment allowances	-	-	6	2
Reversal of impairment allowances of property, plant and equipment and intangible assets	11	10	15	8
Penalties and compensation	214	119	63	59
Settlement and valuation of derivative financial instruments related to operational exposure	41	15	-	-
Ineffective part related to operational exposure	16	9	-	-
Other, incl.:	85	32	47	19
received/due energy certificates	*62*	*13*	*41*	*17*
	385	**198**	**160**	**109**

The line penalties and compensation in the 6 and 3 month period ended 30 June 2018 includes mainly penalties received for improper execution of the contract of the power plant CCGT in Płock in the amount of PLN 191 million and PLN 117 million, respectively.

Other operating expenses

	6 MONTHS ENDED 30/06/2018 (unaudited)	3 MONTHS ENDED 30/06/2018 (unaudited)	6 MONTHS ENDED 30/06/2017 (unaudited)	3 MONTHS ENDED 30/06/2017 (unaudited)
Loss on sale of non-current non-financial assets	(14)	(7)	(16)	(10)
Recognition of provisions	(7)	(1)	(5)	(3)
Recognition of receivables impairment allowances	-	-	(4)	(2)
Recognition of impairment allowances of property, plant and equipment and intangible assets	(13)	(13)	(30)	(23)
Penalties, damages and compensation	(5)	(3)	(9)	(3)
Settlement and valuation of derivative financial instruments related to operational exposure	(28)	(1)	-	-
Ineffective part related to operational exposure	(25)	(15)	-	-
Other	(28)	(19)	(30)	(12)
	(120)	**(59)**	**(94)**	**(53)**

Beginning from 1 January 2018 the Company presents settlement and valuation of derivatives not designated as hedge accounting and the ineffective part of hedged derivatives related to hedging exposures to risk related to operating activities, in other operating income and expenses. In the previous period, the Company presented the above transactions within financing activities. Comparative data were not converted due to their immaterial impact. As a result of changes in the presentation, the Company recognizes both changes in the value of the hedged item and the effects of hedging transactions within the result from operating activities.

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5.4. Finance income and costs

Finance income

	6 MONTHS ENDED 30/06/2018 (unaudited)	3 MONTHS ENDED 30/06/2018 (unaudited)	6 MONTHS ENDED 30/06/2017 (unaudited)	3 MONTHS ENDED 30/06/2017 (unaudited)
Interest calculated using the effective interest rate method	26	12	19	10
Net foreign exchange gain	-	-	410	88
Dividends	840	836	1 524	935
Settlement and valuation of derivative financial instruments	781	340	333	75
Other	155	29	15	7
	1 802	**1 217**	**2 301**	**1 115**

Finance costs

	6 MONTHS ENDED 30/06/2018 (unaudited)	3 MONTHS ENDED 30/06/2018 (unaudited)	6 MONTHS ENDED 30/06/2017 (unaudited)	3 MONTHS ENDED 30/06/2017 (unaudited)
Interest calculated using the effective interest rate method	(138)	(88)	(94)	(45)
Other interest	(3)	(2)	(3)	(1)
Net foreign exchange loss	(367)	(380)	-	-
Settlement and valuation of derivative financial instruments	(700)	(168)	(362)	(45)
Recognition of impairment allowances of shares in related parties	-	-	(517)	-
Other	(151)	(19)	(7)	(3)
	(1 359)	**(657)**	**(983)**	**(94)**

Borrowing costs capitalized in the 6 and 3 month period ended 30 June 2018 and 30 June 2017 amounted to PLN (29) million and PLN (17) million, PLN (41) million and PLN (20) million, respectively.

5.5. Loans, borrowings and bonds

	Non-current		Current		Total	
	30/06/2018 (unaudited)	31/12/2017	30/06/2018 (unaudited)	31/12/2017	30/06/2018 (unaudited)	31/12/2017
Loans	2 182	-	-	-	2 182	-
Borrowings	5 387	5 222	37	35	5 424	5 257
Bonds	903	1 514	1 367	517	2 270	2 031
	8 472	**6 736**	**1 404**	**552**	**9 876**	**7 288**

As at 30 June 2018, indebtedness due to loans relates to a loan reimbursed in EUR from a consortium of banks under the Agreement for a multi-currency revolving loan of 25 April 2014.

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.

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5.6. Derivatives and other assets and liabilities

Derivatives and other assets

	Non-current		Current		Total	
	30/06/2018 (unaudited)	31/12/2017	30/06/2018 (unaudited)	31/12/2017	30/06/2018 (unaudited)	31/12/2017
Cash flow hedging instruments	53	189	91	158	144	347
currency forwards	*53*	*189*	*76*	*126*	*129*	*315*
commodity swaps	*-*	*-*	*15*	*32*	*15*	*32*
Derivatives not designated as hedge accounting	8	-	66	90	74	90
currency forwards	*-*	*-*	*29*	*89*	*29*	*89*
currency interest rate swaps	*1*	*-*	*-*	*1*	*1*	*1*
commodity swaps	*-*	*-*	*37*	*-*	*37*	*-*
interest rate swaps	*7*	*-*	*-*	*-*	*7*	*-*
Derivatives under centralization	-	-	566	148	566	148
commodity swaps	*-*	*-*	*566*	*148*	*566*	*148*
Fair value hedging instruments	15	-	15	-	30	-
commodity swaps	*15*	*-*	*15*	*-*	*30*	*-*
Derivatives	**76**	**189**	**738**	**396**	**814**	**585**
Other financial assets	128	97	929	1 270	1 057	1 367
loans granted	*65*	*33*	*789*	*717*	*854*	*750*
cash pool	*-*	*-*	*68*	*349*	*68*	*349*
receivables on settled derivatives	*-*	*-*	*17*	*34*	*17*	*34*
receivables on settled derivatives under centralization	*-*	*-*	*54*	*170*	*54*	*170*
financial assets at fair value through other comprehensive income	*40*	*-*	*-*	*-*	*40*	*-*
financial assets available for sale	*-*	*41*	*-*	*-*	*-*	*41*
hedged item adjustment	*1*	*-*	*1*	*-*	*2*	*-*
finance lease	*22*	*23*	*-*	*-*	*22*	*23*
Other non-financial assets	95	95	-	-	95	95
perpetual usufruct of land	*95*	*95*	*-*	*-*	*95*	*95*
Other assets	**223**	**192**	**929**	**1 270**	**1 152**	**1 462**

Derivatives and other liabilities

	Non-current		Current		Total	
	30/06/2018 (unaudited)	31/12/2017	30/06/2018 (unaudited)	31/12/2017	30/06/2018 (unaudited)	31/12/2017
Cash flow hedging instruments	12	-	83	42	95	42
commodity swaps	*-*	*-*	*79*	*34*	*79*	*34*
currency forwards	*12*	*-*	*4*	*8*	*16*	*8*
Derivatives not designated as hedge accounting	56	75	89	89	145	164
interest rate swaps	*50*	*56*	*-*	*-*	*50*	*56*
currency swaps	*-*	*-*	*-*	*-*	*-*	*-*
currency interest rate swaps	*6*	*19*	*55*	*-*	*61*	*19*
currency forwards	*-*	*-*	*29*	*89*	*29*	*89*
commodity swaps	*-*	*-*	*5*	*-*	*5*	*-*
Derivatives under centralization	-	-	566	147	566	147
commodity swaps	*-*	*-*	*566*	*147*	*566*	*147*
Fair value hedging instruments	2	-	1	-	3	-
commodity swaps	*2*	*-*	*1*	*-*	*3*	*-*
Derivatives	**70**	**75**	**739**	**278**	**809**	**353**
Other financial liabilities	238	220	1 996	2 248	2 234	2 468
liabilities on settled derivatives	*-*	*-*	*11*	*15*	*11*	*15*
liabilities on settled derivatives under centralization	*-*	*-*	*54*	*170*	*54*	*170*
investment liabilities	*103*	*103*	*-*	*-*	*103*	*103*
finance lease	*121*	*117*	*-*	*-*	*121*	*117*
cash pool	*-*	*-*	*1 916*	*2 063*	*1 916*	*2 063*
hedged item adjustment	*14*	*-*	*9*	*-*	*23*	*-*
other	*-*	*-*	*6*	*-*	*6*	*-*
Other non-financial liabilities	-	-	65	172	65	172
deferred income, incl.:	*-*	*-*	*65*	*172*	*65*	*172*
VITAY loyalty program, prepaid cards	*-*	*-*	*-*	*164*	*-*	*164*
rights granted free of charge	*-*	*-*	*63*	*-*	*63*	*-*
Other liabilities	**238**	**220**	**2 061**	**2 420**	**2 299**	**2 640**

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

In order to optimize market risk management, the ORLEN Group launched a process of service centralization under derivative financial instruments. PKN ORLEN as part of centralization concludes transactions with a financial institution (Bank) and subsequently, an intercompany transaction with a company from the ORLEN Group.
Within the commodity and investment exposures, PKN ORLEN acts as an agent in this type of transactions. The result of these transactions is the presentation in net value (revenue less costs) in the line revenues from sales of services.

5.7. Provisions

	Non-current		Current		Total	
	30/06/2018 (unaudited)	31/12/2017	30/06/2018 (unaudited)	31/12/2017	30/06/2018 (unaudited)	31/12/2017
Environmental	319	319	20	30	339	349
Jubilee bonuses and post-employment benefits	121	121	24	24	145	145
CO_2 emissions, energy certificates	-	-	111	172	111	172
Other	-	-	100	95	100	95
	440	**440**	**255**	**321**	**695**	**761**

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

As compared to the previous reporting period the Company did not change valuation methods concerning derivative instruments.
Methods applied in determining the fair value were described in the Separate Financial Statements for 2017 in note 7.3.3.
In the item financial assets at fair value through other comprehensive income, quoted/unquoted shares not held for trading are included. In 2017, in accordance with IAS 39, these assets were classified as available for sale and valued at purchase price less impairment allowances.

Fair value hierarchy

	Carrying amount (unaudited)	Fair value (unaudited)	Fair value hierarchy Level 1	Level 2
Financial assets				
Financial assets at fair value through profit or loss	40	40	-	40
Loans granted	854	853	-	853
Derivatives, incl.:	814	814	-	814
derivatives under centralization	*566*	*566*	-	*566*
	1 708	**1 707**	**-**	**1 707**
Financial liabilities				
Loans	2 182	2 182	-	2 182
Borrowings	5 424	5 471	-	5 471
Bonds	2 270	2 280	1 925	355
Derivatives, incl.:	809	809	-	809
derivatives under centralization	*566*	*566*		*566*
	10 685	**10 742**	**1 925**	**8 817**

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

5.9. Finance lease payments

As at 30 June 2018 and as at 31 December 2017 the Company possessed as a lessee the finance lease agreements, concerning mainly petrol stations.

	30/06/2018 (unaudited)	31/12/2017
Value of future minimum lease payments	173	169
Present value of future minimum lease payments	145	141

5.10. Future commitments resulting from signed investment contracts

As at 30 June 2018 and as at 31 December 2017 the value of future commitments resulting from investment contracts signed until that day amounted to PLN 782 million and PLN 624 million, respectively.

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

5.11. Issue, redemption and repayment of debt securities

PKN ORLEN in the 1st half of 2018 under the public bond issue program:
- redeemed of retail bonds E Series in the amount of PLN 200 million issued in the first program conducted in 2013 - 2014,
- issued retail bonds C and D Series in the total amount of PLN 400 million under the second program conducted in 2017-2018.

Under the first public bond issue program, the F Series remains open with a nominal value of PLN 100 million, and under the second public bond issue program, the A-D Series with a total nominal value of PLN 800 million.
Additionally, in the 6 and 3 month period ended 30 June 2018 and 30 June 2017 PKN ORLEN issued and redeemed short-terms bonds in favour of the Group companies as a part of liquidity optimisation in the Group in the amounts: issue: PLN 349 million, PLN 234 million and PLN 693 million, PLN 390 million, respectively; redemption: PLN 310 million, PLN 113 million and PLN 888 million and PLN 633 million, respectively.

5.12. Distribution of the profit for 2017

The Ordinary General Meeting of Shareholders of PKN ORLEN S.A. on 26 June 2018 distributed the net profit of PKN ORLEN for the year 2017 in the amount of PLN 6,101,792,575.09 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 4,818,665,392.09 as reserve capital. The dividend date was set at 20 July 2018 and the dividend payment date at 3 August 2018.

5.13. Contingent liabilities

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

Claim of Warter Fuels S.A. (before: OBR S.A.) for compensation
On 5 September 2014, OBR S.A. (currently: Warter Fuels S.A.) filled an action against PKN ORLEN with the District Court in Łódź for a claim for payment in respect of an alleged breach by PKN ORLEN of patent rights. The amount of the claim in the lawsuit was estimated by Warter Fuels S.A. in the amount of approximately PLN 83 million. The claim covers the adjudged sum of money from PKN ORLEN for Warter Fuels S.A. in the amount corresponding to the value of the license fee for the use of the solution under the above patent and adjudge the obligation to repay the benefits derived from the use of this solution. On 16 October 2014 PKN ORLEN responded to the lawsuit. By the procedural document from 11 December 2014 the value of the dispute was referred to by the plaintiff in the amount of approximately PLN 247 million. By the court order from 21 May 2015 the parties were directed to mediation. Mediation proceedings were completed in the 2nd quarter of 2016. 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. The case is before the court of first instance. During three subsequent hearings held in May 2018, the Court heard further witnesses, and the PKN ORLEN attorney submitted a request to suspend the proceedings due to parallel proceedings for determining the right to the disputed patent, the outcome of which will have significance for the resolution in the case of breach. The request was not considered yet. The next hearing date was set on September 2018. In the opinion of PKN ORLEN the above claims are without merit.

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

5.14. Related parties transactions

5.14.1. Related parties transactions of the ORLEN Group

As at 30 June 2018 and 31 December 2017 and in the 6 and 3 month period ended 30 June 2018 and 30 June 2017 there were no transactions of related parties with members of the Management Board and the Supervisory Board of the Company, other key executive personnel of the Company and their relatives.

5.14.2. Remuneration paid and due or potentially due to the Management Board, the Supervisory Board and other member of key executive personnel

	6 MONTHS ENDED 30/06/2018 (unaudited)	3 MONTHS ENDED 30/06/2018 (unaudited)	6 MONTHS ENDED 30/06/2017 (unaudited)	3 MONTHS ENDED 30/06/2017 (unaudited)
Short-term employee benefits	20.9	9.8	23.0	11.7
Termination benefits (severance pay and other remuneration)	7.6	3.0	0.4	0.3
	28.5	**12.8**	**23.4**	**12.0**

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

The value of provisions for post-employment benefits and other long term employee benefits for the key management personnel of PKN ORLEN are at the same level as presented in the separate financial statements of PKN ORLEN for the year ended 31 December 2017 in note 7.4.7.1. and are updated on an annual basis.

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

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

	Subsidiaries		Jointly- controlled entities		Total	
	6 MONTHS ENDED 30/06/2018 (unaudited)	3 MONTHS ENDED 30/06/2018 (unaudited)	6 MONTHS ENDED 30/06/2018 (unaudited)	3 MONTHS ENDED 30/06/2018 (unaudited)	6 MONTHS ENDED 30/06/2018 (unaudited)	3 MONTHS ENDED 30/06/2018 (unaudited)
Sales	20 792	10 928	1 440	685	22 232	11 613
Revenues under centralization of derivative financial instruments	534	334	-	-	534	334
Purchases	(2 772)	(1 399)	(15)	(7)	(2 787)	(1 406)
Costs under centralization of derivative financial instruments	431	275	-	-	431	275
Finance income, incl.:	788	680	162	162	950	842
Dividends, incl.:	*674*	*671*	*162*	*162*	*836*	*833*
Anwil S.A.	*305*	*305*			*305*	*305*
ORLEN Deutschland GmbH	*242*	*242*			*242*	*242*
Basell ORLEN Polyolefins Sp. z o.o.			*162*	*162*	*162*	*162*
Finance costs	(221)	(85)	-	-	(221)	(85)

	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	9 070
Purchases	(3 110)	(1 410)	(14)	(7)	(3 124)	(1 417)
Finance income, incl.:	1 363	767	173	173	1 536	940
Dividends, incl.:	*1 347*	*758*	*173*	*173*	*1 520*	*931*
AB ORLEN Lietuva	*589*	*589*			*589*	*589*
Anwil S.A.	*400*	*400*			*400*	*400*
Basell ORLEN Polyolefins Sp. z o.o.			*173*	*173*	*173*	*173*
Finance costs	(54)	(27)	-	-	(54)	(27)

	Subsidiaries		Jointly- controlled entities		Total	
	30/06/2018 (unaudited)	31/12/2017	30/06/2018 (unaudited)	31/12/2017	30/06/2018 (unaudited)	31/12/2017
Trade and other receivables	4 317	3 285	570	461	4 887	3 746
Other assets	967	1 202	-	-	967	1 202
Derivatives under centralization	285	90	-	-	285	90
Trade and other liabilities	653	773	5	7	658	780
Borrowings and bonds	5 780	5 572	-	-	5 780	5 572
Other liabilities	1 951	2 158	-	-	1 951	2 158
Derivatives under centralization	282	57	-	-	282	57

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 2018 and 30 June 2017, there were no related parties transaction in the Company concluded on other than as arm's length basis.

5.14.4. Transactions with entities related to the State Treasury

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

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

In the 6 and 3 month period ended 30 June 2018 and 30 June 2017, the Company identified the following transactions:

	6 MONTHS ENDED 30/06/2018 (unaudited)	3 MONTHS ENDED 30/06/2018 (unaudited)	6 MONTHS ENDED 30/06/2017 (unaudited)	3 MONTHS ENDED 30/06/2017 (unaudited)
Sales	804	416	342	135
Purchases	(2 028)	(1 126)	(1 179)	(659)

	30/06/2018 (unaudited)	31/12/2017
Trade and other receivables	268	268
Trade and other liabilities	536	482

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

5.15. Guarantees

Excise tax guarantees and excise tax on goods and merchandise under the excise tax suspension procedure as at 30 June 2018 and as at 31 December 2017 amounted to PLN 2,272 million and PLN 2,170 million, respectively.

5.16. Events after the end of the reporting period

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

MANAGEMENT BOARD REPORT ON THE OPERATIONS OF THE GROUP

FOR THE 1st HALF 2018

C. MANAGEMENT BOARD REPORT ON THE OPERATIONS OF THE GROUP

1. Financial situation

1.1. 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 (i.e. EBITDA) for 6 months of 2018 amounted to PLN 5,087 million and was lower by PLN (452) million (y/y).
ORLEN Group's inventories are valued in the financial statements in accordance with International Financial Reporting Standards at weighted average cost method or purchase price method. Therefore, the increase in crude oil prices has a positive impact and the decrease has a negative impact on the reported results. The positive impact of changes in crude oil prices on inventory valuation for the 6 months of 2018 amounted to PLN 1,080 million and was higher by PLN 905 million (y/y).

Profit from operations increased by depreciation and amortisation before consideration of changes of crude oil prices on inventory valuation (i.e. EBITDA LIFO) for 6 months of 2018 amounted to PLN 4,007 million and was lower by PLN (1,357) million (y/y).

Changes in macroeconomic factors lowered the ORLEN Group results in the described period by PLN (2,189) million (y/y) and included mainly the net negative effect of higher costs of raw materials used for own energy needs as a result of increase in crude oil prices by 19 USD/bbl, worsening of margins on refinery heavy fractions, petrochemical products, fertilizers and PVC partly compensated by higher margins on fuel products.
The total sales volume in 6 months of 2018 was higher in all operating segments and in total increased by 3% (y/y), which resulted in a positive volume effect in the amount of PLN 532 million (y/y).

The positive impact of other factors amounted to PLN 300 million (y/y) and mainly included the positive net effect of the usage during shutdown of inventories of crude oil and products purchased and produced in previous periods with lower raw material costs, higher fuel and non-fuel margins in the retail segment, after taking into account the increase in operating costs of fuel stations due to higher sales volumes, with a negative impact of change in the balance on other operating activities (y/y).

The negative impact of change in the balance of other operating activities in the amount of PLN (326) million (y/y) is mainly due to lack of compensation received in the 1st half of 2017 related to the accident on installation FCC in the amount of PLN (211) million and lower compensation due to the steam cracker unit accident in Unipetrol Group in the amount of PLN (178) million (y/y).

1.2. The most significant events in the period from 1 January 2018 up to the date of preparation of the foregoing report

JANUARY 2018

Convening of the Extraordinary General Meeting of PKN ORLEN
On 4 January the Management Board of PKN ORLEN, acting pursuant to Article 399 § 1, Article 402(1) of the Commercial Companies Code and § 7 item 4 point 1 of the Company's Articles of Association in conjunction with the motion of the Minister of Energy informed about convening for 2 February 2018 the Extraordinary General Meeting of PKN ORLEN.

Changes in the composition of the Supervisory Board
On 5 January 2018 the Minister of Energy acting on behalf of the shareholder of the State Treasury, according to § 8 item 2 point 1 of the Company's Articles of Association appointed Ms Małgorzata Niezgoda to the PKN ORLEN Supervisory Board.

Approval by the Polish Financial Supervision Authority of an annex to the prospectus relating to bond issue programme
On 12 January 2018 the Polish Financial Supervision Authority approved the annex to the prospectus relating to the public bond issue programme directed to the individual investor ("Annex"). The Annex was prepared in relation to the start of the procedure of the announcement and execution of a voluntary tender offer to acquire shares of Unipetrol a.s. by PKN ORLEN.

FEBRUARY 2018

Changes in the composition of the Supervisory Board
On 1 February 2018 Ms Małgorzata Niezgoda resigned from the position of the PKN ORLEN Supervisory Board Member.

On 2 February 2018 PKN ORLEN Extraordinary General Meeting of Shareholders dismissed from the Supervisory Board Ms Agnieszka Krzętowska, Ms Angelina Sarota and Mr Adrian Dworzyński and appointed Ms Izabela Felczak-Poturnicka as the Chairman of the Supervisory Board, Ms Agnieszka Biernat-Wiatrak, Ms Jadwiga Lesisz and Ms Małgorzata Niezgoda as members of the Supervisory Board.

On 5 February 2018 the Minister of Energy acting on behalf of the shareholder of the State Treasury, according to § 8 item 2 point 1 of the Company's Articles of Association appointed Mr Józef Węgrecki to the PKN ORLEN Supervisory Board.

Changes in the composition of the Management Board
On 5 February 2018 the Supervisory Board dismissed from the Management Board:
- Mr Wojciech Jasiński,
- Mr Mirosław Kochalski,
- Ms Maria Sosnowska.

At the same meeting the Supervisory Board, pursuant to § 9 item 1 point 3 of the Company's Articles of Association, acting on the basis of the motion of the Minister of Energy as of 5 February 2018, appointed with the effect from 6 February 2018 Mr Daniel Obajtek to the position of the President of the PKN ORLEN Management Board. The Supervisory Board decided also to delegate with the effect from 5 February 2018 Mr Józef Węgrecki for temporary acting as the Member of the Management Board, Investments and Procurement.

Polish Financial Supervision Authority approved the annex No 2 to the prospectus relating to bond issue programme
On 15 February 2018 the Polish Financial Supervision Authority approved the annex No 2 to the prospectus relating to the public bond issue programme directed to the individual investor ("Annex No 2"). The prospectus was initially approved by the Polish Financial Supervision Authority on 20 July 2017 and the annex No 1 to that prospectus on 12 January 2018.
The Annex No 2 was prepared in connection with the changes in composition of the Management Board from 5 February 2018.

Signing a letter of intent concerning taking capital control over Grupa Lotos S.A. by PKN ORLEN
On 27 February 2018 was signed a letter of intent between PKN ORLEN and the State Treasury concerning taking capital control over Grupa Lotos S.A. by PKN ORLEN, understood as a purchase by PKN ORLEN directly or indirectly minimum 53% stake in Grupa Lotos S.A. share capital ("Transaction").
By signing the letter of intent, PKN ORLEN and the State Treasury agreed to start, in a good faith, discussions with the intent to conclude the Transaction. The Transaction assumes the purchase of Grupa Lotos S.A. shares from its shareholders by PKN ORLEN, in particular from the State Treasury, in line with the requirements of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies of 29 July 2005 (unified text Journal of Laws of 2016, item 1639, as amended), governing the requirement of announcement of a tender offer to acquire or exchange shares.
PKN ORLEN informed that the Transaction model, the schedule and detailed rules of its finalisation require detailed analysis. Finalisation of the Transaction will be possible, among others, after receiving appropriate corporate approvals and approvals of the competition protection authorities.
According to the assumptions of both parties of the letter of intent, the Transaction is aimed at creating of a strong, integrated company capable of better competing internationally, more resistant to market fluctuations, among others through utilization of operating and costs synergies between PKN ORLEN and Grupa Lotos S.A.
PKN ORLEN indicated that the letter of intent is not a binding commitment to execution of the Transaction.

MARCH 2018

Polish Financial Supervision Authority approved the annex No 3 to the prospectus relating to bond issue programme
On 6 March 2018 the Polish Financial Supervision Authority approved the annex No 3 to the prospectus relating to the public bond issue programme directed to the individual investor ("Annex No 3"). The Annex No 3 was prepared in connection with signing, on 27 February 2018, a letter of intent between PKN ORLEN and the State Treasury concerning taking capital control over Grupa Lotos S.A. by PKN ORLEN.

Changes in the composition of the Supervisory Board
On 22 March 2018 Mr Józef Węgrecki submitted a statement of resignation from the position of the PKN ORLEN Supervisory Board Member with the effect from 22 March 2018.

Changes in the composition of the Management Board
On 22 March 2018 the Supervisory Board of PKN ORLEN has dismissed Mr Krystian Pater from the Company's Management Board with the effect from 22 March 2018.
At the same meeting the Supervisory Board decided to delegate with the effect from 23 March 2018 Ms Jadwiga Lesisz for temporary acting as the Member of the Management Board, Investments and Procurement.
Moreover the Supervisory Board appointed to the Management Board:
- Mr Ryszard Lorek to the position of the Member of the Management Board, Trade, with the effect from 10 April 2018,
- Mr Józef Węgrecki to the position of the Member of the Management Board, Operations, with the effect from 23 March 2018.

Mr Ryszard Lorek resigned from taking up of the position of the Management Board Member
On 29 March 2018 the Company received a resignation of Mr Ryszard Lorek from taking up, with the effect from 10 April 2018, of the position of the Member of the Management Board, Trade.

APRIL 2018

The issue of PKN ORLEN Series C bonds within the Programme from 2017
On 24 April 2018 the Company's Management Board decided to launch the issue of Series C of bearer bonds within the bond issue Programme directed to the individual investors, included in the prospectus approved by the Polish Financial Supervision Authority on 20 July 2017.
The bond issue programme assumes the issue of several bond Series up to the total amount of PLN 1 bn during 12 months from the date of approval of the prospectus. The subsequent Series of bonds will be offered in a public offering. PKN ORLEN plans to introduce the bonds to trading on the Catalyst regulated market operated by the Warsaw Stock Exchange. Series A and B bonds issued within the Programme are listed on the Catalyst market.

Series C bond issue terms and conditions:
1. Subscription period: from 7 May 2018 to 21 May 2018 (the period may be shortened when the oversubscription occurs)
2. Date of bonds allocation: 22 May 2018
3. Expected bonds issue date: 5 June 2018
4. Redemption date: 5 June 2022
5. Number of Series C bonds issued: up to 2,000,000
6. The total nominal value of Series C bonds: up to PLN 200,000,000
7. Interest rate: variable
8. Margin: 1.2 %
9. Base rate: 6M WIBOR
10. Nominal value of one bond: PLN 100
11. Issue price: dependent on the day of subscription; in the range from PLN 100.00 to PLN 100.11
12. Rating to the bond issue programme: A (pol)
13. Bond's allocation mechanism: the detailed terms of allocation are available in the final terms of the offer.

On 8 May 2018 PKN ORLEN informed that the subscription period for the Series C bonds within the bond issue programme directed to the individual investors was shortened. The last day of subscription, defined in the final terms and conditions of the offer on 21 May 2018, was moved for 8 May 2018. Date of Series C bonds allocation was changed. PKN ORLEN will allocate Series C bonds on 10 May 2018.
On 21 May 2018 the Central Securities Depository of Poland ("KDPW") issued a statement on conclusion of the agreement with PKN ORLEN regarding registration in a securities depository of 2,000,000 Series C bonds, with the unit nominal value of PLN 100. The registration date was set for 23 May 2018. The bonds will be registered under the ISIN code PLPKN0000174.
On 29 May 2018 the Management Board of the Warsaw Stock Exchange adopted a resolution regarding admission of 2,000,000 Series C bonds to exchange trading on the Catalyst market.

On 30 May 2018 the Management Board of the Warsaw Stock Exchange adopted a resolution determining the first day of trading of Series C bonds on 4 June 2018.

Annex to PKN ORLEN agreement with Saudi Aramco for crude oil deliveries
On 27 April 2018 the Management Board of PKN ORLEN decided to sign an annex to the agreement concluded on 6 May 2016 ("Annex") with Saudi Aramco, headquartered in Dhahran, Saudi Arabia. According to the Annex Saudi Aramco will supply ORLEN Group refineries with Arabian Extra Light crude oil in the amount of approximately 100 thousand tonnes per month. PKN ORLEN has the right to decide on the destination for each delivery. Price of crude oil to be delivered will be calculated as per standard market practice. The agreement was signed for the period from 1 May 2018 to 31 December 2018 and it will be automatically extended for the following years unless it is terminated in line with the provisions of the agreement.

MAY 2018

Signing a non-disclosure agreement concerning the intent to start the works and analysis on potential transaction on certain logistic assets of PKN ORLEN
On 11 May 2018 was signed a non-disclosure agreement between: PKN ORLEN, PERN, Operator Gazociągów Przesyłowych GAZ-SYSTEM („GAZ-SYSTEM"), Inowrocławskie Kopalnie Soli SOLINO („IKS SOLINO") and Kopalnia Soli Lubień Sp. z o.o. („KS Lubień"). The agreement defines the conditions of disclosing information in connection with the intent to cooperate in potential sales transaction of the part of PKN ORLEN logistic assets and shares of IKS SOLINO and KS Lubień held by PKN ORLEN as well as in connection with the intent to set the cooperation on further use of abovementioned assets by PKN ORLEN and companies from ORLEN Group in case of their disposal to the benefit of PERN and GAZ-SYSTEM ("Transaction").
PKN ORLEN informs that the Transaction model, the schedule and detailed rules of its finalization require detailed analysis that will be now prepared. Finalization of the Transaction will be possible, among others, after receiving appropriate corporate approvals and approvals of the appropriate administration authorities, if such approvals will be required.
According to the assumptions of the parties of the agreement, the Transaction is aimed at creating a business partnership in transmission and storage infrastructure and in cavern projects that are realized, including energy safety of the State and realization of the "Polish Government Policy on logistic infrastructure in oil and gas sector" targets, described by the Polish Government in the resolution No 182/2017 as of 28 November 2017.
PKN ORLEN indicates that the non-disclosure agreement is not a binding commitment to execution of the Transaction. PKN ORLEN will inform about next steps connected with further Transaction process in separate regulatory announcements.

Polish Financial Supervision Authority approved the annex No 4 to the prospectus relating to bond issue programme
In relation to the signed non-disclosure agreement concerning the intent to start works and analysis on potential transaction on certain logistic assets of PKN ORLEN and in connection with coming into force the Regulation (EU) 2016/1011 of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014 on 17 May 2018, the Polish Financial Supervision Authority approved the annex No 4 to the prospectus relating to bond issue programme directed to the individual investors ("Annex No 4"). The prospectus was initially approved by the Polish Financial Supervision Authority on 20 July 2017, the annex No 1 to that prospectus on 12 January 2018, the annex No 2 on 15 February 2018 and the annex No 3 on 6 March 2018.

The issue of PKN ORLEN Series D bonds within the programme from 2017
On 15 May 2018 the Company's Management Board decided to launch the issue of Series D of bearer bonds within the bond issue programme directed to the individual investors included in the prospectus approved by the Polish Financial Supervision Authority on 20 July 2017.

Series D bond issue terms and conditions:
1. Subscription period: from 21 May 2018 to 4 June 2018 (the period may be shortened when the oversubscription occurs)
2. Date of bonds allocation: 6 June 2018
3. Expected bonds issue date: 19 June 2018
4. Redemption date: 19 June 2022
5. Number of Series D bonds issued: up to 2,000,000
6. The total nominal value of Series D bonds: up to PLN 200,000,000
7. Interest rate: variable
8. Margin: 1,2 %
9. Base rate: 6M WIBOR
10. Nominal value of one bond: PLN 100
11. Issue price: dependent on the day of subscription; in the range from PLN 100.00 to PLN 100.11
12. Rating to the bond issue programme: A (pol)
13. Bond's allocation mechanism: the detailed terms of allocation are available in the final terms of the offer.

On 13 June 2018 the Central Securities Depository of Poland issued a statement on conclusion of the agreement with PKN ORLEN regarding registration in a securities depository of 2,000,000 Series D bonds, with the unit nominal value of PLN 100. The registration date was set for 15 June 2018. The bonds will be registered under the ISIN code PLPKN0000182.
On 18 June 2018 the Management Board of the Warsaw Stock Exchange adopted a resolution regarding admission of 2.000.000 Series D bonds to exchange trading on the Catalyst regulated market.
On 19 June 2018 the Management Board of the Warsaw Stock Exchange adopted a resolution determining the first day of trading of Series D bonds on 21 June 2018.

Decision regarding the purchase of all of Unipetrol a.s. shares held by minority shareholders
On 22 May 2018 the Company's Supervisory Board approved the purchase by PKN ORLEN of all shares of Unipetrol a.s. ("Unipetrol") held by Unipetrol minority shareholders, i.e. 10 827 673 shares, constituting ca. 5,97% of the Unipetrol's share capital. PKN ORLEN submited an application to the Czech National Bank regarding conducting a buyout of these shares ("Buyout"). In the Buyout the Company intends to offer a price of CZK 380 per share, i.e. the total price of CZK 4,114,515,740. The acquisition by the Company of the above-mentioned shares will be realized by squeeze out of minority shareholders. The Buyout will be realized with an intent of delisting of Unipetrol's shares from trading at the Prague Stock Exchange.
Considering all operations required to conduct a Buyout, its settlement and closing is expected by the end of 2018.

JUNE 2018

Petrochemicals development programme by 2023

On 12 June 2018 the Company's Management Board approved the programme of PKN ORLEN Petrochemicals development by 2023 ("Programme"), which will be a ground for the update of the Company's strategy in the area of Petrochemicals assets development.
The estimated budget necessary for realization of investments constituting the programme, in the amount of ca. PLN 8,3 bn, will be provided in the Company's middle-term financial plan that is now being prepared. The estimated annual increase of PKN ORLEN EBITDA after finalization of the investments included in the programme may amount to ca. PLN 1,5 bn.
The programme of PKN ORLEN Petrochemicals development approved, assumes realization of three key investments:

- building of Aromatics Compound complex
- development of Olefins complex
- development of Phenol capacity

which will be supported by extension of research and development facilities, necessary for its realization.

The issue of PKN ORLEN Series E bonds within the programme from 2017

On 12 June 2018 the Company's Management Board decided to launch the issue of Series E of bearer bonds within the bond issue programme directed to the individual investors ("Programme"), included in the prospectus approved by the Polish Financial Supervision Authority on 20 July 2017.

PKN ORLEN Series E bond issue terms and conditions:

1. Subscription period: from 18 June 2018 to 29 June 2018 (the period may be shortened when the oversubscription occurs)
2. Date of bonds allocation: 3 July 2018
3. Expected bonds issue date: 13 July 2018
4. Redemption date: 13 July 2022
5. Number of Series E bonds issued: up to 2,000,000
6. The total nominal value of Series E bonds: up to PLN 200,000,000
7. Interest rate: variable
8. Margin: 1,2 %
9. Base rate: 6M WIBOR
10. Nominal value of one bond: PLN 100
11. Issue price: dependent on the day of subscription; in the range from PLN 100.00 to PLN 100.09
12. Rating to the bond issue programme: A (pol)
13. Bond's allocation mechanism: the detailed terms of allocation are available in the final terms of the offer.

On 25 June PKN ORLEN informed that the subscription period for the Series E bonds within the bond issue programme directed to the individual investors was shortened. The last day of subscription, defined in the final terms and conditions of the offer on 29 June 2018, was moved for 25 June 2018. Date of Series E bonds allocation also changed. PKN ORLEN allocated Series E bonds on 27 June 2018.

On 2 July 2018 the Central Securities Depository of Poland issued a statement on conclusion of the agreement with PKN ORLEN regarding registration in a securities depository of 2,000,000 Series E bonds, with the unit nominal value of PLN 100, issued within the public bond issue programme, included in the prospectus approved by the Polish Financial Supervision Authority on 20 July 2017. The registration date was set for 3 July 2018. The bonds will be registered under the ISIN code PLPKN0000190.
On 2 July 2018 the Management Board of the Warsaw Stock Exchange adopted a resolution regarding admission of 2,000,000 Series E bonds to exchange trading on the Catalyst regulated market.
On 3 July 2018 the Management Board of the Warsaw Stock Exchange adopted a resolution determining the first day of trading of Series E bonds on 4 July 2018.

Polish Financial Supervision Authority approved the annex No 5 to the prospectus relating to bond issue programme

On 14 June 2018 the Polish Financial Supervision Authority approved the annex No 5 to the prospectus relating to the public bond issue programme directed to the individual investors ("Annex No 5"). The prospectus was initially approved by the Polish Financial Supervision Authority on 20 July 2017, the annex No 1 to that prospectus on 12 January 2018, the annex No 2 on 15 February 2018, the annex No 3 on 6 March 2018 and the annex No 4 on 17 May 2018.
The Annex No 5 was prepared in connection with the programme of PKN ORLEN Petrochemicals development by 2023, which will be a ground for the update of the Company strategy in the area of petrochemical assets development.

Changes in the composition of the Management Board

The Supervisory Board of PKN ORLEN, following its meeting on 19 June 2018 appointed, with the effect from 24 June 2018, Ms Patrycja Klarecka to the Company's Management Board, Trade.

Czech National Bank approval regarding the purchase of Unipetrol a.s. shares held by minority shareholders

On 20 June 2018 the Czech National Bank approved the purchase of all shares of Unipetrol a.s. ("Unipetrol") held by Unipetrol minority shareholders, i.e. 10,827,673 shares, constituting ca. 5.97% of the Unipetrol's share capital ("Buyout"). As the Czech National Bank accepted the Company's application in whole, on 20 June 2018 the Company formally waived its right to appeal against the decision of the Czech National Bank. As a result the Company intends to conduct the Buyout according to the above-mentioned decision of the Czech National Bank.
In the Buyout the Company will offer a price of CZK 380 per share, i.e. the total price of CZK 4,114,515,740. The acquisition by the Company of the above-mentioned shares will be realized by squeeze out of minority shareholders. The Buyout will be realized with an intent of delisting of Unipetrol's shares from trading at the Prague Stock Exchange.
Currently the next stage of the Buyout procedure will be conveying of the Unipetrol Extraordinary General Meeting to adopt a resolution to approve the Buyout. For this purpose the Company will submit a motion for conveying of such the Unipetrol Extraordinary General Meeting.
Considering all operations required to conduct the Buyout, its settlement and closing is expected by the end of 2018.

Changes in the composition of the Supervisory Board

PKN ORLEN informed that on 26 June 2018 the Director of the State Treasury Department in the Prime Minister Chancellery acting on behalf of the shareholder the State Treasury, according to § 8 item 2 point 1 of the Company's Articles of Association appointed Ms Anna Wójcik to the PKN ORLEN Supervisory Board.

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

Simultaneously PKN ORLEN Ordinary General Meeting on 26 June 2018 appointed to the Supervisory Board Mr Andrzej Kapała.

Realisation of the Power plant in Płock investment process completed
On 29 June 2018 PKN ORLEN signed with the consortium of companies: Siemens AG and Siemens Spółka z o.o. a certificate on the base of which the realisation of investment process of the Power plant in Płock ("Power plant") building was completed.
The total CAPEX spent by the Company for the project of the Power plant building amounted to ca. PLN 1,7 bn.

1.3. 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 risk defined in the policy for risk management and under the control and supervision of the Financial Risk Committee, the Management Board and the Supervisory Board.
Main financial risks in respect of the ORLEN Group`s operations include:
- market risk: commodity risk, exchange rates risk and interest rates risk;
- credit and liquidity risk.

The above risks are described detailed in the Consolidated Financial Statements for 2017 in note 9.3.5 and in point 3.3 of the Management Board Report on the Operations of the Group for 2017.
(http://www.orlen.pl/EN/InvestorRelations/FinancialData/Pages/FinancialResults.aspx)

1.4. Hedge accounting

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

Net carrying amount of financial instruments hedging cash flows

Type of instruments / type of risk	*Hedging strategies within the cash flows hedge related to exposure to:*	30/06/2018 (unaudited)	31/12/2017
currency forwards / risk of exchange rates changes	*operating and investing activities, sales of finished goods and purchase of crude oil*	175	521
commodity swaps / commodity risk	*time mismatch occurring on purchases of crude oil, refinery margin votality and prices of raw materials or finished goods constituting oversized operating inventories*	(77)	(48)
		98	**473**

Net carrying amount of instruments hedging fair value

Type of instruments / type of risk	*Hedging strategies within the cash flows hedge related to exposure to:*	30/06/2018 (unaudited)	31/12/2017
commodity swaps / commodity risk	*offers for which pricing formulas are based on fixed price*	28	-
		28	**-**

2. Forecasted development of the ORLEN Group

In the 1st half of 2018 the ORLEN Group continued to pursue the objectives set out in the ORLEN Group Strategy for 2017-2021.
Based on 3 main pillars of the strategy of value growth, financial strength and human capital, the ORLEN Group is moving in the direction that responds to global trends, among others in the use of energy sources, technology development and social processes, affecting new customer behavior and expectations of customers.
Within the assumed objectives of the strategy, the ORLEN Group focuses on 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 ORLEN Group's strategy is also the orientation on innovations creating value.
Detailed description of the assumptions in particular areas, the main parameters of financial operations and a summary of the pursued ORLEN Group Strategy in 2017 are included in Chapter 2 of the Management Board Report on the Operations of the ORLEN Group and PKN ORLEN S.A. for 2017.
(http://www.orlen.pl/EN/InvestorRelations/FinancialData/Pages/FinancialResults.aspx)

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

3. Other information

3.1. Composition of the Management Board and the Supervisory Board

As at the date of preparation of the foregoing consolidated financial statements, the composition of the management and supervisory bodies of PKN ORLEN is as follows:

Management Board

Daniel Obajtek – President of the Management Board, General Director
Patrycja Klarecka – Member of the Management Board, Trade
Zbigniew Leszczyński – Member of the Management Board, Sales
Wiesław Protasewicz – Member of the Management Board, Chief Financial Officer
Józef Węgrecki – Member of the Management Board, Operations

Supervisory Board

Izabela Felczak-Poturnicka – Chairman of the Supervisory Board
Radosław Leszek Kwaśnicki – Deputy Chairman of the Supervisory Board, Independent Member of the Supervisory Board
Mateusz Henryk Bochacik – Secretary, Independent Member of the Supervisory Board
Agnieszka Biernat-Wiatrak – Member of the Supervisory Board
Andrzej Kapała – Member of the Supervisory Board
Wojciech Kryński – Independent Member of the Supervisory Board
Jadwiga Lesisz – Member of the Supervisory Board
Małgorzata Niezgoda – Member of the Supervisory Board
Anna Wójcik – Member of the Supervisory Board

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

	Percentage share in total voting rights at Shareholder's Meeting as at submission date			Number of shares as at submission date		
Shareholder	foregoing quarterly report*	change p.p.	previous quarterly report**	foregoing quarterly report*	change	previous quarterly report**
State Treasury	27.52%	-	27.52%	117 710 196	-	117 710 196
Nationale-Nederlanden OFE*	7.01%	0.00%	7.01%	30 000 000	-	30 000 000
Aviva OFE*	6.60%	-0.02%	6.62%	28 240 000	(60 000)	28 300 000
Other	58.87%	0.02%	58.85%	251 758 865	60 000	251 698 865
	100.00%		**100.00%**	**427 709 061**		**427 709 061**

* According to the information from the Ordinary General Shareholders' Meeting of PKN ORLEN of 17 July 2018
** According to the information from the Extraordinary General Shareholders' Meeting of PKN ORLEN of 2 February 2018

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

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

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

PKN ORLEN is the guarantor of the 2 tranches of 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 30 June 2021 and to 7June 2023, respectively.

	Nominal value					Value of guarantee issued	
	EUR	PLN	Subscription date	Expiration date	Rating	EUR	PLN
Eurobonds	750	3 318 **	7.06.2016	7.06.2023	BBB-, Baa2	1 100	4 798
Eurobonds	500	2 131 *	30.06.2014	30.06.2021	BBB-, Baa2	1 000	4 362
	1 250	**5 449**				**2 100**	**9 160**

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 2018

3.5. 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.

4. Information on applied corporate governance rules

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

In the 1st half of 2018 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 economic condition, financial position and financial result of the ORLEN Group and PKN ORLEN.

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

The foregoing half-year report was approved by the Management Board of the Parent Company on 19 July 2018.

....
Daniel Obajtek
President of the Board

....
Patrycja Klarecka
Member of the Board

....
Zbigniew Leszczyński
Member of the Board

....
Wiesław Protasewicz
Member of the Board

....
Józef Węgrecki
Member of the Board

Signature of a person responsible for
keeping accounting books

....
Rafał Warpechowski
Executive Director
Planning and Reporting