Polski Koncern Naftowy ORLEN
Spółka Akcyjna

ORLEN CAPITAL GROUP

CONSOLIDATED REPORT

FOR THE I HALF OF 2013

POLISH FINANCIAL SUPERVISION AUTHORITY

Consolidated half-year report PSr 2013

(year)

(in accordance with § 82 section 2 and § 83 section 3 of the Minister of Finance Regulation of 19 February 2009, Official Journal No. 33, item 259 with further amendments)

(for issuers of securities whose business activity embraces manufacture, construction, trade or services)

for the half of the reporting year 2013 that is for period from 01.01.2013 to 30.06.2013, which includes consolidated financial statements prepared in accordance with International Financial Reporting Standards with amounts stated in the Polish functional currency (PLN) and condensed financial statements prepared in accordance with International Financial Reporting Standards with amounts stated in the Polish functional currency (PLN).

on 23 July 2013
(submission date)

KPMG AUDYT Sp. z o.o.
(Entity authorized to conduct audit)
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POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA
....
(full name of the issuer)

PKN ORLEN		**PALIWOWY (pal)**
(abbreviated name of the issuer)		(industrial sector in line with classification of Warsaw Stock Exchange)
09-411		**PŁOCK**
(zip code)		(location)
CHEMIKÓW		**7**
(street)		(number)
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ORLEN GROUP
SELECTED FINANCIAL DATA
(Translation of a document originally issued in Polish)

SELECTED CONSOLIDATED FINANCIAL DATA	PLN thousand		EUR thousand	
	I HALF OF 2013 CUMMULATIVE DATA	I HALF OF 2012 CUMMULATIVE DATA	I HALF OF 2013 CUMMULATIVE DATA	I HALF OF 2012 CUMMULATIVE DATA
I. Sales revenues	55 783 266	57 202 311	13 237 605	13 574 350
II. Profit from operations	203 915	1 314 172	48 390	311 859
III. Profit/(loss) before tax	(147 892)	1 630 180	(35 095)	386 849
IV. Net profit/(loss) attributable to equity holders of the parent	(57 618)	1 254 916	(13 673)	297 797
V. Net profit/(loss)	(83 803)	1 204 304	(19 887)	285 786
VI. Total comprehensive income attributable to equity holders of the parent	90 669	851 366	21 516	202 033
VII. Total net comprehensive income	99 737	748 440	23 668	177 608
VIII. Net cash provided by operating activities	2 976 268	55 993	706 281	13 288
IX. Net cash (used in) investing activities	(770 696)	(891 158)	(182 889)	(211 476)
X. Net cash provided by/(used in) financing activities	154 014	(923 594)	36 548	(219 173)
XI. Net increase/(decrease) in cash and cash equivalents	2 359 586	(1 758 759)	559 940	(417 361)
XII. Net profit/(loss) and diluted net profit/(loss) per share attributable to equity holders of the parent (in PLN/EUR per share)	(0.13)	2.93	(0.03)	0.70
	AS AT 30/06/2013	AS AT 31/12/2012	AS AT 30/06/2013	AS AT 31/12/2012
XIII. Non-current assets	26 684 325	26 810 637	6 163 800	6 192 977
XIV. Current assets	27 810 251	25 820 143	6 423 878	5 964 183
XV. Total assets	54 494 576	52 630 780	12 587 678	12 157 161
XVI. Non-current liabilities	8 432 092	9 196 658	1 947 725	2 124 332
XVII. Current liabilities	18 301 403	15 127 289	4 227 433	3 494 246
XVIII. Total equity	27 761 081	28 306 833	6 412 520	6 538 583
XIX. Equity attributable to equity holders of the parent	25 927 638	26 479 187	5 989 014	6 116 416
XX. Share capital	1 057 635	1 057 635	244 303	244 303
XXI. Number of shares	427 709 061	427 709 061	427 709 061	427 709 061
XXII. Book value and diluted book value per share attributable to equity holders of the parent (in PLN/EUR per share)	60.62	61.91	14.00	14.30

SELECTED SEPARATE FINANCIAL DATA	PLN thousand		EUR thousand	
	I HALF OF 2013 CUMMULATIVE DATA	I HALF OF 2012 CUMMULATIVE DATA	I HALF OF 2013 CUMMULATIVE DATA	I HALF OF 2012 CUMMULATIVE DATA
I. Sales revenues	40 914 092	41 402 784	9 709 087	9 825 056
II. Profit from operations	166 946	1 223 070	39 617	290 240
III. Profit/(loss) before tax	(189 386)	1 798 464	(44 942)	426 783
IV. Net profit/(loss)	(32 846)	1 481 137	(7 794)	351 480
V. Total net comprehensive income	(96 968)	1 192 708	(23 011)	283 035
VI. Net cash provided by operating activities	2 494 755	55 576	592 015	13 188
VII.Net cash (used in) investing activities	(249 180)	(508 036)	(59 131)	(120 559)
VIII. Net cash provided by/(used in) financing activities	367 612	(1 276 526)	87 236	(302 925)
IX. Net increase/(decrease) in cash and cash equivalents	2 613 187	(1 728 986)	620 120	(410 296)
X. Net profit/(loss) and diluted net profit/(loss) per share (in PLN/EUR per share)	(0.08)	3.46	(0.02)	0.82
	AS AT 30/06/2013	AS AT 31/12/2012	AS AT 30/06/2013	AS AT 31/12/2012
XI. Non-current assets	21 441 782	22 474 134	4 952 828	5 191 290
XII. Current assets	21 586 352	18 932 835	4 986 222	4 373 287
XIII. Total assets	43 028 134	41 406 969	9 939 050	9 564 578
XIV. Non-current liabilites	6 991 093	7 702 331	1 614 869	1 779 158
XV. Current liabilites	13 855 567	10 784 632	3 200 491	2 491 137
XVI. Total equity	22 181 474	22 920 006	5 123 689	5 294 282
XVII. Share capital	1 057 635	1 057 635	244 303	244 303
XVIII. Number of shares	427 709 061	427 709 061	427 709 061	427 709 061
XIX. Book value and diluted book value per share (in PLN/EUR per share)	51.86	53.59	11.98	12.38

The above data for I half of 2013 and 2012 was translated into EUR by the following exchange rates:

- items of assets, equity and liabilities - by the average exchange rate published by the National Bank of Poland as at 30 June 2013 – 4.3292 PLN/EUR;
- items of statement of profit or loss and other comprehensive income and statement of cash flows - by the arithmetic average of average exchange rates published by the National Bank of Poland as of every last day of the month during the period from 1 January to 30 June 2013 – 4.2140 PLN/EUR.

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HALF-YEAR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 JUNE 2013

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

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

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

Consolidated statement of financial position

	NOTE	AS AT 30/06/2013 (unaudited)	AS AT 31/12/2012
ASSETS			
Non-current assets			
Property, plant and equipment		24 931 349	24 743 734
Investment property		123 697	117 270
Intangible assets		1 125 900	1 447 300
Perpetual usufruct of land		96 555	97 777
Investments accounted for under equity method		11 768	11 932
Financial assets available for sale		40 413	40 820
Deferred tax assets		313 832	296 939
Other non-current assets		40 811	54 865
		26 684 325	**26 810 637**
Current assets			
Inventories		13 943 216	15 011 047
Trade and other receivables		8 923 647	8 075 302
Other short-term financial assets	*3.3.*	288 034	368 125
Income tax receivables		62 833	89 625
Cash and cash equivalents		4 572 433	2 211 425
Non-current assets classified as held for sale		20 088	64 619
		27 810 251	**25 820 143**
Total assets		**54 494 576**	**52 630 780**
EQUITY AND LIABILITIES			
EQUITY			
Share capital		1 057 635	1 057 635
Share premium		1 227 253	1 227 253
Hedging reserve		(140 633)	(73 232)
Revaluation reserve		1 061	6 973
Foreign exchange differences on subsidiaries from consolidation		302 526	80 926
Retained earnings		23 479 796	24 179 632
Total equity attributable to equity holders of the parent		**25 927 638**	**26 479 187**
Non-controlling interest		**1 833 443**	**1 827 646**
Total equity		**27 761 081**	**28 306 833**
LIABILITIES			
Non-current liabilities			
Loans,borrowings and debt securities	*3.5.*	6 984 665	7 678 446
Provisions	*3.4.*	668 941	660 279
Deferred tax liabilities		585 242	671 603
Deferred income		15 127	15 321
Other non-current liabilities		178 117	171 009
		8 432 092	**9 196 658**
Current liabilities			
Trade and other liabilities		14 561 318	12 655 891
Loans,borrowings and debt securities	*3.5.*	2 759 171	1 294 641
Income tax liabilities		20 803	83 737
Provisions	*3.4.*	577 769	802 719
Deferred income		224 404	168 305
Other financial liabilities		157 358	121 996
Liabilities directly associated with assets classified as held for sale		580	-
		18 301 403	**15 127 289**
Total liabilities		**26 733 495**	**24 323 947**
Total equity and liabilities		**54 494 576**	**52 630 780**

The accompanying notes disclosed on pages 11 – 19 are an integral part of the foregoing half-year condensed consolidated financial statements.

(in PLN thousand)

Consolidated statement of profit or loss and other comprehensive income

	NOTE	FOR 6 MONTHS ENDED 30/06/2013 (unaudited)	FOR 3 MONTHS ENDED 30/06/2013 (unaudited)	FOR 6 MONTHS ENDED 30/06/2012 (unaudited)	FOR 3 MONTHS ENDED 30/06/2012 (unaudited)
Statement of profit or loss					
Sales revenues	3.6.	55 783 266	28 311 380	57 202 311	27 954 845
Cost of sales	3.7.	(52 958 209)	(27 136 936)	(53 301 605)	(26 320 773)
Gross profit on sales		**2 825 057**	**1 174 444**	**3 900 706**	**1 634 072**
Distribution expenses		(1 926 107)	(970 679)	(1 839 746)	(902 146)
General and administrative expenses		(732 316)	(374 717)	(739 737)	(373 055)
Other operating revenues	3.8.	246 295	174 652	249 780	138 307
Other operating expenses	3.8.	(209 014)	(140 806)	(256 831)	(121 766)
Profit/(loss) from operations		**203 915**	**(137 106)**	**1 314 172**	**375 412**
Financial revenues	3.9.	243 026	117 116	782 001	597 185
Financial expenses	3.9.	(594 373)	(243 935)	(465 452)	(874 181)
Financial revenues and expenses		**(351 347)**	**(126 819)**	**316 549**	**(276 996)**
Share in profit from investments accounted for under equity method		(460)	(320)	(541)	(37)
Profit/(loss) before tax		**(147 892)**	**(264 245)**	**1 630 180**	**98 379**
Income tax expense	3.10.	64 089	35 041	(425 876)	(138 045)
Net profit/(loss)		**(83 803)**	**(229 204)**	**1 204 304**	**(39 666)**
Items of other comprehensive income					
which will not be reclassified into profit or loss		**(9 386)**	**(2 533)**	**2 655**	**2 655**
Fair value measurement of investment property as at the date of reclassification		*(11 588)*	*(3 127)*	*3 277*	*3 277*
Deferred tax		*2 202*	*594*	*(622)*	*(622)*
which will be reclassified into profit or loss under certain conditions		**192 926**	**72 862**	**(458 519)**	**(314 924)**
Hedging instruments		*(86 510)*	*(109 996)*	*(348 444)*	*(460 907)*
Foreign exchange differences on subsidiaries from consolidation		*262 999*	*161 959*	*(176 279)*	*58 411*
Deferred tax		*16 437*	*20 899*	*66 204*	*87 572*
		183 540	**70 329**	**(455 864)**	**(312 269)**
Total net comprehensive income		**99 737**	**(158 875)**	**748 440**	**(351 935)**
Net profit/(loss) attributable to		**(83 803)**	**(229 204)**	**1 204 304**	**(39 666)**
equity holders of the parent		*(57 618)*	*(206 933)*	*1 254 916*	*(5 242)*
non-controlling interest		*(26 185)*	*(22 271)*	*(50 612)*	*(34 424)*
Total comprehensive income attributable to		**99 737**	**(158 875)**	**748 440**	**(351 935)**
equity holders of the parent		*90 669*	*(186 254)*	*851 366*	*(298 317)*
non-controlling interest		*9 068*	*27 379*	*(102 926)*	*(53 618)*
Net profit /(loss) and diluted net profit/(loss) per share attributable to equity holders of the parent (in PLN per share)		(0.13)	(0.48)	2.93	(0.01)

The accompanying notes disclosed on pages 11 – 19 are an integral part of the foregoing half-year condensed consolidated financial statements.

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

Consolidated statement of cash flows

	FOR 6 MONTHS ENDED 30/06/2013 (unaudited)	FOR 3 MONTHS ENDED 30/06/2013 (unaudited)	FOR 6 MONTHS ENDED 30/06/2012 (unaudited) restated data	FOR 3 MONTHS ENDED 30/06/2012 (unaudited) restated data
Cash flows - operating activities				
Net profit/(loss)	**(83 803)**	**(229 204)**	**1 204 304**	**(39 666)**
Adjustments for:				
Share in profit from investments accounted for under equity method	460	320	541	37
Depreciation and amortisation	1 072 837	534 963	1 121 621	543 036
Foreign exchange (gain)/loss	141 625	80 380	(363 504)	24 744
Interest, net	145 289	79 623	183 429	96 208
Dividends	(1 702)	(1 702)	(1 761)	(1 761)
(Profit) on investing activities	(86 121)	(43 890)	(54 934)	(90 651)
Change in provisions	215 321	159 438	198 223	45 955
Income tax expense	(64 089)	(35 041)	425 876	138 045
Income tax (paid)	(22 574)	(18 243)	(893 975)	(713 148)
Other adjustments	(88 159)	(39 668)	(264 507)	(123 612)
Change in working capital	1 747 184	3 831 989	(1 499 320)	28 860
inventories	*1 191 324*	*2 757 492*	*52 928*	*1 830 926*
receivables	*(546 663)*	*37 549*	*(374 945)*	*286 914*
liabilities	*1 102 523*	*1 036 948*	*(1 177 303)*	*(2 088 980)*
Net cash provided by/(used in) operating activities	**2 976 268**	**4 318 965**	**55 993**	**(91 953)**
Cash flows - investing activities				
Acquisition of property, plant and equipment and intangible assets	(989 244)	(462 556)	(990 680)	(442 218)
Disposal of property, plant and equipment and intangible assets	118 169	27 583	16 246	5 133
Acquisition of shares	(1 503)	(1 428)	(10 803)	(1 225)
Disposal of shares	203	103	362	94
Acquisition of securities	-	-	(17 192)	-
Disposal of securities and deposits	16 930	4 684	20 418	12 913
Dividends received	1 702	1 702	1 742	1 742
Proceeds/(Outflows) from loans granted	33 294	(240 310)	(48 975)	(51 006)
Other	49 753	32 182	137 724	139 242
Net cash (used in) investing activities	**(770 696)**	**(638 040)**	**(891 158)**	**(335 325)**
Cash flows - financing activities				
Proceeds from loans and borrowings received*	3 038 001	43 919	3 086 531	318 284
Debt securities issued	400 063	400 063	1 000 000	-
Repayments of loans and borrowings*	(3 122 041)	(793 619)	(4 068 781)	(370 794)
Redemption of debt securities	-	-	(750 000)	-
Interest paid	(143 869)	(63 265)	(173 120)	(80 202)
Payments of liabilities under finance lease agreements	(13 919)	(6 905)	(14 648)	(7 357)
Dividends paid to non-controlling shareholders	(245)	(214)	-	-
Other	(3 976)	(1 608)	(3 576)	(1 803)
Net cash provided by/(used in) financing activities	**154 014**	**(421 629)**	**(923 594)**	**(141 872)**
Net increase/(decrease) in cash and cash equivalents	**2 359 586**	**3 259 296**	**(1 758 759)**	**(569 150)**
Effect of exchange rate changes	1 422	1 664	(2 972)	682
Cash and cash equivalents, beginning of the period	**2 211 425**	**1 311 473**	**5 409 166**	**4 215 903**
Cash and cash equivalents, end of the period	**4 572 433**	**4 572 433**	**3 647 435**	**3 647 435**

* The decrease in proceeds/(repayments) of loans and borrowings for 6 and 3 months period ended 30 June 2012 by PLN 2,547,421 thousand and PLN 1,532,448 thousand, respectively, due to implementation of presentation of net change in overdrafts.

The accompanying notes disclosed on pages 11 – 19 are an integral part of the foregoing half-year condensed consolidated financial statements.

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

Statement of changes in consolidated equity

	Equity attributable to equity holders of the parent						Non-controlling interest	Total equity
	Share capital and share premium	Hedging reserve	Foreign exchange differences on subsidiaries from consolidation	Revaluation reserve	Retained earnings	Total		
1 January 2013	2 284 888	(73 232)	80 926	6 973	24 179 632	26 479 187	1 827 646	28 306 833
Net (loss)	-	-	-	-	(57 618)	(57 618)	(26 185)	(83 803)
Items of other comprehensive income	-	(67 401)	221 600	(5 912)	-	148 287	35 253	183 540
Total net comprehensive income	**-**	**(67 401)**	**221 600**	**(5 912)**	**(57 618)**	**90 669**	**9 068**	**99 737**
Change in the structure of non-controlling interest	-	-	-	-	(654)	(654)	(2 127)	(2 781)
Dividends	-	-	-	-	(641 564)	(641 564)	(1 144)	(642 708)
30 June 2013	**2 284 888**	**(140 633)**	**302 526**	**1 061**	**23 479 796**	**25 927 638**	**1 833 443**	**27 761 081**
(unaudited)								
1 January 2012	2 284 888	(24 305)	415 628	5 301	21 852 261	24 533 773	2 264 910	26 798 683
Net profit	-	-	-	-	1 254 916	1 254 916	(50 612)	1 204 304
Items of other comprehensive income	-	(284 746)	(120 476)	1 672	-	(403 550)	(52 314)	(455 864)
Total net comprehensive income	**-**	**(284 746)**	**(120 476)**	**1 672**	**1 254 916**	**851 366**	**(102 926)**	**748 440**
Change in the structure of non-controlling interest	-	-	-	-	7 725	7 725	(18 529)	(10 804)
Dividends	-	-	-	-	-	-	(10 120)	(10 120)
30 June 2012	**2 284 888**	**(309 051)**	**295 152**	**6 973**	**23 114 902**	**25 392 864**	**2 133 335**	**27 526 199**
(unaudited)								

The accompanying notes disclosed on pages 11 – 19 are an integral part of the foregoing half-year condensed consolidated financial statements.

EXPLANATORY NOTES TO THE HALF-YEAR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Information on principles adopted for the preparation of the half-year condensed consolidated financial statements

1.1. Statement of compliance and general principles of preparation

The foregoing half-year condensed consolidated financial statements ("consolidated financial statements") were prepared in accordance with requirements of IAS 34 "Interim financial reporting" and in the scope required under the Minister of Finance Regulation of 19 February 2009 on current and periodic information provided by issuers of securities and conditions of recognition as equivalent information required by the law of a non- Member State (Official Journal no. 33, item 259 with further amendments) ("Regulation") and present the Polski Koncern Naftowy ORLEN S.A. Capital Group's ("Group", "Capital Group", "ORLEN Group", "ORLEN Capital Group") financial position as at 30 June 2013 and as at 31 December 2012, financial results and cash flows for the period of 6 months ended 30 June 2013 and 30 June 2012.

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

Duration of the Parent Company and the entities comprising the ORLEN Capital Group is unlimited.

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

1.2. Statement of the Management Board

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

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

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

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

1.2.3. Applied accounting principles and IFRS amendments

These foregoing half-year condensed consolidated financial statements were prepared according to principles described in Consolidated Financial Statements for the year 2012.

In these foregoing half-year condensed consolidated financial statements, the significant assumptions made by the Management Board regarding adoption of accounting principles and main uncertainties in the Group were the same as those presented in the Consolidated Financial Statements for the year 2012 in note 4.

In the I half of 2013 the Group made an assumption of due CO_2 emission rights to be granted free of charge for 2013.
The updated Directive 2009/29/EC of the European Parliament and of the Council of 23 April 2009 amending Directive 2003/87/EC so as to improve and extend the greenhouse gas emission allowance trading scheme of the Community (EU ETS Directive) implemented harmonized, binding for the whole European Union, principles of emission rights allocation, effective in the 8 year settlement period starting in 2013. Based on EU ETS Directive the Group set the preliminary allocation of emission rights granted free of charge based on emission indices obligatory for the settlement period starting in 2013.
As at 30 June 2013 the process of allocation of emission rights granted free of charge by the European Commission for the member states was not finalized.
As a result, as at 30 June 2013, the Group recognized trade receivables on CO_2 emission rights for the year 2013 granted free of charge of 8,623,847 tonnes in the value of PLN 154,137 thousand.
After the emission rights allocation, the Group will reclassify the above rights to intangible assets.
In the first half of 2013 the Group on the ground of the Decision of the President of the Energy Regulatory Office received free of charge energy rights, so called yellow and red certificates for the first quarter of 2013 of MWh 218,322 and MWh 338,932, respectively.
Due to the ongoing work on the amendments to the Energy Law and the parallel process of obtaining the consent of the European Commission to extend support for the cogeneration, on the Polish Power Exchange there is no trading of yellow and red certificates making it impossible to determine the value of these rights. As a result, in the first half of the year 2013 The Group did not recognize intangible assets from acquired free of charge rights in the statement of financial positions and did not recognize the grant in other operating revenues.

Starting from the I quarter of 2013 the ORLEN Group separated the Upstream operating segment, which activities have been presented within the Corporate Functions so far. Comparative data for 6 and 3 months period ended 30 June 2012 and as at 31 December 2012 was restated.

The Group intends to adopt amendments to IFRSs that are published but not effective as at the date of preparation of these half-year condensed consolidated financial statements in accordance with their effective date.
The possible impact of new amendments to IFRSs on the Group's future consolidated financial statements was presented in the Consolidated Financial Statements for the year 2012 in note 3.2.

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

1.3.1. Functional currency and presentation currency

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

1.3.2. Methods applied to translation of data for consolidation purposes

Financial statements of foreign entities, for consolidation purposes, are translated into PLN using the following methods:
– particular assets and liabilities – at spot exchange rate as at the end of the reporting period,
– respective items of statement of profit or loss and other comprehensive income and statement of cash flows are translated at the average rate (arithmetic average of average exchange rates published by the National Bank of Poland ("NBP") in the reporting period).

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

CURRENCIES	Average exchange rate for the reporting period				Exchange rate as at the end of the reporting period	
	FOR 6 MONTHS ENDED 30/06/2013	FOR 3 MONTHS ENDED 30/06/2013	FOR 6 MONTHS ENDED 30/06/2012	FOR 3 MONTHS ENDED 30/06/2012	AS AT 30/06/2013	AS AT 31/12/2012
PLN/EUR	4.1777	4.1998	4.2456	4.2600	4.3292	4.0882
PLN/USD	3.1812	3.2153	3.2756	3.3248	3.3175	3.0996
PLN/CZK	0.1626	0.1626	0.1687	0.1687	0.1669	0.1630

2. Segment reporting

The Capital Group's activities are allocated to:
− the refining segment, which includes refinery products processing and wholesale, oil production and sale as well as supporting production,
− the retail segment, which includes sales at petrol stations,
− the petrochemical segment, which includes the production and wholesale of petrochemicals and production and sale of chemicals,
− upstream segment, which includes exploration and extraction of hydrocarbons,

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

The allocation of the ORLEN Capital Group companies to operating segments and corporate functions is presented in the Management Board Report on the operations of the Capital Group in note C2.

Revenues, expenses and financial result by operating segments

for 6 months ended 30 June 2013

	Refining Segment (unaudited)	Retail Segment (unaudited)	Petrochemical Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
Sales revenues from external customers	30 210 401	17 440 151	8 098 272	945	33 497	-	55 783 266
Sales revenues from transactions with other segments	13 014 060	76 256	1 722 583	-	122 776	(14 935 675)	-
Sales revenues	43 224 461	17 516 407	9 820 855	945	156 273	(14 935 675)	55 783 266
Operating expenses	(43 817 305)	(17 196 837)	(9 000 936)	(11 082)	(526 147)	14 935 675	(55 616 632)
Other operating revenues	42 182	57 220	54 365	2	92 844	(318)	246 295
Other operating expenses	(45 030)	(57 262)	(39 643)	(3)	(67 394)	318	(209 014)
Segment profit/(loss) from operations	**(595 692)**	**319 528**	**834 641**	**(10 138)**	**(344 424)**	**-**	**203 915**
Financial revenues							243 026
Financial expenses							(594 373)
Share in profit from investments accounted for under equity method	(525)	-	65	-	-	-	(460)
(Loss) before tax							(147 892)
Income tax expense							64 089
Net (loss)							**(83 803)**

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

for 3 months ended 30 June 2013

	Refining Segment (unaudited)	Retail Segment (unaudited)	Petrochemical Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
Sales revenues from external customers	15 165 979	9 273 393	3 857 306	544	14 158	-	28 311 380
Sales revenues from transactions with other segments	6 521 135	41 151	847 216	-	65 633	(7 475 135)	-
Sales revenues	21 687 114	9 314 544	4 704 522	544	79 791	(7 475 135)	28 311 380
Operating expenses	(22 252 682)	(9 032 503)	(4 389 342)	(4 687)	(278 253)	7 475 135	(28 482 332)
Other operating revenues	11 616	42 575	42 518	2	77 977	(36)	174 652
Other operating expenses	(7 607)	(42 260)	(35 144)	(3)	(55 828)	36	(140 806)
Segment profit/(loss) from operations	**(561 559)**	**282 356**	**322 554**	**(4 144)**	**(176 313)**	**-**	**(137 106)**
Financial revenues							117 116
Financial expenses							(243 935)
Share in profit from investments accounted for under equity method	(371)	-	51	-	-	-	(320)
(Loss) before tax							(264 245)
Income tax expense							35 041
Net (loss)							**(229 204)**

for 6 months ended 30 June 2012

	Refining Segment (unaudited)	Retail Segment (unaudited)	Petrochemical Segment (unaudited)	Upstream Segment (unaudited) restated data	Corporate Functions (unaudited) restated data	Adjustments (unaudited) restated data	Total (unaudited)
Sales revenues from external customers	30 351 567	18 688 655	8 107 048	793	54 248	-	57 202 311
Sales revenues from transactions with other segments	14 086 472	63 551	1 932 413	-	107 668	(16 190 104)	-
Sales revenues	44 438 039	18 752 206	10 039 461	793	161 916	(16 190 104)	57 202 311
Operating expenses	(43 741 898)	(18 471 959)	(9 343 309)	(11 584)	(502 442)	16 190 104	(55 881 088)
Other operating revenues	87 329	52 383	69 619	-	40 534	(85)	249 780
Other operating expenses	(117 690)	(54 132)	(40 632)	(1)	(44 461)	85	(256 831)
Segment profit/(loss) from operations	**665 780**	**278 498**	**725 139**	**(10 792)**	**(344 453)**	**-**	**1 314 172**
Financial revenues							782 001
Financial expenses							(465 452)
Share in profit from investments accounted for under equity method	(316)	-	(225)	-	-	-	(541)
Profit before tax							**1 630 180**
Income tax expense							(425 876)
Net profit							**1 204 304**

for 3 months ended 30 June 2012

	Refining Segment (unaudited)	Segment Detal (unaudited)	Petrochemical Segment (unaudited)	Upstream Segment (unaudited) restated data	Corporate Functions (unaudited) restated data	Adjustments (unaudited) restated data	Total (unaudited)
Sales revenues from external customers	14 289 029	9 772 063	3 860 960	724	32 069	-	27 954 845
Sales revenues from transactions with other segments	7 060 986	32 094	967 878	-	53 808	(8 114 766)	-
Sales revenues	21 350 015	9 804 157	4 828 838	724	85 877	(8 114 766)	27 954 845
Operating expenses	(21 407 733)	(9 562 574)	(4 471 918)	(6 771)	(261 744)	8 114 766	(27 595 974)
Other operating revenues	51 159	29 265	38 935	-	19 008	(60)	138 307
Other operating expenses	(59 704)	(18 813)	(16 350)	-	(26 959)	60	(121 766)
Segment profit/(loss) from operations	**(66 263)**	**252 035**	**379 505**	**(6 047)**	**(183 818)**	**-**	**375 412**
Financial revenues							597 185
Financial expenses							(874 181)
Share in profit from investments accounted for under equity method	27	-	(64)	-	-	-	(37)
Profit before tax							**98 379**
Income tax expense							(138 045)
Net (loss)							**(39 666)**

Assets by operating segments

	AS AT 30/06/2013 (unaudited)	AS AT 31/12/2012 restated data
Refining Segment	29 497 693	30 199 689
Retail Segment	6 493 205	5 955 683
Petrochemical Segment	12 586 739	12 779 493
Ustream Segment	483 436	337 524
Segment assets	**49 061 073**	**49 272 389**
Corporate Functions	5 997 835	3 597 557
Adjustments	(564 332)	(239 166)
	54 494 576	**52 630 780**

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

Restatement of the previously presented segment data in relation to separation of the new operating Upstream segment

for 6 months ended 30 June 2012

	published data for the I half of 2012		restatements			restated data		
	Corporate Functions (unuadited)	Adjustments (unuadited)	Corporate Functions	Adjustments	Total	Segment Wydobycie (unuadited)	Corporate Functions (unuadited)	Adjustments (unuadited)
Sales revenues from external customers	55 041	-	(793)	-	(793)	793	54 248	-
Sales revenues from transactions with other segments	107 623	(16 190 059)	45	(45)	-	-	107 668	(16 190 104)
Sales revenues	162 664	(16 190 059)	(748)	(45)	(793)	793	161 916	(16 190 104)
Operating expenses	(513 981)	16 190 059	11 539	45	11 584	(11 584)	(502 442)	16 190 104
Other operating revenues	40 534	(85)	-	-	-	-	40 534	(85)
Other operating expenses	(44 462)	85	1	-	1	(1)	(44 461)	85
Segment profit/(loss) from operations	**(355 245)**	**-**	**10 792**	**-**	**10 792**	**(10 792)**	**(344 453)**	**-**

for 3 months ended 30 June 2012

	published data for the I half of 2012		restatements			restated data		
	Corporate Functions (unuadited)	Adjustments (unuadited)	Corporate Functions	Adjustments	Total	Segment Wydobycie (unuadited)	Corporate Functions (niebadane)	Adjustments (unuadited)
Sales revenues from external customers	32 793	-	(724)	-	(724)	724	32 069	-
Sales revenues from transactions with other segments	53 787	(8 114 745)	21	(21)	-	-	53 808	(8 114 766)
Sales revenues	86 580	(8 114 745)	(703)	(21)	(724)	724	85 877	(8 114 766)
Operating expenses	(268 494)	8 114 745	6 750	21	6 771	(6 771)	(261 744)	8 114 766
Other operating revenues	19 008	(60)	-	-	-	-	19 008	(60)
Other operating expenses	(26 959)	60	-	-	-	-	(26 959)	60
Segment profit/(loss) from operations	**(189 865)**	**-**	**6 047**	**-**	**6 047**	**(6 047)**	**(183 818)**	**-**

as at 31 December 2012

	published data as at 31/12/2012	restatements	restated data as at 31/12/2012
Refining Segment	30 199 689	-	30 199 689
Retail Segment	5 955 683	-	5 955 683
Petrochemical Segment	12 779 493	-	12 779 493
Ustream Segment	-	337 524	337 524
Segment assets	**48 934 865**	**337 524**	**49 272 389**
Corporate Functions	3 935 065	(337 508)	3 597 557
Adjustments	(239 150)	(16)	(239 166)
	52 630 780	**-**	**52 630 780**

3. Other notes

3.1. Impairment allowances of assets

	FOR 6 MONTHS ENDED 30/06/2013 (unaudited)	FOR 3 MONTHS ENDED 30/06/2013 (unaudited)	FOR 6 MONTHS ENDED 30/06/2012 (unaudited)	FOR 3 MONTHS ENDED 30/06/2012 (unaudited)
Property, plant and equipment				
Recognition	(45 631)	(43 714)	(38 188)	(12 872)
Reversal	31 937	29 214	43 556	24 131
Intangible assets				
Recognition	(6 667)	(5 419)	(28 797)	(10 885)
Reversal	1 008	1 007	2 080	1 447
Financial assets available for sale				
Recognition	(411)	(260)	(198)	(198)
Reversal	12	5	222	222
Receivables				
Recognition	(32 307)	(16 383)	(47 166)	(24 212)
Reversal	22 651	8 086	31 218	12 984

Recognition and reversal of impairment allowances in the 6 and 3 months period ended 30 June 2013 and 30 June 2012 related mainly to:
- obsolescence of property, plant and equipment and intangible assets,
- occurrence or extinction of indicators in respect of overdue receivables, occurrence of uncollectible receivables and receivables in court.

3.2. Inventories written down to net realizable value

	FOR 6 MONTHS ENDED 30/06/2013 (unaudited)	FOR 3 MONTHS ENDED 30/06/2013 (unaudited)	FOR 6 MONTHS ENDED 30/06/2012 (unaudited)	FOR 3 MONTHS ENDED 30/06/2012 (unaudited)
Increase	(150 045)	(72 894)	(263 791)	(200 451)
Decrease	165 715	105 778	275 069	176 095

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

3.3. Other short-term financial assets

	AS AT 30/06/2013 (unaudited)	AS AT 31/12/2012
Cash flow hedge instruments	11 822	46 491
foreign currency forwards	*11 186*	*44 978*
commodity swaps	*636*	*1 513*
Derivatives not designated as hedge accounting	24 033	22 783
foreign currency forwards	*1 898*	*9 425*
foreign currency swaps	*439*	*428*
commodity swaps	*21 696*	*12 930*
Embedded derivatives	55	744
foreign currency swaps	*55*	*744*
Deposits	5 997	22 262
Loans granted	246 033	275 763
Available for sale	94	82
	288 034	**368 125**

3.4. Provisions

	Non-current		Current		Total	
	AS AT 30/06/2013 (unaudited)	AS AT 31/12/2012	AS AT 30/06/2013 (unaudited)	AS AT 31/12/2012	AS AT 30/06/2013 (unaudited)	AS AT 31/12/2012
Environmental	330 703	327 555	33 771	45 845	364 474	373 400
Jubilee and post-employment benefits	283 899	279 427	34 264	34 886	318 163	314 313
Business risk	15 376	20 818	61 099	58 983	76 475	79 801
Shield programs	-	-	40 047	42 379	40 047	42 379
CO_2 emission	-	-	176 397	378 009	176 397	378 009
Other	38 963	32 479	232 191	242 617	271 154	275 096
	668 941	**660 279**	**577 769**	**802 719**	**1 246 710**	**1 462 998**

3.5. Loans, borrowings and debt securities

	Non-current		Current		Total	
	AS AT 30/06/2013 (unaudited)	AS AT 31/12/2012	AS AT 30/06/2013 (unaudited)	AS AT 31/12/2012	AS AT 30/06/2013 (unaudited)	AS AT 31/12/2012
Loans	5 565 012	6 654 652	2 389 438	940 200	7 954 450	7 594 852
Borrowings	839	1 078	479	480	1 318	1 558
Debt securities	1 418 814	1 022 716	369 254	353 961	1 788 068	1 376 677
	6 984 665	**7 678 446**	**2 759 171**	**1 294 641**	**9 743 836**	**8 973 087**

In the period covered by the foregoing half-year consolidated financial statements as well as after the reporting date there were no cases of violations of loans or borrowings repayment of principal and interest nor breaches of covenants.

3.6. Sales revenues

	FOR 6 MONTHS ENDED 30/06/2013 (unaudited)	FOR 3 MONTHS ENDED 30/06/2013 (unaudited)	FOR 6 MONTHS ENDED 30/06/2012 (unaudited)	FOR 3 MONTHS ENDED 30/06/2012 (unaudited)
Revenues from sales of finished goods and services, net	43 656 079	21 332 382	44 003 107	21 876 554
Revenues from sales of merchandise and raw materials, net	12 127 187	6 978 998	13 199 204	6 078 291
	55 783 266	**28 311 380**	**57 202 311**	**27 954 845**

3.7. Operating expenses

Cost of sales

	FOR 6 MONTHS ENDED 30/06/2013 (unaudited)	FOR 3 MONTHS ENDED 30/06/2013 (unaudited)	FOR 6 MONTHS ENDED 30/06/2012 (unaudited)	FOR 3 MONTHS ENDED 30/06/2012 (unaudited)
Cost of finished goods and services sold	(41 333 050)	(20 405 964)	(40 807 927)	(20 621 930)
Cost of merchandise and raw materials sold	(11 625 159)	(6 730 972)	(12 493 678)	(5 698 843)
	(52 958 209)	**(27 136 936)**	**(53 301 605)**	**(26 320 773)**

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

Cost by kind

	FOR 6 MONTHS ENDED 30/06/2013 (unaudited)	FOR 3 MONTHS ENDED 30/06/2013 (unaudited)	FOR 6 MONTHS ENDED 30/06/2012 (unaudited)	FOR 3 MONTHS ENDED 30/06/2012 (unaudited)
Materials and energy	(39 160 329)	(18 762 465)	(39 652 922)	(19 395 196)
Cost of merchandise and raw materials sold	(11 625 159)	(6 730 972)	(12 493 678)	(5 698 843)
External services	(2 057 255)	(1 025 314)	(2 062 412)	(1 046 476)
Employee benefits	(1 087 097)	(555 954)	(1 068 840)	(541 458)
Depreciation and amortisation	(1 072 837)	(534 963)	(1 121 621)	(543 036)
Taxes and charges	(316 418)	(170 595)	(253 839)	(126 110)
Other	(407 376)	(253 896)	(438 843)	(215 494)
	(55 726 471)	**(28 034 159)**	**(57 092 155)**	**(27 566 613)**
Change in inventories	(196 939)	(624 475)	887 974	(180 956)
Cost of products and services for own use	97 764	35 496	66 262	29 829
Operating expenses	**(55 825 646)**	**(28 623 138)**	**(56 137 919)**	**(27 717 740)**
Distribution expenses	1 926 107	970 679	1 839 746	902 146
General and administrative expenses	732 316	374 717	739 737	373 055
Other operating expenses	209 014	140 806	256 831	121 766
Cost of sales	**(52 958 209)**	**(27 136 936)**	**(53 301 605)**	**(26 320 773)**

3.8. Other operating revenues and expenses

Other operating revenues

	FOR 6 MONTHS ENDED 30/06/2013 (unaudited)	FOR 3 MONTHS ENDED 30/06/2013 (unaudited)	FOR 6 MONTHS ENDED 30/06/2012 (unaudited)	FOR 3 MONTHS ENDED 30/06/2012 (unaudited)
Profit on sale of non-current non-financial assets	20 361	15 390	16 074	9 096
Reversal of provisions	17 941	4 929	25 372	11 871
Reversal of receivables impairment allowances	15 341	6 740	25 799	10 957
Reversal of impairment allowances of property, plant and equipment and intangible assets	32 945	30 221	45 636	25 578
Penalties and compensations earned	52 700	41 691	31 856	19 871
Grants	280	183	9 583	6 222
Other	106 727	75 498	95 460	54 712
	246 295	**174 652**	**249 780**	**138 307**

The line “other” in the 6 and 3 months period ended 30 June 2013 includes mainly income resulting from the decision of tax authorities on the refund of excise tax paid by PKN ORLEN for the period May-December 2004 and the adjustment of fuel charge liability regarding RME bioester for the period May-November 2011, received in II quarter 2013 of PLN 46,765 thousand and PLN 18,423 thousand, respectively.
Additionally, the line “other” in the 6 months period ended 30 June 2013 and 30 June 2012 includes an update of the provision for costs of CO_2 emission as well as the effect of recognition of CO_2 emission rights surpluses received free of charge in relation to actual emissions of PLN 21,868 thousand and PLN 55,989 thousand, respectively.

Other operating expenses

	FOR 6 MONTHS ENDED 30/06/2013 (unaudited)	FOR 3 MONTHS ENDED 30/06/2013 (unaudited)	FOR 6 MONTHS ENDED 30/06/2012 (unaudited)	FOR 3 MONTHS ENDED 30/06/2012 (unaudited)
Loss on sale of non-current non-financial assets	(15 900)	(7 043)	(24 162)	(4 855)
Recognition of provisions	(60 520)	(52 366)	(28 622)	(17 692)
Recognition of receivables impairment allowances	(23 696)	(13 401)	(38 349)	(20 852)
Recognition of impairment allowances of property, plant and equipment and intangible assets	(52 298)	(49 133)	(66 985)	(23 757)
Costs of losses, breakdowns and compensations	(13 135)	(9 808)	(17 619)	(11 039)
Other	(43 465)	(9 055)	(81 094)	(43 571)
	(209 014)	**(140 806)**	**(256 831)**	**(121 766)**

The line “other” in the 6 months period ended 30 June 2013 and 30 June 2012 includes mainly an update of the provision for costs of CO_2 emission of PLN (13,947) thousand and PLN (25,697) thousand, respectively.

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

3.9. Financial revenues and expenses

Financial revenues

	FOR 6 MONTHS ENDED 30/06/2013 (unaudited)	FOR 3 MONTHS ENDED 30/06/2013 (unaudited)	FOR 6 MONTHS ENDED 30/06/2012 (unaudited)	FOR 3 MONTHS ENDED 30/06/2012 (unaudited)
Interest	52 835	30 938	81 704	32 696
Foreign exchange gain surplus	15 164	7 557	438 500	376 260
Settlement and valuation of financial instruments	164 385	74 020	251 898	183 149
Reversal of receivables impairment allowances	7 310	1 346	5 419	2 027
Financial assets available for sale valuation	12	5	222	222
Other	3 320	3 250	4 258	2 831
	243 026	**117 116**	**782 001**	**597 185**

Financial expenses

	FOR 6 MONTHS ENDED 30/06/2013 (unaudited)	FOR 3 MONTHS ENDED 30/06/2013 (unaudited)	FOR 6 MONTHS ENDED 30/06/2012 (unaudited)	FOR 3 MONTHS ENDED 30/06/2012 (unaudited)
Interest	(143 560)	(75 044)	(194 839)	(100 732)
Foreign exchange loss surplus	(328 732)	(124 228)	(94 945)	(675 089)
Settlement and valuation of financial instruments	(96 185)	(31 973)	(147 160)	(87 180)
Recognition of receivables impairment allowances	(8 611)	(2 982)	(8 817)	(3 360)
Financial assets available for sale valuation	(411)	(260)	(198)	(198)
Other	(16 874)	(9 448)	(19 493)	(7 622)
	(594 373)	**(243 935)**	**(465 452)**	**(874 181)**

Borrowing cost capitalized in the 6 and 3 months period ended 30 June 2013 and 30 June 2012 amounted to PLN (7,968) thousand and PLN (4,616) thousand, as well as PLN (8,257) thousand and PLN (4,954) thousand, respectively.

3.10. Income tax expense

	FOR 6 MONTHS ENDED 30/06/2013 (unaudited)	FOR 3 MONTHS ENDED 30/06/2013 (unaudited)	FOR 6 MONTHS ENDED 30/06/2012 (unaudited)	FOR 3 MONTHS ENDED 30/06/2012 (unaudited)
Current income tax	11 945	(47 653)	(262 197)	(43 365)
Deferred income tax	52 144	82 694	(163 679)	(94 680)
	64 089	**35 041**	**(425 876)**	**(138 045)**

In the I half of 2013 the current income tax had a positive value as a result of recognition as a reduction of the tax burden in the first quarter of 2013 of PLN 94,964 thousand in connection with the favorable for PKN ORLEN court sentence of the Supreme Administrative Court for the recognition of compensation paid in 2009 to Agrofert as a tax deductible expense. The amount of deferred tax for the 6 and 3 months ended 30 June 2013 comprised mainly of recognition of deferred tax asset on tax losses of current period and revaluation of non-cash assets tax value of Orlen Lietuva due to changes in exchange rates LTL/USD.

3.11. Methods applied in determining fair values of financial instruments recognized in the consolidated statement of financial position at fair value (fair value hierarchy)

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

Derivative instruments are presented as assets, when their valuation is positive and as liabilities, when their valuation is negative. Gains and losses resulting from changes in fair value of derivative instruments, for which hedge accounting is not applicable, are recognized in a reporting year profit or loss.

Fair value of shares quoted on active markets is determined based on market quotations (so called Level 1). In other cases, fair value is determined based on other input data which are directly or indirectly possible to observe (so called Level 2).

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

Fair value hierarchy

	AS AT 30/06/2013 (unaudited)		AS AT 31/12/2012	
	LEVEL 1	LEVEL 2	LEVEL 1	LEVEL 2
Financial assets				
Quoted shares	679	-	1 078	-
Embedded derivatives and hedging instruments	-	46 296	-	98 089
	679	**46 296**	**1 078**	**98 089**
Financial liabilities				
Embedded derivatives and hedging instruments	-	220 875	-	194 843
	-	**220 875**	**-**	**194 843**

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

3.12. Finance lease payments

As at 30 June 2013 and as at 31 December 2012, the Group possessed as a lessee, the finance lease agreements, concerning mainly buildings, machinery and equipment as well as means of transportation.

	AS AT 30/06/2013 (unaudited)	AS AT 31/12/2012
Future value of minimum lease payments	125 815	118 745
Present value of minimum lease payments	106 634	101 905

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

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

3.14. Future liabilities resulting from signed investment contracts

As at 30 June 2013 and as at 31 December 2012 the value of future liabilities resulting from investment contracts signed until that day amounted to PLN 2,166,544 thousand and PLN 1,961,006 thousand, respectively.

3.15. Issue, redemption and repayment of debt securities

PKN ORLEN Supervisory Board, at the meeting held on 28 March 2013, gave consent for issue of bonds within the public bond issue programme (Programme) by the Company.
The programme assumes the issue in one or more series of bonds up to the total amount of PLN 1 billion during 12 months from the date of approval of the Prospectus by the PFSA. The bonds are offered in a public offering.
On 28 May 2013 and 3 June 2013 PKN ORLEN S.A. announced the offering of bonds, respectively Series A and B within the public bond issue programme and announced the final terms and conditions of the offering for both series of the bonds. Within each series up to 2,000,000 unsecured, bearer, dematerialized bonds through registration in the deposit operated by the Central Securities Depository of Poland ("KDPW") were offered. Unit nominal value of the bond is PLN 100.
Interest were calculated daily starting on the first day of subscription, by unit issue price of the bond, taking into account increasing interest, increased in the order period of Series A bonds from PLN 100.00 to PLN 100.20, while for Series B from PLN 100.00 to PLN 100.13. Total nominal value of Series A and B bonds amounted to PLN 400,000 thousand. The bonds interest rate is variable. The interest rate is be based on the sum of WIBOR 6M rate and margin set at the level of 150 basis points. The interests will be paid in the half-year periods. Day of final redemption of the bonds is set on 28 May 2017 for the Series A the 3 June 2017 for the Series B.
Fitch Rating Agency has assigned a national rating ('rating') of BBB+ (pol) for Series A and Series B bonds. Acknowledging a high rating for the issue of retail bonds, Fitch analysts pointed the possibility of upgrading PKN ORLEN's international rating from BB+ to BBB- in the following months.
Series A bonds were allocated on 4 June 2013. The Bonds were acquired at issue price amounted from PLN 100.00 to PLN 100.03 depending on the day of subscription. The value of issue, defined as the number of Bonds which were offered multiplied by the issue price, amounted to PLN 200,005 thousand.
Series B bonds were allocated on 17 June 2013. The Bonds were acquired at issue price from PLN 100.00 to PLN 100.10 depending on the day of subscription. The value of issue, defined as the number of Bonds which were offered multiplied by the issue price, amounted to PLN 200,058 thousand.
On 26 June 2013 announced that the Management Board of the Warsaw Stock Exchange (WSE) had adopted a resolution to admit 2,000,000 Series A bonds and 2,000,000 Series B bonds to trading on the Catalyst regulated market. Bond debut took place on 28 June 2013.

Moreover, as a part of liquidity optimisation in ORLEN Group, issue and redemption of short term bonds in favor of Group companies were performed.

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

3.16. Distribution of the Parent Company's profit for 2012

On 27 June 2013 the Ordinary General Shareholders' Meeting of PKN ORLEN S.A. decided to distribute the net profit of the Parent Company for the year 2012 of PLN 2,127,797,966.06 as follows: PLN 641,563,591.50 as dividend payment (PLN 1.50 per 1 share) and PLN 1,486,234,374.56 as reserve capital.
The Ordinary General Shareholders' Meeting of PKN ORLEN S.A. determined the date of 26 July 2013 as a dividend date and the date of 13 August 2013 as a dividend payment date.

3.17. Contingent liabilities

	AS AT 31/12/2012	Increases/ (Decreases)	AS AT 30/06/2013 (unaudited)
Court proceedings	4 038	1 493	**5 531**

Court proceedings as at 30 June 2013 relate mainly to claims arising from usufruct rights and trade contracts with contractors claims.

Spolana a.s. currently produces chlorine using the mercury electrolysis. According to the owned integrated pollution prevention and control license (IPPC) that is in force until 2014, when production ceases, the company is required to present a reclamation program after it stops to use its fixed assets. On 28 February 2013 Spolana's request for the extension of the IPPC was dismissed by the regional office. On 15 March 2013 the Board of Directors of Spolana appealed from the above mentioned decision to the Ministry of Environment. On 2 July, the company received the decision from the Ministry of Environment to bring the matter for reconsideration to the regional office. In the same time, alternative means of PVC production using other technologies are considered. This will require an adaptation of the electrolysis building to its new function – PVC packed finished goods warehouse. At this point, no physical liquidation of the building and thus no potential costs of reclamation are expected. In 2012 Spolana recognized a provision of PLN 4,972 thousand for the expected adaptation costs of the electrolysis building to its new function. These costs have been estimated by an independent expert.

3.18. Guarantees

Excise tax guarantees and excise tax on goods and merchandise under the excise tax suspension procedure as at 30 June 2013 and as at 31 December 2012 amounted to PLN 1,899,827 thousand and PLN 1,729,558 thousand, respectively.

3.19. Significant events after the end of the reporting period which were not reflected in the half-year condensed consolidated financial statements

No significant events occurred after the end of the reporting period which were not reflected in the half-year condensed consolidated financial statements.

HALF-YEAR CONDENSED SEPARATE FINANCIAL STATEMENTS

FOF THE PERIOD ENDED 30 JUNE 2013

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

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

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

Separate statement of financial position

	NOTE	AS AT 30/06/2013 (unaudited)	AS AT 31/12/2012
ASSETS			
Non-current assets			
Property, plant and equipment		11 913 919	12 087 781
Intangible assets		399 656	603 416
Perpetual usufruct of land		90 854	91 319
Shares in related parties		8 986 744	9 003 021
Financial assets available for sale		40 223	40 634
Other non-current assets		10 386	647 963
		21 441 782	**22 474 134**
Current assets			
Inventories		9 556 216	10 375 471
Trade and other receivables		6 835 008	6 395 513
Other short-term financial assets	3.3.	1 571 443	1 081 549
Income tax receivables		36 246	56 489
Cash		3 587 428	972 179
Non-current assets classified as held for sale		11	51 634
		21 586 352	**18 932 835**
Total assets		**43 028 134**	**41 406 969**
EQUITY AND LIABILITIES			
EQUITY			
Share capital		1 057 635	1 057 635
Share premium		1 227 253	1 227 253
Hedging reserve		(133 255)	(69 133)
Retained earnings		20 029 841	20 704 251
Total equity		**22 181 474**	**22 920 006**
LIABILITIES			
Non-current liabilities			
Loans and debt securities	3.5.	6 332 520	6 968 525
Provisions	3.4.	360 307	360 307
Deferred tax liabilities		164 992	239 872
Other non-current liabilities		133 274	133 627
		6 991 093	**7 702 331**
Current liabilities			
Trade and other liabilities		10 160 001	8 585 606
Loans,borrowings and debt securities	3.5.	2 740 152	1 303 497
Provisions	3.4.	295 447	400 794
Deferred income		145 779	137 348
Other financial liabilities		514 188	357 387
		13 855 567	**10 784 632**
Total liabilities		**20 846 660**	**18 486 963**
Total equity and liabilities		**43 028 134**	**41 406 969**

The accompanying notes disclosed on pages 25 - 32 are an integral part of the foregoing half-year condensed separate financial statements.

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

Separate statement of profit or loss and other comprehensive income

	NOTE	6 MONTHS ENDED 30/06/2013 (unaudited)	3 MONTHS ENDED 30/06/2013 (unaudited)	6 MONTHS ENDED 30/06/2012 (unaudited)	3 MONTHS ENDED 30/06/2012 (unaudited)
Statement of profit or loss					
Sales revenues	*3.6.*	40 914 092	20 709 031	41 402 784	19 267 459
Cost of sales	*3.7.*	(39 409 555)	(20 148 187)	(38 790 614)	(18 036 298)
Gross profit on sales		**1 504 537**	**560 844**	**2 612 170**	**1 231 161**
Distribution expenses		(1 029 006)	(514 408)	(1 002 201)	(500 630)
General and administrative expenses		(360 901)	(177 817)	(373 860)	(189 661)
Other operating revenues	*3.8.*	191 401	153 509	102 722	57 009
Other operating expenses	*3.8.*	(139 085)	(94 326)	(115 761)	(44 978)
Profit/(loss) from operations		**166 946**	**(72 198)**	**1 223 070**	**552 901**
Financial revenues	*3.9.*	299 484	258 439	771 900	227 087
Financial expenses	*3.9.*	(655 816)	(300 803)	(196 506)	(655 904)
Financial revenues and expenses		**(356 332)**	**(42 364)**	**575 394**	**(428 817)**
Profit/(Loss) before tax		**(189 386)**	**(114 562)**	**1 798 464**	**124 084**
Income tax expense	*3.10.*	156 540	65 977	(317 327)	772
Net profit/(loss)		**(32 846)**	**(48 585)**	**1 481 137**	**124 856**
Items of other comprehensive income					
which will be reclassified into profit or loss under certain conditions					
Hedging instruments		*(79 163)*	*(109 501)*	*(356 085)*	*(446 095)*
Deferred tax		*15 041*	*20 806*	*67 656*	*84 758*
		(64 122)	**(88 695)**	**(288 429)**	**(361 337)**
Total net comprehensive income		**(96 968)**	**(137 280)**	**1 192 708**	**(236 481)**
Net profit/(loss) and diluted net profit/(loss) per share (in PLN per share)		(0.08)	(0.12)	3.46	0.29

The accompanying notes disclosed on pages 25 - 32 are an integral part of the foregoing half-year condensed separate financial statements.

(in PLN thousand)

Separate statement of cash flows

	6 MONTHS ENDED 30/06/2013 (unaudited)	3 MONTHS ENDED 30/06/2013 (unaudited)	6 MONTHS ENDED 30/06/2012 (unaudited)	3 MONTHS ENDED 30/06/2012 (unaudited)
Cash flows - operating activities				
Net profit/(loss)	**(32 846)**	**(48 585)**	**1 481 137**	**124 856**
Adjustments for:				
Depreciation and amortisation	501 952	250 885	530 073	266 796
Foreign exchange (gain)/loss	338 739	163 390	(349 790)	392 699
Interest, net	130 549	70 522	159 451	82 681
Dividends	(219 883)	(219 883)	(159 358)	(150 026)
(Profit) on investing activities	(51 216)	(47 560)	(37 420)	(41 111)
Change in provisions	82 893	65 772	124 812	30 437
Income tax expense	(156 540)	(65 977)	317 327	(772)
Income tax received/(paid)	116 944	54 960	(807 554)	(666 000)
Other adjustments	(47 611)	(8 015)	(155 160)	(55 661)
Change in working capital	1 831 774	3 154 186	(1 047 942)	(463 909)
inventories	*828 644*	*2 467 900*	*(62 641)*	*745 776*
receivables	*(72 641)*	*(444 120)*	*863 587*	*925 409*
liabilities	*1 075 771*	*1 130 406*	*(1 848 888)*	*(2 135 094)*
Net cash provided by/(used in) operating activities	**2 494 755**	**3 369 695**	**55 576**	**(480 010)**
Cash flows - investing activities				
Acquisition of property, plant and equipment and intangible assets	(536 138)	(229 556)	(480 023)	(178 493)
Disposal of property, plant and equipment and intangible assets	104 889	17 082	7 070	1 384
Acquisition of shares	(645)	(570)	(10 803)	(1 225)
Disposal of shares	103	103	116	116
Interest received	17 664	14 134	18 673	14 581
Dividends received	26 692	26 692	106 518	106 518
Outflows from additional repayable payments to equity	-	-	(67 670)	(67 270)
Proceeds/(Outflows) from current loans granted	302 273	(92 835)	(67 888)	258 290
(Outflows) from cash pool facility	(154 332)	(147 034)	(14 857)	(64 733)
Other	(9 686)	(7 859)	828	15 979
Net cash provided by/(used in) investing activities	**(249 180)**	**(419 843)**	**(508 036)**	**85 147**
Cash flows - financing activities				
Proceeds from loans and borrowings received	2 773 714	523 718	2 544 139	1 240 101
Debt securities issued	4 656 637	3 145 911	5 697 226	1 892 604
Repayments of loans and borrowings	(2 805 148)	(703 228)	(3 900 841)	(1 283 346)
Redemption of debt securities	(4 210 335)	(2 743 020)	(5 388 027)	(2 050 266)
Interest paid	(154 940)	(74 101)	(170 487)	(78 219)
Payments of liabilities under finance lease agreements	(6 399)	(3 392)	(4 930)	(2 634)
Proceeds/(Outflows) from cash pool facility	115 765	7 127	(53 606)	46 061
Other	(1 682)	(1 682)	-	-
Net cash provided by/(used in) financing activities	**367 612**	**151 333**	**(1 276 526)**	**(235 699)**
Net increase/(decrease) in cash and cash equivalents	**2 613 187**	**3 101 185**	**(1 728 986)**	**(630 562)**
Effect of exchange rate changes	2 062	2 114	(306)	(432)
Cash and cash equivalents, beginning of the period	**972 179**	**484 129**	**4 291 187**	**3 192 889**
Cash, end of the period	**3 587 428**	**3 587 428**	**2 561 895**	**2 561 895**

The accompanying notes disclosed on pages 25 - 32 are an integral part of the foregoing half-year condensed separate financial statements.

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

Statement of changes in separate equity

	Share capital and share premium	Hedging reserve	Retained earnings	Total equity
1 January 2013	2 284 888	(69 133)	20 704 251	22 920 006
Net (loss)	-	-	(32 846)	(32 846)
Items of other comprehensive income	-	(64 122)	-	(64 122)
Total net comprehensive income	**-**	**(64 122)**	**(32 846)**	**(96 968)**
Dividend			(641 564)	(641 564)
30 June 2013	**2 284 888**	**(133 255)**	**20 029 841**	**22 181 474**
(unaudited)				
1 January 2012	2 284 888	(14 617)	18 576 453	20 846 724
Net profit	-	-	1 481 137	1 481 137
Items of other comprehensive income	-	(288 429)	-	(288 429)
Total net comprehensive income	**-**	**(288 429)**	**1 481 137**	**1 192 708**
30 June 2012	**2 284 888**	**(303 046)**	**20 057 590**	**22 039 432**
(unaudited)				

The accompanying notes disclosed on pages 25 - 32 are an integral part of the foregoing half-year condensed separate financial statements.

EXPLANATORY NOTES TO THE HALF-YEAR CONDENSED SEPARATE FINANCIAL STATEMENTS

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

1.1. Statement of compliance and general principles of preparation

The foregoing half-year condensed separate financial statements ("separate financial statements") were prepared in accordance with requirements of IAS 34 "Interim financial reporting" and in the scope required under the Minister of Finance Regulation of 19 February 2009 on current and periodic information provided by issuers of securities and conditions of recognition as equivalent information required by the law of a non-Member State (Official Journal no. 33, item 259 with further amendments) ("Regulation") and present the PKN ORLEN S.A. ("Company", "Parent Company", "PKN ORLEN") financial position as at 30 June 2013 and 31 December 2012, financial results and cash flows for the period of 6 and 3 months ended 30 June 2013 and 30 June 2012.

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

Duration of the Company is unlimited.

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

1.2. Statement of the Management Board

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

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

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

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

1.2.3. Applied accounting principles and IFRS amendments

These foregoing half-year condensed separate financial statements were prepared according to principles described in PKN ORLEN's Separate Financial Statements for the year ended 31 December 2012.

In these foregoing half-year condensed separate financial statements, the significant assumptions made by the Management Board regarding adoption of accounting principles and main uncertainties in the Company were the same as those presented in the Separate Financial Statements for the year 2012 in note 4.

In the I half of 2013 the Company made an assumption of due CO_2 emission rights to be granted free of charge for 2013. The updated Directive 2009/29/EC of the European Parliament and of the Council of 23 April 2009 amending Directive 2003/87/EC so as to improve and extend the greenhouse gas emission allowance trading scheme of the Community (EU ETS Directive) implemented harmonized, binding for the whole European Union, principles of emission rights allocation, effective in 8-year settlement period starting in 2013. Based on EU ETS Directive the Company set the preliminary allocation of emission rights granted free of charge based on emission indices obligatory for the settlement period starting in 2013.
As at 30 June 2013 the process of allocation of emission rights granted free of charge for the member states was not finalized by the European Commission.
As a result, as at 30 June 2013, the Company recognized trade receivables on CO_2 emission rights for the year 2013 granted free of charge of 3,644,962 tonnes in the value of PLN 65,974 thousand.
After the emission rights allocation, the Company will reclassify the above rights to intangible assets.
In the first half of 2013 the Company on the ground of the Decision of the President of the Energy Regulatory Office received energy rights, so called yellow and red certificates for the first quarter of 2013 of MWh 218,322 and MWh 338,932, respectively.

Due to the ongoing work on the amendments to the Energy Law and the parallel process of obtaining the consent of the European Commission to extend support for the cogeneration, on the Polish Power Exchange there is no trading of yellow and red certificates making it impossible to determine the value of these rights. As a result, in the first half of 2013 the Company did not recognize intangible assets from acquired free of charge rights in the statement of financial positions and did not recognize the grant in other operating income.

Starting from the I quarter of 2013 the PKN ORLEN separated the Upstream operating segment, which activities have been presented within the Corporate Functions so far. Comparative data for 6 and 3 months period ended 30 June 2012 and as at 31 December 2012 was restated.

The Company intends to adopt amendments to IFRSs that are published but not effective as at the date of preparation of these half-year condensed consolidated financial statements in accordance with their effective date. The possible impact of new amendments to IFRSs on the future separate financial statements was presented in the Separate Financial Statements for the year 2012 in note 3.2.

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

The functional currency and presentation currency of the foregoing half-year condensed separate financial statements is Polish Złoty (PLN). The data is presented in PLN thousand in the separate financial statements.

2. Operating segments

The Company's activities are allocated to:
- the refining segment, which includes refinery products processing and wholesale, oil production and sale as well as supporting production,
- the retail segment, which includes sales at petrol stations,
- the petrochemical segment, which includes the production and wholesale of petrochemicals and production and sale of chemicals,
- upstream segment, which includes exploration and extraction of hydrocarbons,

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

Revenues, expenses and financial result by operating segments

for 6 months ended 30 June 2013

	Refining Segment (unaudited)	Retail Segment (unaudited)	Petrochemical Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
Sales revenues from external customers	28 333 415	8 728 888	3 825 279	-	26 510	-	40 914 092
Sales revenues from transactions with other segments	11 030 915	-	1 565 466	-	35 572	(12 631 953)	-
Sales revenues	39 364 330	8 728 888	5 390 745	-	62 082	(12 631 953)	40 914 092
Operating expenses	(39 739 926)	(8 477 933)	(4 835 860)	(10 850)	(366 846)	12 631 953	(40 799 462)
Other operating revenues	63 744	43 778	4 869	-	79 010	-	191 401
Other operating expenses	(19 206)	(52 475)	(4 437)	-	(62 967)	-	(139 085)
Segment profit/(loss) from operations	**(331 058)**	**242 258**	**555 317**	**(10 850)**	**(288 721)**	**-**	**166 946**
Financial revenues							299 484
Financial expenses							(655 816)
(Loss) before tax							**(189 386)**
Income tax expense							156 540
Net (loss)							**(32 846)**

for 3 months ended 30 June 2013

	Refining Segment (unaudited)	Retail Segment (unaudited)	Petrochemical Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
Sales revenues from external customers	14 266 905	4 613 447	1 812 888	-	15 791	-	20 709 031
Sales revenues from transactions with other segments	5 567 539	-	771 044	-	18 415	(6 356 998)	-
Sales revenues	19 834 444	4 613 447	2 583 932	-	34 206	(6 356 998)	20 709 031
Operating expenses	(20 222 426)	(4 421 408)	(2 349 462)	(4 489)	(199 625)	6 356 998	(20 840 412)
Other operating revenues	42 907	38 556	(1 034)	-	73 080	-	153 509
Other operating expenses	(26)	(40 498)	(1 541)	-	(52 261)	-	(94 326)
Segment profit/(loss) from operations	**(345 101)**	**190 097**	**231 895**	**(4 489)**	**(144 600)**	**-**	**(72 198)**
Financial revenues							258 439
Financial expenses							(300 803)
(Loss) before tax							**(114 562)**
Income tax expense							65 977
Net (loss)							**(48 585)**

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

for 6 months ended 30 June 2012

	Refining Segment (unaudited)	Segment Detal (unaudited)	Segment Petrochemia (unaudited)	Upstream Segment (unaudited) restated data	Corporate Functions (unaudited) restated data	Adjustments (unaudited)	Total (unaudited)
Sales revenues from external customers	27 875 521	9 621 050	3 867 393	-	38 820	-	41 402 784
Sales revenues from transactions with other segments	12 092 042	-	1 775 764	-	36 741	(13 904 547)	-
Sales revenues	39 967 563	9 621 050	5 643 157	-	75 561	(13 904 547)	41 402 784
Operating expenses	(39 248 960)	(9 389 620)	(5 075 612)	(11 467)	(345 563)	13 904 547	(40 166 675)
Other operating revenues	31 285	30 028	10 838	-	30 571	-	102 722
Other operating expenses	(21 934)	(49 708)	(7 381)	-	(36 738)	-	(115 761)
Segment profit/(loss) from operations	**727 954**	**211 750**	**571 002**	**(11 467)**	**(276 169)**	**-**	**1 223 070**
Financial revenues							771 900
Financial expenses							(196 506)
Profit before tax							**1 798 464**
Income tax expense							(317 327)
Net profit							**1 481 137**

for 3 months ended 30 June 2012

	Refining Segment (unaudited)	Segment Detal (unaudited)	Segment Petrochemia (unaudited)	Upstream Segment (unaudited) restated data	Corporate Functions (unaudited) restated data	Adjustments (unaudited)	Total (unaudited)
Sales revenues from external customers	12 275 134	5 086 797	1 882 540	-	22 988	-	19 267 459
Sales revenues from transactions with other segments	6 118 764	-	894 225	-	18 764	(7 031 753)	-
Sales revenues	18 393 898	5 086 797	2 776 765	-	41 752	(7 031 753)	19 267 459
Operating expenses	(18 239 851)	(4 896 158)	(2 435 990)	(6 535)	(179 808)	7 031 753	(18 726 589)
Other operating revenues	23 770	14 595	5 459	-	13 185	-	57 009
Other operating expenses	(2 406)	(16 054)	(3 162)	-	(23 356)	-	(44 978)
Segment profit/(loss) from operations	**175 411**	**189 180**	**343 072**	**(6 535)**	**(148 227)**	**-**	**552 901**
Financial revenues							227 087
Financial expenses							(655 904)
Profit before tax							**124 084**
Income tax expense							772
Net profit							**124 856**

Restatement of the previously presented segment data in relation to separation of the operating Upstream segment

In relation to separation of the Upstream segment from Total operating expenses in Corporate Functions, for 6 and 3 months period ended 30 June 2012 amounts of PLN (11,467) thousand and PLN (6,535) thousand, respectively, were reclassified to the Upstream segment.

Assets by operating segments

	AS AT 30/06/2013 (unaudited)	AS AT 31/12/2012
Refining Segment	18 238 890	19 247 518
Retail Segment	3 463 753	3 378 639
Petrochemical Segment	6 234 196	6 348 922
Segment assets	**27 936 839**	**28 975 079**
Corporate Functions	15 091 295	12 431 890
	43 028 134	**41 406 969**

(in PLN thousand)

3. Other notes

3.1. Impairment allowances of assets

	6 MONTHS ENDED 30/06/2013 (unaudited)	3 MONTHS ENDED 30/06/2013 (unaudited)	6 MONTHS ENDED 30/06/2012 (unaudited)	3 MONTHS ENDED 30/06/2012 (unaudited)
Property, plant and equipment				
Recognition	(29 613)	(28 124)	(16 899)	(6 844)
Reversal	28 787	27 402	21 493	7 897
Intangible assets				
Recognition	(5 432)	(5 432)	(5)	(5)
Reversal	1 009	1 007	12	6
Financial assets available for sale				
Recognition	(411)	(260)	(172)	(172)
Reversal	-	-	216	-
Receivables				
Recognition	(20 743)	(9 838)	(31 258)	(14 268)
Reversal	15 066	6 239	21 342	8 292

Recognition and reversal of impairment allowances in the 6 and 3 months period ended 30 June 2013 and 30 June 2012 related mainly to:
- obsolescence of property, plant and equipment,
- extinction of indicators in respect of overdue receivables, occurrence of uncollectible receivables and receivables in court.

3.2. Inventories written down to net realizable value

	6 MONTHS ENDED 30/06/2013 (unaudited)	3 MONTHS ENDED 30/06/2013 (unaudited)	6 MONTHS ENDED 30/06/2012 (unaudited)	3 MONTHS ENDED 30/06/2012 (unaudited)
Increase	(3 519)	(1 852)	(1 187)	(2)
Decrease	2 255	1 877	1 325	834

3.3. Other short-term financial assets

	AS AT 30/06/2013 (unaudited)	AS AT 31/12/2012
Cash flow hedge instruments	9 988	43 425
foreign currency forwards	*9 352*	*41 912*
commodity swaps	*636*	*1 513*
Embedded derivatives	55	744
foreign currency swaps	*55*	*744*
Loans granted	1 282 376	912 725
Cash pool	279 024	124 655
	1 571 443	**1 081 549**

3.4. Provisions

	Non-current		Current		Total	
	AS AT 30/06/2013 (unaudited)	AS AT 31/12/2012	AS AT 30/06/2013 (unaudited)	AS AT 31/12/2012	AS AT 30/06/2013 (unaudited)	AS AT 31/12/2012
Environmental	229 453	229 453	21 947	32 797	251 400	262 250
Jubilee and post-employment benefits	130 854	130 854	20 829	20 829	151 683	151 683
Business risk	-	-	12 316	7 725	12 316	7 725
Shield programs	-	-	27 691	28 305	27 691	28 305
CO_2 emission	-	-	88 361	192 595	88 361	192 595
Other	-	-	124 303	118 543	124 303	118 543
	360 307	**360 307**	**295 447**	**400 794**	**655 754**	**761 101**

(in PLN thousand)

3.5. Loans, borrowings and debt securities

	Non-current		Current		Total	
	AS AT 30/06/2013 (unaudited)	AS AT 31/12/2012	AS AT 30/06/2013 (unaudited)	AS AT 31/12/2012	AS AT 30/06/2013 (unaudited)	AS AT 31/12/2012
Loans	4 913 706	5 945 809	1 472 989	219 443	6 386 695	6 165 252
Borrowings	-	-	325 406	185 721	325 406	185 721
Debt securities	1 418 814	1 022 716	941 757	898 333	2 360 571	1 921 049
	6 332 520	**6 968 525**	**2 740 152**	**1 303 497**	**9 072 672**	**8 272 022**

3.6. Sales revenues

	6 MONTHS ENDED 30/06/2013 (unaudited)	3 MONTHS ENDED 30/06/2013 (unaudited)	6 MONTHS ENDED 30/06/2012 (unaudited)	3 MONTHS ENDED 30/06/2012 (unaudited)
Revenues from sales of finished goods and services, net	22 423 449	11 501 361	24 042 983	12 379 949
Revenues from sales of merchandise and raw materials, net	18 490 643	9 207 670	17 359 801	6 887 510
	40 914 092	**20 709 031**	**41 402 784**	**19 267 459**

3.7. Operating expenses

Cost of sales

	6 MONTHS ENDED 30/06/2013 (unaudited)	3 MONTHS ENDED 30/06/2013 (unaudited)	6 MONTHS ENDED 30/06/2012 (unaudited)	3 MONTHS ENDED 30/06/2012 (unaudited)
Cost of finished goods and services sold	(21 080 568)	(10 947 473)	(21 655 805)	(11 294 219)
Cost of merchandise and raw materials sold	(18 328 987)	(9 200 714)	(17 134 809)	(6 742 079)
	(39 409 555)	**(20 148 187)**	**(38 790 614)**	**(18 036 298)**

Cost by kind

	6 MONTHS ENDED 30/06/2013 (unaudited)	3 MONTHS ENDED 30/06/2013 (unaudited)	6 MONTHS ENDED 30/06/2012 (unaudited)	3 MONTHS ENDED 30/06/2012 (unaudited)
Materials and energy	(20 468 807)	(10 375 609)	(21 741 885)	(11 238 676)
Cost of merchandise and raw materials sold	(18 328 987)	(9 200 714)	(17 134 809)	(6 742 079)
External services	(1 057 774)	(524 080)	(1 062 729)	(548 677)
Employee benefits	(343 326)	(176 717)	(322 016)	(158 584)
Depreciation and amortisation	(501 952)	(250 885)	(530 073)	(266 796)
Taxes and charges	(200 705)	(108 196)	(179 846)	(86 829)
Other	(233 643)	(153 317)	(185 539)	(79 661)
	(41 135 194)	**(20 789 518)**	**(41 156 897)**	**(19 121 302)**
Change in inventories	120 555	(178 143)	832 223	337 129
Cost of products and services for own use	76 092	32 923	42 238	12 606
Operating expenses	**(40 938 547)**	**(20 934 738)**	**(40 282 436)**	**(18 771 567)**
Distribution expenses	1 029 006	514 408	1 002 201	500 630
General and administrative expenses	360 901	177 817	373 860	189 661
Other operating expenses	139 085	94 326	115 761	44 978
Cost of sales	**(39 409 555)**	**(20 148 187)**	**(38 790 614)**	**(18 036 298)**

3.8. Other operating revenues and expenses

Other operating revenues

	6 MONTHS ENDED 30/06/2013 (unaudited)	3 MONTHS ENDED 30/06/2013 (unaudited)	6 MONTHS ENDED 30/06/2012 (unaudited)	3 MONTHS ENDED 30/06/2012 (unaudited)
Profit on sale of non-current non-financial assets	58 561	55 100	3 374	1 286
Reversal of provisions	521	105	6 400	4 264
Reversal of receivables impairment allowances	8 758	4 840	18 950	8 046
Reversal of impairment allowances of property, plant and equipment and intangible assets	29 796	28 409	21 505	7 903
Penalties and compensations earned	5 040	2 705	8 582	2 632
Other	88 725	62 350	43 911	32 878
	191 401	**153 509**	**102 722**	**57 009**

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The line "other" in the 6 and 3 months period ended 30 June 2013 includes mainly income resulting from the decision of tax authorities on the refund of excise tax paid by PKN ORLEN for the period May-December 2004 and the adjustment of fuel charge liability regarding RME bioester for the period May-November 2011, received in II quarter 2013 of PLN 46,765 thousand and PLN 18,423 thousand, respectively.

Other operating expenses

	6 MONTHS ENDED 30/06/2013 (unaudited)	3 MONTHS ENDED 30/06/2013 (unaudited)	6 MONTHS ENDED 30/06/2012 (unaudited)	3 MONTHS ENDED 30/06/2012 (unaudited)
Loss on sale of non-current non-financial assets	(8 462)	(2 125)	(20 712)	(2 364)
Recognition of provisions	(44 964)	(39 776)	(13 864)	(4 178)
Recognition of receivables impairment allowances	(15 718)	(8 753)	(27 591)	(13 203)
Recognition of impairment allowances of property, plant and equipment and intangible assets	(35 045)	(33 556)	(16 904)	(6 849)
Costs of losses, breakdowns and compensations	(6 465)	(4 300)	(4 978)	(2 657)
Other	(28 431)	(5 816)	(31 712)	(15 727)
	(139 085)	**(94 326)**	**(115 761)**	**(44 978)**

3.9. Financial revenues and expenses

Financial revenues

	6 MONTHS ENDED 30/06/2013 (unaudited)	3 MONTHS ENDED 30/06/2013 (unaudited)	6 MONTHS ENDED 30/06/2012 (unaudited)	3 MONTHS ENDED 30/06/2012 (unaudited)
Interest	54 274	31 001	79 334	32 046
Foreign exchange gain surplus	-	-	452 031	-
Dividends	219 883	219 883	159 358	150 026
Profit from sale of shares	8 105	-	-	-
Settlement and valuation of financial instruments	4 615	3 058	68 259	39 017
Reversal of receivables impairment allowances	6 308	1 399	2 392	246
Financial assets avaiable for sale valuation	-	-	216	-
Other	6 299	3 098	10 310	5 752
	299 484	**258 439**	**771 900**	**227 087**

Financial expenses

	6 MONTHS ENDED 30/06/2013 (unaudited)	3 MONTHS ENDED 30/06/2013 (unaudited)	6 MONTHS ENDED 30/06/2012 (unaudited)	3 MONTHS ENDED 30/06/2012 (unaudited)
Interest	(150 428)	(79 695)	(180 729)	(93 755)
Foreign exchange loss surplus	(487 897)	(213 607)	-	(556 766)
Settlement and valuation of financial instruments	(9 998)	(4 721)	(9 937)	(2 792)
Recognition of receivables impairment allowances	(5 025)	(1 085)	(3 667)	(1 065)
Financial assets avaiable for sale valuation	(411)	(260)	(172)	(172)
Other	(2 057)	(1 435)	(2 001)	(1 354)
	(655 816)	**(300 803)**	**(196 506)**	**(655 904)**

Borrowing cost capitalized in the 6 and 3 months period ended 30 June 2013 and 30 June 2012 amounted to PLN (5,346) thousand and PLN (2,656) thousand, as well as PLN (5,446) thousand and PLN (2,888) thousand, respectively.

3.10. Income tax expense

	6 MONTHS ENDED 30/06/2013 (unaudited)	3 MONTHS ENDED 30/06/2013 (unaudited)	6 MONTHS ENDED 30/06/2012 (unaudited)	3 MONTHS ENDED 30/06/2012 (unaudited)
Current income tax	96 701	2 133	(179 125)	(5 222)
Deferred income tax	59 839	63 844	(138 202)	5 994
	156 540	**65 977**	**(317 327)**	**772**

In the first half of 2013 the current income tax had a positive value as a result of recognition as a reduction of tax burden in the first quarter of 2013 of PLN 94,964 thousand in connection with the favorable for PKN ORLEN court sentence of the Supreme Administrative Court for the recognition of compensation paid in 2009 to Agrofert as a tax deductible expense.

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

3.11. Methods applied in determining fair values of financial instruments recognized in the statement of financial position at fair value (fair value hierarchy)

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

Derivative instruments are presented as assets, when their valuation is positive and as liabilities, when their valuation is negative. Gains and losses resulting from changes in fair value of derivative instruments, for which hedge accounting is not applicable, are recognized in a reporting year profit or loss.

Fair value of shares quoted on active markets is determined based on market quotations (so called Level 1). In other cases, fair value is determined based on other input data which are directly or indirectly possible to observe (so called Level 2).

Fair value hierarchy

	AS AT 30/06/2013 (unaudited)		AS AT 31/12/2012	
	Level 1	Level 2	Level 1	Level 2
Financial assets				
Quoted shares	586	-	996	-
Embedded derivatives and hedging instruments	-	20 429	-	72 240
	586	**20 429**	**996**	**72 240**
Financial liabilities				
Embedded derivatives and hedging instruments	-	189 726	-	156 942
	-	**189 726**	**-**	**156 942**

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

3.12. Finance lease payments

As at 30 June 2013 and as at 31 December 2012, the Company possessed as a lessee, the finance lease agreements, concerning mainly petrol stations, cars and car wash.

	AS AT 30/06/2013 (unaudited)	AS AT 31/12/2012
Future value of minimum lease payments	105 133	93 020
Present value of minimum lease payments	85 837	75 586

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

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

3.14. Future liabilities resulting from signed investment contracts

As at 30 June 2013 and 31 December 2012 the value of future liabilities resulting from investment contracts signed until that day amounts to PLN 2,004,244 thousand and PLN 1,754,353 thousand, respectively.

3.15. Issue, redemption and repayment of debt securities

PKN ORLEN Supervisory Board, at the meeting held on 28 March 2013, gave consent for issue of bonds within the public bond issue programme (Programme) by the Company.
The programme assumes the issue in one or more series of bonds up to the total amount of PLN 1 billion during 12 months from the date of approval of the Prospectus by the PFSA. The bonds are offered in a public offering.
On 28 May 2013 and 3 June 2013 PKN ORLEN S.A. announced the offering of bonds, respectively Series A and B within the public bond issue programme and announced the final terms and conditions of the offering for both series of the bonds. Within each series up to 2,000,000 unsecured, bearer, dematerialized bonds through registration in the

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

deposit operated by the Central Securities Depository of Poland ("KDPW") were offered. Unit nominal value of the bond is PLN 100.
Interest were calculated daily starting on the first day of subscription, by unit issue price of the bond, taking into account increasing interest, increased in the order period of Series A bonds from PLN 100.00 to PLN 100.20, while for Series B from PLN 100.00 do PLN 100.13. Total nominal value of Series A and B bonds amounted to PLN 400,000 thousand. The bonds interest rate is variable. The interest rate is be based on the sum of WIBOR 6M rate and margin set at the level of 150 basis points. The interests will be paid in the half-year periods. Day of final redemption of the bonds is set on 28 May 2017 for the Series A the 3 June 2017 for the Series B.
Fitch Rating Agency has assigned a national rating ('rating') of BBB+ (pol) for Series A and Series B bonds. Acknowledging a high rating for the issue of retail bonds, Fitch analysts pointed the possibility of upgrading PKN ORLEN's international rating from BB+ to BBB- in the following months.
Series A bonds were allocated on 4 June 2013. The Bonds were acquired at issue price amounted from PLN 100.00 to PLN 100.03 depending on the day of subscription. The value of issue, defined as the number of Bonds which were offered multiplied by the issue price, amounted to PLN 200,005 thousand.
Series B bonds were allocated on 17 June 2013. The Bonds were acquired at issue price from PLN 100.00 to PLN 100.10 depending on the day of subscription. The value of issue, defined as the number of Bonds which were offered multiplied by the issue price, amounted to PLN 200,058 thousand.
On 26 June 2013 announced that the Management Board of the Warsaw Stock Exchange (WSE) had adopted a resolution to admit 2,000,000 Series A bonds and 2,000,000 Series B bonds to trading on the Catalyst regulated market. Bond debut took place on 28 June 2013.

Moreover, as a part of liquidity optimisation in ORLEN Group, issue and redemption of short term bonds in favor of Group companies were performed.

3.16. Company's profit distribution for 2012

On 27 June 2013 the Ordinary General Shareholders' Meeting of PKN ORLEN S.A. decided to distribute the net profit of the Parent Company for the year 2012 of PLN 2,127,797,966.06 as follows: PLN 641,563,591.50 as dividend payment (PLN 1.50 per 1 share) and PLN 1,486,234,374.56 as reserve capital.
The Ordinary General Shareholders' Meeting of PKN ORLEN S.A. determined the date of 26 July 2013 as a dividend date and the date of 13 August 2013 as a dividend payment date.

3.17. Contingent liabilities

	AS AT 31/12/2012	Increases/ (Decreases)	AS AT 30/06/2013 (unaudied)
Court proceedings	210	1 493	**1 703**

Court proceedings as at 30 June 2013 relate mainly to claims arising from usufruct rights and trade contracts with contractors claims.

3.18. Guarantees

Excise tax guarantees and excise tax on goods and merchandise under the excise tax suspension procedure as at 30 June 2013 and 31 December 2012 amounted to PLN 1,404,986 thousand and PLN 1,215,724 thousand, respectively.

3.19. Significant events after the end of the reporting period which were not reflected in the half-year condensed separate financial statements

No significant events occurred after the end of the reporting period which were not reflected in the half-year condensed separate financial statements.

MANAGEMENT BOARD REPORT ON THE OPERATIONS OF THE CAPITAL GROUP

FOR THE I HALF OF 2013

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

1. Principal activity

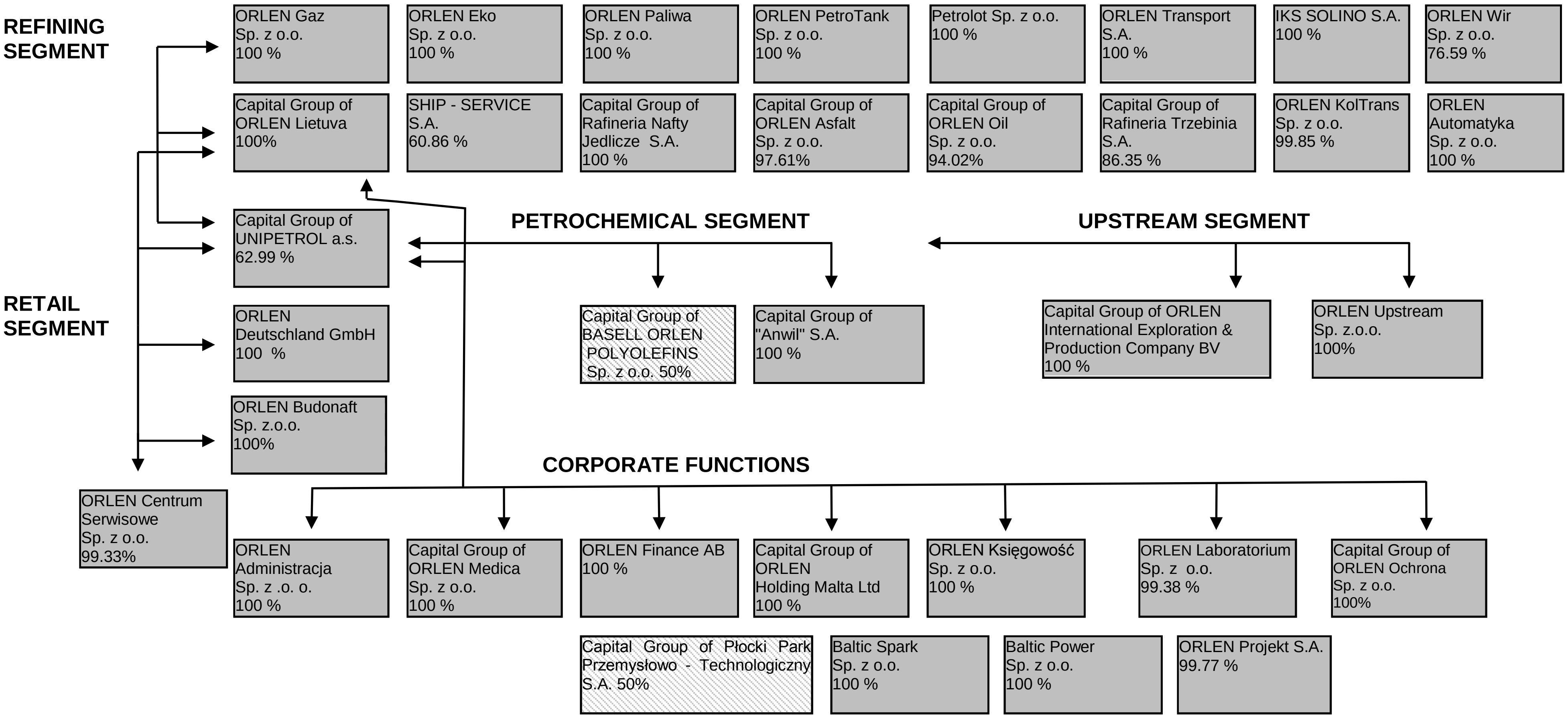
The Parent Company of the Polski Koncern Naftowy ORLEN S.A. Capital Group is Polski Koncern Naftowy ORLEN S.A. ("PKN ORLEN", "Company", "the Parent Company") seated in Płock, 7 Chemików Street.

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

2. Organization of the Capital Group

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

CONSOLIDATION SCHEME OF THE CAPITAL GROUP – first level



- The Parent Company PKN ORLEN was adequately allocated to all operating segments
- The scheme presents information about direct and indirect share in equity of related parties

fully consolidated entities

entities consolidated under proportionate method

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

The list of consolidated entities belonging to the Capital Groups on lower levels

name of the group	Share in total voting rights	
	30/06/2013	31/12/2012
1. Capital Group of Rafineria Trzebinia S.A.	86.35%	86.35%
Energomedia Sp. z o.o.	100%	100%
Euronaft Trzebinia Sp. z o.o.	100%	100%
Fabryka Parafin NaftoWax Sp. z o.o.	100%	100%
Zakładowa Straż Pożarna Sp. z o.o.	100%	100%
EkoNaft Sp. z o.o.	100%	100%
2. Capital Group of Rafineria Nafty Jedlicze S.A.	100%	100%
Raf-Koltrans Sp. z o.o.	100%	100%
Raf-Służba Ratownicza Sp. z o.o.	100%	100%
Raf-Bit Sp. z o.o.	100%	100%
Konsorcjum Olejów Przepracowanych – Organizacja Odzysku S.A.	81%	81%
3. Capital Group of ORLEN Oil Sp. z o.o.	100%*	100%*
ORLEN Oil Cesko s.r.o.	100%	100%
Platinum Oil Sp. z o.o.	100%	100%
Platinum Oil Wielkopolskie Centrum Dystrybucji sp. z o.o.	22%	22%
4. Capital Group of AB ORLEN Lietuva	100%	100%
UAB Medikvita (UAB Mazeikiu naftos sveikatos prieziuros centras)	100%	100%
UAB PASLAUGOS TAU	100%	100%
UAB Emas	100%	100%
AB Ventus-Nafta	100%	100%
UAB Naftelf	34%	34%
Capital Group of UAB Mazeikiu naftos prekybos namai	100%	100%
SIA ORLEN Latvija (SIA Mazeikiu Nafta Tirdzniecibas nams)	100%	100%
OU ORLEN Eesti (OU Mazeikiu Nafta Trading House)	100%	100%
5. Capital Group of UNIPETROL a.s.	62.99%	62.99%
Capital Group of UNIPETROL RPA s.r.o	100%	100%
UNIPETROL DOPRAVA s.r.o.	100%	100%
CHEMOPETROL a.s	100%	100%
UNIPETROL SLOVENSKO s.r.o.	100%	100%
POLYMER INSTITUTE BRNO spol. s.r.o.	100%	100%
HC VERVA Litvinov a.s.	70.95%	70.95%
CHEMAPOL (SCHWEIZ) AG	-	100%
UNIPETROL DEUTSCHLAND GmbH	100%	100%
Výzkumný ústav anorganické chemie a.s.	100%	100%
Capital Group of BENZINA s.r.o.	100%	100%
PETROTRANS s.r.o.	100%	100%
UNIPETROL SERVICES s.r.o.	100%	100%
UNIPETROL RAFINERIE s.r.o.	100%	100%
Capital Group of PARAMO a.s.	100%	100%
MOGUL SLOVAKIA s.r.o.	100%	100%
PARAMO OIL s.r.o.	100%	100%
UNIPETROL AUSTRIA HmbH	100%	100%
CESKA RAFINERSKA a.s.	51.22%	51.22%
Butadien Kralupy s.r.o.	51%	51%
6. Capital Group of "Anwil" S.A.	100%	100%
Przedsiębiorstwo Inwestycyjno-Remontowe Remwil Sp. z o.o.	100%	99.98%
Przedsiębiorstwo Produkcyjno-Handlowo-Usługowe Pro-Lab Sp. z o.o.	99.32%	99.32%
Przedsiębiorstwo Usług Specjalistycznych i Projektowych Chemeko Sp. z o.o.	100%	77.96%
Spolana a.s.	100%	100%
Zakład Usługowo Produkcyjny EKO-Dróg Sp. z o.o.	48.78%	48.78%
Przedsiębiorstwo Usług Technicznych Wircom Sp. z o.o.	49.02%	49.02%
Specjalistyczna Przychodnia Przemysłowa Prof-Med Sp. z o.o.	45.86%	45.86%
7. Capital Group of Basell ORLEN Polyolefins Sp. z o.o.	50%	50%
Basell ORLEN Polyolefins Sprzedaż Sp. z o.o.	100%	100%
8. Capital Group of ORLEN Medica Sp. z o.o.	100%	100%
Sanatorium Uzdrowiskowe "KRYSTYNKA" Sp. z o.o.	98.58%	98.58%

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

The list of consolidated entities belonging to the Capital Groups on lower levels continued

name of the group	Share in total voting rights	
	30/06/2013	31/12/2012
9. Capital Group of ORLEN Holding Malta Ltd.	100%	100%
ORLEN Insurance Ltd.	100%	100%
10. Capital Group of Płocki Park Przemysłowo-Technologiczny S.A	50%	50%
Centrum Edukacji Sp. z o.o.	69.43%	69.43%
11. Capital Group of Orlen International Exploration & Production Company BV	100%	100%
SIA Balin Energy	50%	50%
12. Capital Group of Orlen Ochrona Sp. z o.o.	100%	100%
UAB Apsauga	100%	100%
13. Capital Group of Orlen Asfalt Sp. z o.o.	100%**	100%**
ORLEN ASFALT Ceska Republika s.r.o.	100%	100%

* 94,02% share in equity for the purpose of ORLEN Group consolidation

** 97,61% share in equity for the purpose of ORLEN Group consolidation

In the I half of 2013, there were no significant changes in the structure of ORLEN Capital Group, in May a buyout took place of minority shareholders of 22.04% in Chemeko Sp. z.o.o. by Anwil S.A. for the amount of PLN 858 thousand.

3. Financial situation

3.1 Capital Group's achievements accompanied by circumstances and events that have a significant impact on the financial results

The ORLEN Group measures the inventories in accordance with International Financial Reporting Standards based on the weighted average cost formula or purchase price. This method of valuation results in delay in recognition of the effect of increase or decrease in the purchase of crude oil prices in relation to prices received from sales of finished products. The upward trend in oil prices has a positive impact and downward has a negative impact on reported operating results.

Negative impact of decreasing crude oil prices on the inventories valuation in the I half of 2013 amounted to PLN (-) 491 495 thousand and was higher by PLN (-) 371 215 thousand (y/y).

As a result ORLEN Group's profit from operations in the I half 2013 amounted to PLN 203,915 thousand as compared to PLN 1,314,172 thousand in the analogous period of the previous year.

Negative effect of macroeconomic factors, particularly in the refining segment, decreased ORLEN Group's result from operations by approximately PLN (-) 301,000 thousand (y/y).

Positive effect of higher sales volume in the retail and petrochemical segment contributed to the increase of ORLEN Group's result from operations by PLN 162,000 thousand (y/y).

The effect of other factors amounted to PLN (-) 600,042 thousand (y/y) and was related mainly to:
- lack of positive effect of repurchase of II tranche of mandatory reserves from Maury Sp. z o.o. in I half 2012 in of PLN (-) 240.000 thousand (y/y),
- one-off negative effect of mandatory reserves sales of PLN (-) 144,378 thousand, which will be compensated in connection to hedging transactions,
- market pressure on trading margins mainly in refining segment
- lack of positive effect from the I half of 2012 related to throughput of cheaper components processed before overhaul of the installations in Płock refinery.

Operating segments:

– **Refining segment**

The result from operations of refining segment of the ORLEN Group for the I half of 2013 amounted to PLN (-) 595,692 thousand and was lower by PLN (-) 1,261,472 thousand (y/y).

Negative impact of decreasing crude oil prices on the inventories valuation contributed to the decrease of segment's operating result by PLN (-) 416,144 thousand (y/y) .
Negative impact of macroeconomic factors was partially offset by positive sales volume effect on Polish market and on the markets operated by ORLEN Lietuva Group and decreased segment's operating result by approximately PLN (-) 213,000 thousand (y/y)

The effect of other factors amounted to PLN (-) 632,328 thousand (y/y) and comprised mainly:

- lack of positive effect of repurchase of II tranche of mandatory reserves from Maury Sp. z o.o. in the I half of 2012 of PLN (-) 240.000 thousand (y/y),
- one-off negative effect of mandatory reserves sales of PLN (-) 144,378 thousand, which will be compensated in connection to hedging transactions,
- negative effect related to pressure on trading margins,
- lack of positive effect from the I half of 2012 related to throughput of cheaper components processed before overhaul of the installations in Płock refinery.

The segment's capital expenditures ("CAPEX") in the I half of 2013 amounted to PLN 351,743 thousand and comprised mainly:

- PKN ORLEN: construction of the Installation of Catalytic Denitrification and Dedusting, site preparation of Flue Gas Desulphurization, modernization of the fuel system of the Power Plant in Płock and construction of reformate tanks on the Composition Department
- ORLEN Lietuva Group: construction of installation of Visbreaker Vacuum Flasher,
- Unipetrol Group: adjustment of electric equipment to current requirement and projects related to the improvement of energy efficiency

- **Retail segment**

In the I half of 2013 profit from operations of the retail segment of the ORLEN Group amounted to PLN 319,528 thousand and was higher by PLN 41,030 thousand (y/y).

Negative trends in fuel consumption, particularly in the I quarter of 2013 on Polish and German markets decreased fuel sales volumes and consequently decreased the result of operations of the segments by PLN (-) 16,000 thousand (y/y).

The gradual reconstruction of fuel margins on Polish, German and Lithuanian markets with persisting pressure on Czech market contributed to the increase in result from operations of the segment by PLN 40,000 thousand (y/y).

The effect of other factors amounted to PLN (-) 17,030 thousand (y/y) mainly due to net effect of lower costs of fuel stations and lower depreciation and amortisation.

Segment's capital expenditures („CAPEX") in the I half of 2013 amounted to PLN 104,313 thousand.

At the end of the I half of 2013 the ORLEN Group operated 2,705 fuel stations. As compared to the analogous period of 2012 the number of fuel stations increased by 14 (by 23 on Polish market, with a decline by (-) 9 on German market). Number of fuel stations in franchising system increased by 16, with a decrease by (-) 2 in CODO system.

At the end of I half of 2013 number of catering points such as Stop Café and Stop Café Bistro amounted to 869 and was higher by 161 (y/y).

- **Petrochemical segment**

In the I half 2013 profit from operations of petrochemical segment amounted to PLN 834,641 thousand and was higher by PLN (-) 109,502 thousand in comparison to the I half 2012.

The effect of inventories valuation in the I half 2013 increased operating result of the segment by PLN 44.930 thousand (y/y).

Positive impact of macroeconomic environment related mainly to improvement of petrochemical margins (y/y) and higher sales volumes of polyolefins, plastics and PTA increased result from operation of the segment by PLN 91,000 thousand (y/y)

The effect of other macroeconomic factors of PLN (-) 26,428 thousand (y/y) comprises mainly negative impact of change in the balance of other operating activities in relation to impairment allowances of property, plant and equipment and intangible assets as well as lower proceeds from settlement CO_2 emission rights in comparison with to analogous period of the previous year.

In the I half of 2013 segment's capital expenditures ("CAPEX") amounted to PLN 142,193 thousand and concerned mainly:

- ANWIL Group: projects connected with construction of gas power plant in Włocławek conducted by PKN ORLEN S.A., modernization works on Ammonia Installation and replacement of the reactor at a Sulfuric Acid Plant
- Unipetrol Group: reconstruction of pirolytic furnance at Olefin's and replacement of the reactor at a Sulfuric Acid Plant

- **Upstream Segment**

Under unconventional projects at the end of the I half of 2013 6 drillings were performed, including 4 vertical and 2 horizontal. Additionally in July 2013 another vertical drilling was completed.

In the I half of 2013 under the Lublin Shale Project 3 vertical drillings were performed. Drillings of the first well ended in April 2013, second well was completed in July 2013, whereas the third one is ongoing. The analyses of data obtained during previous operations were performed simultaneously.
In the I half of 2013 fracturing process of one of horizontal drillings was conducted. In July 2013 production tests after fracturing process were completed and actually data analyses are carried out.

In June 2013 the acquisition process of new 2D seismic data under Garwolin Project was performed.

Under project Mid-Poland Unconventionals in the I half of 2013 the acquisition process of new 2D seismic data was started. The completion of field works is planned in the II half of 2013.

Under Project Hrubieszów Shale preparatory works for the acquisition of 2D seismic data were conducted.

Total capital expenditures ("CAPEX") concerning unconventional projects in the I half of 2013 increased by PLN 78,553 thousand (y/y) to the level of PLN 98,133 thousand.

Under conventional projects at the end of the I half of 2013 3 exploration and prospecting drillings were realized, including 2 prospecting drillings under Sierakow Project and 1 exploration drilling under project conducted on Baltic Sea .

In the I half of 2013 as part of the project implemented on the Polish Lowland area near Sierakow in cooperation with PGNiG an exploration drilling was carried out in May 2013 and actually obtained data are analyzed.

In the I half of 2013 under the Kambr Project held jointly with Kuwait Energy Company exploration drilling on the Latvian zone of Baltic Sea shelf were conducted. Drilling works using semi-submersible platform were finished in June 2013. The project is realized through holding company ORLEN International Exploration and Production Company BV (OIEPCo).

Under the Karbon Project in the Lublin Region in the I half of 2013 preparatory works were performed for the acquisition of 2D seismic data and drilling of exploration well.

Total capital expenditures ("CAPEX") concerning conventional projects in the I half of 2013 amounted to PLN 61,736 thousand and were higher by PLN 57,997 thousand.

- **Corporate functions**

Corporate functions net expenditures in the I half of 2013 achieved comparable level (y/y).

Capital expenditures ("CAPEX") of corporate functions in the I half of 2013 amounted to PLN 80,068 thousand and mainly related to tasks concerning construction works of the gas power plant in Włocławek of PLN 44,000 thousand and the remaining part mainly related to IT area projects.

Financial expenses and net result

Net financial expenses in the I half of 2013 amounted to PLN (-) 351,347 thousand and mainly comprised of net foreign exchange losses on revaluation of loans and other items in foreign currencies of PLN (-) 313,568 thousand, net interest expenses of PLN (-) 90,725 thousand and net income from the valuation of financial instruments of PLN 68,201 thousand.

After consideration of share in financial result from investments accounted for under equity method and tax charges, net loss of the ORLEN Group for the I half of 2013 amounted to PLN (-) 83,803 thousand.

3.2 Statement of financial position

As at 30 June 2013 the statement of financial position amounted to PLN 54,494,576 thousand and increased by PLN 1,863,796 thousand (by 3.5%) in comparison to 31 December 2012.

The value of current assets increased as compared to the situation recorded as at 31 December 2012 by PLN 1,990,108 thousand (by 7.7%) to the level of PLN 27,810,251 thousand, mainly due to:
- increase by PLN 2,361,008 thousand (by 106.8%) of cash and cash equivalents balance,
- increase by PLN 848,345 thousand (by 10.5%) of trade and other receivables,
- decrease by PLN (-) 1,067,831 thousand (by (-) 7.1%) of inventories mainly as the result of lower crude oil quotations and the lower level of operating inventories.

The value of non-current assets decreased as compared to the situation recorded as at 31 December 2013 by PLN (-) 126,312 thousand (by (-) 0.5%) and reached the value of PLN 26,684,325 thousand. The most significant impact on above change had net decrease by PLN (-) 133,785 thousand (by(-) 0.5%) of property, plant and equipment and intangible assets, mainly due to:
- capital expenditures of PLN 838,186 thousand,
- depreciation and amortisation of PLN (-) 1,072,837 thousand,
- amortisation of CO_2 emission rights of PLN (-) 356,455 thousand,
- sales of rights (yellow energy) of PLN (-) 39,630 thousand,
- foreign exchange differences of non-current assets on subsidiaries of PLN 504,739 thousand.

Equity as at 30 June 2013 amounted to PLN 27,761,081 thousand and was lower by PLN (-) 545,752 thousand (by (-) 1.9%) in comparison with its amount recorded as at the end of the prior year, mainly due to:
- resolution of Ordinary Shareholders Meeting of PKN ORLEN S.A. held on 27 June 2013 regarding the distribution of profit for the year ended 2012 to dividend payment of PLN (-) 641,564 thousand and recognition of net loss for 6 months of 2013 attributable to the shareholders of the parent of PLN (-) 57,618 thousand,
- reduction by PLN (-) 67,401 thousand in the equity as a result of hedge accounting,
- increase by PLN 221,600 thousand (y/y) of foreign exchange differences on subsidiaries from consolidation.

As at 30 June 2013 net indebtedness of the ORLEN Group amounted to PLN 5,171,403 thousand and was lower by PLN (-) 1,590,259 thousand as compared to the level at the end of 2012. The decrease in net indebtedness in the I half year of 2013 was mainly due to net repayment of loans and changes in cash balances of PLN (-) 2,443,894 thousand, accompanied by increase of foreign exchange losses from the revaluation of foreign exchange loans and indebtedness valuation of PLN 853.635 thousand.

3.3 Statement of cash flows

Net cash provided by operating activities in the first half of 2013 amounted to PLN 2,976,268 thousand.
Main items of operating cash flows comprised of net result plus depreciation and amortization, foreign exchange gains and net interest of PLN 1,275,948 thousand, as well as positive effect of reducing net working capital of PLN 1,747,184 thousand.

Net cash used in investing activities in the I half of 2013 of PLN (-) 770,696 thousand comprised primarily of net expenditures spent on the acquisition of fixed and intangible assets of PLN (-) 871,075 thousand, as well as other net inflows of PLN 100,379 thousand mainly due to the repayment of loans and settlement of derivative instruments not subjected to hedge accounting.

Net cash provided by financing activities in the I half of 2013 amounted to PLN 154,014 thousand and comprised mainly of inflows from the issuance of debt securities and net expenditures from repayment of PLN 316,023 thousand less debt service costs and payments from finance leases agreements for a total of PLN (-) 157 788 thousand.

After taking into account the revaluation of net cash due to foreign exchange differences, the net cash balance increased in the first half of 2013 by PLN 2,361,008 thousand and as at 30 June 2013 amounted to PLN 4,572,433 thousand.

Factors and events which may influence future results

Similar factors as described above will have influence on financial results in subsequent quarters of 2013.

3.4 The most significant events in the period from 1 January 2013 until the date of preparation of the foregoing report

On 28 February 2013 PKN ORLEN announced that the deposit agreement dated 26 November 1999 (with further amendments) constituting the PKN ORLEN's global depositary receipts ("GDRs") concluded with The Bank of New York Mellon was terminated on 27 February 2013. The termination of the Deposit Agreement resulted from the notice of termination of the Deposit Agreement sent by PKN ORLEN to the Depositary Bank on 29 November 2012 and expiration of the 90 - day notice period from the date of delivery of the above mentioned notice, as stipulated in the Deposit Agreement.
According to the terms of the Deposit Agreement, the Depositary Bank shall, as soon as possible after the termination of the Deposit Agreement, sell the PKN ORLEN shares held by the Depositary Bank and related to outstanding GDRs. The Depositary Bank shall deliver cash from such sale to holders of these GDRs, proportionally to the number of shares represented by GDRs held by them.
In connection with the termination of the Deposit Agreement the listing of the GDRs on the Official List of the London Stock Exchange was cancelled and the GDRs were removed from trading on the London Stock Exchange plc Main Market for listed securities as of 27 February 2013.

On 5 March 2013 PKN ORLEN announced that the deposit agreement dated 10 April 2001 (with further amendments) constituting the PKN ORLEN's American depositary receipts ("ADRs") concluded with The Bank of New York Mellon was terminated on 4 March 2013. The termination of the Deposit Agreement resulted from:
- the notice of termination of the Deposit Agreement sent by PKN ORLEN to the Depositary Bank on 29 November 2012,
- the notice of termination sent by the Depositary Bank to holders of the ADRs on 3 December 2012, and
- expiration of a notice period of at least 90 days commencing on the date of providing the above mentioned notice to holders of the ADRs, as stipulated by the Deposit Agreement.
According to the terms of the Deposit Agreement holders of ADRs may exchange ADRs for the PKN ORLEN's shares within one year following the termination of the Deposit Agreement, by until 4 March 2014. Thereafter, the Depositary Bank may sell any remaining shares related to outstanding ADRs. Holders of ADRs may exchange ADRs for a proportional share of cash from such sale or for the PKN ORLEN's shares, if the Depositary Bank does not perform the sale.

On 28 March 2013 expired the agreement between PKN ORLEN and Ashby Sp. z o.o. that has been concluded on 28 March 2012, regarding gathering and keeping of mandatory reserves of crude oil. Therefore, and in accordance with applicable regulations regarding the maintenance of mandatory reserves in Poland, PKN ORLEN acquired crude oil owned by Ashby Sp. z o.o. The value of the transaction was PLN 1,194,552 thousand translated using exchange rate as at 27 March 2013 (representing USD 366,034 thousand). The price of raw material was determined based on market quotations. The transfer of funds by PKN ORLEN as well as the transfer of ownership of the raw material to PKN ORLEN has been made on 28 March 2013. On the day of signing the agreement the acquisition price of crude oil has been hedged with a forward contact. The settlement of the hedging transaction increased the value of the acquired raw material by PLN 123,615 thousand translated using exchange rate as at 27 March 2013 (representing USD 37,878 thousand). As a result PKN ORLEN recognized in the first quarter of 2013 the purchase of crude oil of PLN 1,318,167 thousand translated using exchange rate as at 27 March 2013 (representing USD 403,912 thousand).

On 27 June 2013 PKN ORLEN concluded with Neon Poland Sp. z o.o. ("Neon") the agreement for the sale of crude oil and the agreement for order of creation and keeping of crude oil mandatory reserves.
On the basis of the sales agreement PKN ORLEN sold crude oil valued approximately PLN 1,044,592 thousand translated using exchange rate as at 27 June 2013 (representing approximately USD 314,248 thousand). The crude oil price was established according to market quotations.
On the basis of the agreement for creation and keeping of inventories Neon will be providing service of keeping of crude oil mandatory reserves to PKN ORLEN account, whereas PKN ORLEN will guarantee storage of inventories in current location. The Agreement for creation and keeping of inventories was concluded for the period to 29 January 2015, however the Company takes into account the possibility of its renewal for the next period.
Above agreements were concluded after receiving by PKN ORLEN the approval of Material Reserves Agency for the transaction.
Moreover, PKN ORLEN signed with Neon an agreement, under which the Company will grant Neon a short-term loan of approximately PLN 240,256 thousand, interest at market conditions. The loan will be repaid at the time of input VAT return on above transaction by Tax Office to Neon.
Neon is a special purpose vehicle, established at the request of RBS Polish Financial Advisory Services Sp. z o.o., which is a subsidiary of Royal Bank of Scotland plc. which includes turnover of crude oil in its statutory activities.

On 27 June 2013 the Ordinary General Meeting of PKN ORLEN S.A. appointed the Company's Supervisory Board for a new term of office. Ms Angelina Anna Sarota was elected to the position of Chairman of the PKN ORLEN S.A. Supervisory Board. The following Company's Supervisory Board Members were also elected: Mr Cezary Banasiński, Mr Grzegorz Borowiec, Mr Artur Gabor, Mr Michał Gołębiowski, Mr Cezary Możeński and Mr Leszek Jerzy Pawłowicz. The elected Members of the PKN ORLEN S.A. Supervisory Board, except for their duties in Issuer's company are not involved in any other competitive activity, they are not a partner of any competing partnerships, civil law partnerships, they are not a member of any board of a competing capital company, and they are not on the List of Insolvent Debtors kept on record on the National Court Register Act (Official Journal of 2007 No. 268, item 1186 with further amendements).

At the Supervisory Board meeting on 18 July 2013 Vice-President of the Supervisory Board in the person of Leszek Pawlowicz and Secretary of the Board in the person of Mr. Michal Gołębiowski were chosen, and the following Committees of the Supervisory Board were established:

The Audit Committee:
Artur Gabor - Chairman
Grzegorz Borowiec
Michał Gołębiowski
Leszek Pawłowicz

Committee for Strategy and Development:
Cezary Banasiński - Chairman
Artur Gabor
Cezary Możeński
Leszek Pawłowicz
Angelina Sarota

Appointmens and Remuneration Committee:
Angelina Sarota - Chairman
Cezary Banasiński
Grzegorz Borowiec
Michał Gołębiowski

Corporate Governance Committee:
Cezary Możeński - Chairman
Michał Gołębiowski
Angelina Sarota

3.5 Significant risks, which impact current and future financial results

3.5.1. Character and scope of risks related to financial instruments

Capital Group's activities relate to exposure mainly to following financial risks:

Credit risk

Within its trading activity the Capital Group sells products and services with deferred payment term, which may result in the risk that customers will not pay for the Group's receivables from sales of products and services. In order to minimize credit risk and working capital the Group manages the risk by credit limit policies governing granting of credit limits to customers and establishment of pledges of appropriate types.

Each deferred payment term customer is individually assessed with regard to credit risk. A portion of trade receivables is insured within an organized trade credit insurance program. Trade receivables are monitored on a regular basis. In the event of occurrence of overdue receivables, sale is withheld and debt recovery procedures implemented as described by the obliging procedures.

The concentration of risk connected with trade receivables is limited due to large number of customers with trade credit dispersed in various sectors of the Polish, German, Czech and Lithuanian economy.

Liquidity risk

The Group uses different sources of financing such as bank loans, borrowings, debt securities. Diversification of these sources, availability of different currencies and different maturity dates of financing ensure the balance between continuity and flexibility of financing.

The Group maintains the ratio of current assets to short-term liabilities (current ratio) on a safe level. As at 30 June 2013 and as at 31 December 2012 ratio amounted to 1.5 and 1.7, respectively.

The Group continues to use the Bond issue programme within the non-public offering, which the Group entered in 2007 and which enables the Group to go out beyond traditional bank market and to gain cash from other financial institutions, companies or natural persons. Bond issue programme is also used to manage liquidity within the domestic and foreign entities of the Capital Group. During the I half of 2013 bond issues were made only on the domestic market.

In the I half of 2013, public Bond issue programme within the public offering, addressed to individual investors, was started. The Programme is a further diversification of the Group's financing sources. Detailed information on the bond issuance is presented in note 3.15 of the Consolidated Financial Statements and Separate Financial Statements.
The Group uses domestic cash pool facility denominated in PLN, which comprised as at 30 June 2013 PKN ORLEN and 29 entities belonging to the Capital Group, and cross border cash pool facility denominated in EUR, USD and PLN, which comprised as at 30 June 2013 PKN ORLEN and 15 foreign entities belonging to the Capital Group.

Market risks

The Capital Group applies consistent hedging policy to foreign exchange risk, interest rate risk and commodity risk. ORLEN Capital Group manages the market risks arising from the above mentioned factors on the basis of market risk management policy, which sets out the principles of measurement of individual exposure parameters and the time horizon of risk hedging and hedging instruments. The PKN ORLEN market risk management policy is realized by designated organization units under the supervision of the Financial Risk Committee of PKN ORLEN, the Management Board of PKN ORLEN and the Supervisory Board of PKN ORLEN. Management Boards of the individual companies are responsible for risk management in the companies of the Capital Group under the supervision of the Supervisory Boards. PKN ORLEN which under the relevant contracts obtained the power of attorney is responsible for the realization of hedging transactions on behalf of each of the Capital Group's companies that remain under the coherent hedging policy.
The efficiency and execution of hedging transactions is monitored by the individual companies of the Capital Group and presented to the Financial Risk Committee of PKN ORLEN and the Management Board of PKN ORLEN.

The objective of market risk management is to reduce the unfavorable effects of changes in market risk factors on the cash flows and financial results in the short and medium term.

Market risk management is conducted using hedging strategies based on derivative instruments. Derivatives are used solely to reduce the risk of changes in fair value and risk of changes in cash flows. ORLEN Capital Group applies only those instruments which can be measured internally, using standard valuation models for given instrument. As far as market valuation of the instruments is concerned, the Group relies on information obtained from market leading banks, brokers and information services. Transactions are concluded only with reliable partners, authorized to participate in transactions through the application of appropriate procedures and signing the relevant documentation.

- **Currency risk**

The Group is exposed to currency risk resulting from current receivables and current liabilities, cash and cash equivalents, investment expenditures as well as liabilities from loans and bonds issued denominated in foreign currencies as well as from future planned cash flows from sales and purchases of refinery and petrochemical products and merchandise. Currency risk exposure is hedged by forward or swap instruments.

For USD/PLN exchange rate there is partially a natural hedge, as revenues from sale of products denominated in USD are offset by costs of crude oil purchases denominated in the same currency. In case of EUR/PLN exchange rate, natural hedge exists to the limited extent, as revenues from sale of products denominated in EUR are partially offset by interest on loans and investment purchases denominated in the same currency.

- **Interest rate risk**

The Capital Group is exposed to the risk of volatility of cash flows due to changes in interest rates that results from borrowings, bank loans and debt securities based on floating interest rates and derivative transactions hedging cash flows.

According to the Policy, the Group hedges part of risk of cash flows due to interest rates with derivative transactions (interest rate swaps IRS and cross currency swaps CCS).

- **Risk of changes in raw materials and petroleum product prices**

The operating activity of the ORLEN Group includes:
- changes in prices of crude oil processed;
- the obligation to maintain reserves of crude oil and fuels;
- Ural/Brent differential fluctuations (difference between quotations of these crude oil types);
- changes in prices of refining and petrochemical products, which depend on quotations of crude oil and products on international markets.

The Capital Group holds derivatives hedging a complex refinery margin and crack margin on selected products, as well as hedging against the risk of timing mismatch of oil deliveries, temporary existence of above-average operating stock and mandatory reserves repurchase transactions.

- **CO_2 emission allowance prices risk**

The Group performs verification of the number of rights annually and defines methods of systematic balancing of identified shortages/surpluses either in the way of intercompany transactions or through market term/spot transactions depending on the situation. The European Commission has not yet decided on the allocation of the 2013 free of charge CO_2 allowances for the industrial installations covered by the European Emissions Trading Scheme (EU ETS).

Additional information on CO_2 emission rights in note 1.2.3 of Separate and Consolidated Financial Statements.

The Group is also imposed on other risks connected i.a. with raw materials supply, fuel consumption trends, domestic and international market's growth rates and legal regulations related to conducted activities.

3.5.2. Hedge accounting

Cash flow hedge accounting

The Group hedges its cash flows:
– relating to operating revenues due to sale of petrochemical and refinery products as well as operating expenses due to purchases of crude oil against changes in exchange rates (EUR/PLN for sale and USD/PLN for purchases and sale) by means of foreign currency forwards,
– relating to investment projects (EUR/PLN, USD/PLN) against changes in exchange rates using foreign currency forwards,
– relating to sales/purchases of crude oil, gasoline, diesel, heating oil, using commodity swaps,
– relating to interest payments concerning external financing in EUR and USD, using interest rate swaps (IRS). The Group converted the PLN bonds to a fixed interest rate in EUR by using cross currency swaps (CCS).

Net investment hedge in a foreign operation

Starting from 2008 the Group uses net investment hedge in a foreign operation. Net investment hedge hedges currency risk of the portion of net investment in a foreign operation that uses USD as its functional currency.
Financial liabilities denominated in USD were designated as an instrument hedging share in net assets of Orlen Lietuva Group. Negative foreign exchange differences resulting from translation of these liabilities into PLN as at 30 June 2013 and as at 31 December 2012 amounted to PLN 880,877 thousand and PLN 693,950 thousand (including the impact of income tax), respectively, and were recognised in equity in the line “Foreign exchange differences on subsidiaries from consolidation”.

The Group's future results will be exposed to similar and described above risks.

3.5.3. Integrated Corporate Risk Management System (ERM)

In PKN ORLEN there is an Integrated Corporate Risk Management System (ERM), which goal is to manage risks in business processes. Within the implemented System, key risks in business processes were identified as well as control mechanisms mitigating these risks. Also ERM Policy and Procedure was created, which regulates the risks evaluation methodology and control mechanism testing in PKN ORLEN. For the needs of ERM, IT system supporting corporate risk management process was implemented. This IT system enables to perform periodic self-evaluation of risks and effectiveness of control mechanisms operation. Report on corporate risk evaluation in form of PKN ORLEN. Risks' Map is presented to the Management Board Members and Supervisory Board.

4. Forecasted development of the Group

In November 2012 Strategy of the ORLEN Group's development for 2013-2017, based on three pillars, were presented:

- **Shareholders** – stable financial foundations resulting from a reduced indebtedness and financial leverage, guaranteed refinancing and improved rating of the ORLEN Group's condition expressed in rating agencies opinions create the potential for dividend payments in the following years at the level up to 5% of the Company's average capitalization for the previous year, taken into consideration the implementation of strategic objectives in the field of financial safety and macroeconomic situation.

- **Value growth** – focus on enhancing the efficiency and value maximisation so called downstream (Refining, Petrochemical and Retail segments) and using the owned potential as the leverage to build value in the area of Power Industry and Upstream. Improving the operating results and cash flows provided by operating activities will enable to allocate more funds for development, especially in the area of Power Industry and Upstream.

- **Financial Foundations** – the above strategic objectives will be pursued with special attention to the financial safety, which is especially important in the unstable situation on the worldwide financial markets. It is planned to keep the safe level of financial leverage below 30% and the Net debt/(operating result + amortization) covenant below 1.5. One of the strategic objectives is also to restore PKN ORLEN's investment rating at the minimum BBB- level.

In 2013-2017 the ORLEN Group intends to allocate for investment projects concerning development and necessary modernization in total PLN 22.5 billion, PLN 6.9 billion of which constitutes so called additional pool that will be activated dependent on the projects' economics and current ORLEN Group situation.
Development expenditures within the total value of the planned investments will amount to PLN 15.1 billion, PLN 5.1 billion and PLN 4.2 billion of which will be allocated to upstream and power industry, respectively. The remaining amount of PLN 5.8 billion will be allocated to downstream segments (refining, petrochemical and retail segment).

I half of 2013 was the period of implementation of adopted strategic goals. The operationalization process of the strategy was performed, which allows to convert strategic goals to initiatives in particular segments and entities. As part of this process strategies for subsidiaries, as well as number of strategies in business areas and corporate functions were prepared. Additionally, key performance indicators (KPI) in the ORLEN Group were indentified, which allow ongoing monitoring of the progress in strategy realization.

Strategic goals in particular operating segments

Refining segment

The core business of the ORLEN Group will remain the refining segment with the high-class integrated production assets which ensure a strong position on the competitive market, mostly through the constant efforts to improve efficiency.
In 2017 it is planned to increase the crude oil processing volume by 2.2 million of tonnes, increase the yield on fuels by 1 p.p. and to decrease by 4 units the energy consumption (Solomon index) in comparison to 2012.
Strategy assumes strengthening the value through optimizing overhauls and mandatory expenditure, as well as through implementation of high-yield projects.

Retail segment

The activity of the retail segment in the next years will be based on the strong and established market position. The ORLEN Group has the largest sales network in the Central Europe and the biggest group of loyal customers in Poland. The Vitay and Flota programmes have over 2.5 million active participants.
Retail segment's expenses structure assumes decrease of adjusting investments and greater financial commitment to the development of the chains, including highway fuel stations.

Petrochemical segment

PKN ORLEN's position as the largest petrochemical producer in the region and a leader in the olefin and polyolefin production along with the forecast of increase in the demand for these products create a solid foundation of the value growth. Plans for the petrochemical segment assume the improvement of the performance rate of key installations, as well as enhance efficiency of the production and sale processes. In 2017 the assumed increase of throughput in olefin installation is 7 p.p., as well as increase in polymers sale and PTA together by 0.2 million tonnes in comparison to 2012.
With the key investment project of PTA installation in Włocławek being completed, petrochemical segment does not require significant development investment. New strategy involves implementation of projects aimed primarily at further extension of value chain and increase operating efficiency. In Unipetrol Group analyzes connected to modernization projects are prepared, including new installation for polyethylene and dicyclopentadiene production.

Power segment

ORLEN Group has experience gained in managing energy assets and on the natural gas market. In the production plant in Płock the biggest professional production block in Poland is localized, where various types of fuel, such as heating oil, refining gas and natural gas, are used to produce energy and heat. PKN ORLEN is the largest gas recipient in Poland and active participant in the liberalisation process of the natural gas market.

Given the energy market prospects, including the expected excess of demand over the supply, good locations held and possible synergies with other segments, it was decided to continue the development activities in this area.
Key development project being realised currently is construction of gas power plant in Włocławek. In the strategy PLN 2.4 billion was planned for building gas power plant in Płock, modernization of Heat and Power Plant in Unipetrol Group and projects related to renewable energy sources (RES), launch of which will depend on parameters of the above projects and current financial situation.

Upstream segment

ORLEN Group plans to further develop the extraction activities. The main focus will be on politically secure regions, by mostly Central Europe and possibly North America. Options to expand the activity in this respect will also be strategic partnerships and possible M&A transactions.
ORLEN Group's priority is the shale gas exploration under concessions held in Poland. The extraction may possibly be started as early as in 2016.
The investments in the upstream segment will reach at least PLN 2.4 billion, which will be allocated to shale gas exploration and extraction. Further PLN 2.7 billion will be used to extend the production stage, obtain additional concessions and/or M&A options, depending on the final parameters of the projects and the financial situation.

Additional information concerning strategic assumptions of the ORLEN Group for the years 2013 – 2017 is presented in the Management Board Report on the operations of the ORLEN Group for 2012.

5. Achievements in research and technical development

In the I half of 2013 the ORLEN Group performed number of research and development works and projects concerning the implementation of new products, technologies and development of segments, as well as resulting from applicable regulations in the area of environmental protection and production and sale of chemical substances.

5.1 Refining segment

The most important works carried out by PKN ORLEN in co-operation with research institutions and centres included developing the composing formula of fuels for the Heat and Power Plant, heavy heating oil with the use of asphaltites and aromatic dissolvents. Additionally, the compliance evaluation of energy determination in combination with heat production in Heat and Power Plant for 2012 according to 2004/8/EC was performed, as well as verification concerning CO_2 emission on selected refinery installations.

ORLEN Lietuva Group continued research and development work relating to further enhancement of production processes' effectiveness. The most important work in this area included the implementation of flare burners' management system on the installations of diesel and crude oil hydrotreating as well as utilization of C5+ fractions in the isomerization process. These projects will enable to reduce the consumption of fuel for own use, steam and electric energy, and as a result they will contribute to the improvement of energy efficiency index. The deizopentanizer project was performed as well, which will starting from II half of 2013 enable to increase the octane number and reduce purchases of high-octane fuel components.
Works started in 2012 connected to converting the diesel oil hydrotreating installation into hydrocracking installation as well as changes in oligomerization technology aimed at diesel oil production increase were continued. Currently, preparations to pilot installation test are carried out.

The research and development activities of the Unipetrol Group in the refining segment were carried out in cooperation with Výzkumný ústav anorganické chemie a.s. (VUAnCh). The most important work in the above scope included carrying out of the analysis of the diesel oil composition concerning stability, efficiency and the possibility of composing. The process started in 2012 of the analysis of the possibility of alternative fractions, available from the lubricating agents, being used on the Fluid Catalytic Cracking installation, was continued. Also the analysis of the potential utilization of the vacuum distillate from the Hydrocracking and Visbreaking installations was continued.

In ORLEN Oil Sp. z o.o., in the base oils segment analysis of hydrocracking residue was carried out concerning its use in base oil production process containing high level of saturated hydrocarbons. Also project concerning technical plasticizers for the rubber industry was started. In the lubricants segment production technology of 7 oils was developed and bench testing of engine oil for biogas powered engines was finalized. Works relating to new line of lubricants, which meet high environmental protection requirements, were continued, and the process of obtaining approvals for engine oils for trucks with the eastern engine producers was started. Additionally, the portfolio modification programme of oils for cars' shock absorbers was started, and 5 exploitation analysis programmes of lubricating oils and lubricants were carried out.

Rafineria Trzebinia S.A. started works on optimization of atmospheric crude oil processing node in order to increase light fractions yield and decrease of installations' energy intensity. In the area of esters' production works concerning the increase of production installation efficiency and adaptation of Raw Material Disslime Installation to use of less

expensive material, containing higher level of phosphorus, with no influence on final product's quality. Works started in 2012, concerning the paraffin products production installation, as well as implementation of new products including paraffins and waxes used in tyre, gum, candle and agricultural industry, were continued. In the area of biocomponents, work was continued on innovatory process technology of converting glycerol to propylene bioglycol.
Rafineria Nafty Jedlicze S.A., due to the observed deterioration of properties of waste oils referred to regeneration, the project was continued, which aimed to prepare the effective waste oil segregation system, further used in regeneration process. Based on research work and industrial trias of alkylates separation by distillation, carried out in 2012, jet fuel AVGAS 100 LL production technology was developed. Moreover, the work over the Metalworking project was continued and connected, among others, with complex research in respect of technology of production of oil bases from waste oils and metal processing fluids.

The ORLEN Group satisfies the requirements of the REACH Programme (Registration, Evaluation and Authorisation of Chemicals) as according to resolution (UE) 1907/2006 of European Parliament and European Union Council, which is designated to replace selected chemical substances with their safer substitutes. As a part of a programme, producers of chemical substances are obliged to register chemicals used in the production process and to present the information on their characteristics. As at 30 June 2013, ORLEN Group held in the base of the European Chemicals Agency 236 registry documents for 159 chemical substances.

5.2 Petrochemical segment

Within the realization of requirements of Act dated 28 April 2011 on the system of trading greenhouse gas emission rights, PKN ORLEN carried out verification of the annual reports concerning CO_2 emission on Olefin II installation. Reports will constitute a base for amortization of CO_2 emission rights granted by the National Allocation Plan to particular production installations.

Research and development activities of the Unipetrol Group in the area of monomers was carried out in cooperation with VUAnCh company, whereas in the area of polymers in cooperation with Polymer Institute Brno s.r.o.
VUAnCh carried out mainly works related to optimization of the production processes in Unipetrol RPA, included improvement of energy efficiency and emissions reduction of boilers and furnaces on Olefin installation, analysis of production technology of butadiene from low quality petrochemical by-products. Within the continued since 2012, research on the possibility of regeneration of catalyst as well as analysis of the possibility of the use of benzene installation production capacities for aromatic refinery fractions utilization was carried out.
Polymer Institute Brno s.r.o. continued projects, started in 2012, related to development of the new polyethylene type and conducted work concerning the modification of polymerisation process on polypropylene installations in Unipetrol RPA.

In respect of projects relating to the ANWIL Group technological processes development, preliminary work was finalized on the project involving the upgrade of Chlorine and Soda Lye Production Plant, aimed to significantly reduce the heating energy consumption in the first half of 2013. Analysis confirmed project's efficiency, which moved to pre-project work stage. Also work concerning development of foils' recipe to production of bags and packagings for fertilizers, conducted based on agreement with Plastics and Paints Institute, was continued. Further, the conception of dust emission reduction from PCV drying installation and modernization of ammonia container loading system.

5.3 Energy segment

In the I half of 2013 the construction of gas power plant in Włocławek of the electric capacity of 463 MWe was carried out and conducted by consortium of General Electric and SNC Lavalin. New unit will be highly efficient and operationally flexible in comparison to conventional electric power production systems based on coal fuel. Technologies applied in CCGT blocks (Combined Cycle Gas Turbine) cause also significantly lower emissions of harmful substances, such as NOx, SO_2 and greenhouse gases.

Realization of Energy-Ecological Investments programme in Heat and Power Plant in Płock aimed to meet the rigorous industrial emissions norms set in European Parliament Directive, which will become effective in 2016. Constructions of flue gas desulphurization, denitriding and dedusting installations are carried out, which will ensure 90% emissions reduction of sulfur dioxide, nitrogen and dust.

In the flue gas desulphurization installation the world newest flue gas desulphurization wet-limestone technology will be applied, for gases from boilers using heavy heating oil in the energy production. Applied technological solutions will enable to achieve both high operational availability of installation during the year and high efficiency of flue gas, used in energy production, desulphurization at the level of 99%.
Technology of catalytic denitriding and dedusting is modern, no-waste method, which will bring deep reduction of nitric oxide and dust in flue gases. The project relates to construction of nitric oxide catalytic reduction nodes on each of 7 existing boilers in Heat and Power Plant in Płock.

5.4 Upstream segment

Within the activity relating to hydrocarbons extraction in the I half of 2013, the ORLEN Group conducted in total 3 exploratory drillings, including 1 vertical drilling on unconventional deposits and 2 drillings on conventional deposits. At the same time, 2 further vertical drillings on unconventional deposits were conducted, which will be finalized in the II half of 2013.
The first hydraulic fracturing in Syczyn on Lubelszczyzna in shale gas layer, at the depth of 2700 m was finalized. Within this project, in 14 days, 12 sections on horizontal part were put under fracturing. This was the first such complex fracturing operation in Europe. In July 2013 production tests after fracturing were finalized and currently data analyzes are performed. To evaluate amount and scope of produced slots the so called microseismic measurement technology was applied. The next stage of works will be a production test, during which gas parameters coming from the drilling will be monitored and registered in detail.

5.5 Environmental protection

In the I half of 2013 the ORLEN Group continued educational, investing and organizational activities concerning environmental protection. The most important projects in this area included:
- balancing CO_2 emission for 2012 and verification of the reports prepared by the independent verifier, which were further submitted to the National Emissions Balancing and Management Centre,
- carrying out audits by Veritas Agency, confirming the propriety of performed activities concerning environmental protection,
- continuation of the international “Responsible Care” Programme and the programme for restitution of the peregrine falcon in Poland,
- preparation of the Environmental Report describing ORLEN Group’s entities influence on particular natural environment components. The report contains also an analysis of the permissions held, describes realized environmental projects and highlights the risks and challenges in the environment protection area.

5.6 Occupational safety and health

The main objective of the occupational safety and health in the ORLEN Group is to ensure proper working conditions and regular identification and elimination of the risks. In the I half of 2013 in the ORLEN Group system activities from 2012 concerning occupational safety were continued.
Activities aimed at further development of occupational safety at operational level in the area of communication, advisory, highlighting safety rules and further integration of ORLEN Group companies. Implemented good practices concerning occupational safety exceed the requirements of the national law.
The result of the measures taken to improve the occupational safety in the ORLEN Group companies was the achievement of the accident rate – TRR (Total Recordable Rate) in the I half of 2013 on the level of 1.67, which is the best result in the history of the ORLEN Group, and was lower by 18% (y/y) than the rate for the analogous period of 2012.

6. Related party transactions

Information on significant related party transactions

6.1. Information on significant transactions concluded by the Parent Company or subsidiaries with related parties on other than market terms

In the 6 and 3 months period ended 30 June 2013 and 30 June 2012 there were no significant related party transactions concluded within the Group on other than market terms.

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

In the 6 and 3 months period ended 30 June 2013 and 30 June 2012 the Group companies did not grant any advances, borrowings, loans, guarantees and sureties to managing and supervising persons and their relatives nor concluded other agreements obliging to render services to PKN ORLEN and its related parties.
As at 30 June 2013 and as at 31 December 2012 there are no loans granted by the Group companies to managing and supervising persons and their relatives.

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

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

In the 6 and 3 months period ended 30 June 2013 and 30 June 2012 key executive personnel of PKN ORLEN and the Group companies disclosed the following types of transactions based on issued statements on transactions with related parties:

Type of relation through key executive personnel of the Company and the Capital Group companies	Sales				Purchases			
	6 MONTHS ENDED 30/06/2013 (unaudited)	3 MONTHS ENDED 30/06/2013 (unaudited)	6 MONTHS ENDED 30/06/2012 (unaudited)	3 MONTHS ENDED 30/06/2012 (unaudited)	6 MONTHS ENDED 30/06/2013 (unaudited)	3 MONTHS ENDED 30/06/2013 (unaudited)	6 MONTHS ENDED 30/06/2012 (unaudited)	3 MONTHS ENDED 30/06/2012 (unaudited)
Managing persons	-	-	36	5	49	46	7	4
Other key executive personnel	15	12	24	4	1	-	-	-
	15	**12**	**60**	**9**	**50**	**46**	**7**	**4**

As at 30 June 2013 and as at 31 December 2012 key executive personnel of the Parent Company and key executive personnel of the Group companies did not reveal any balances of receivables and liabilities with related parties in the issued statements.

6.4. Capital Group companies' transactions and balance of settlements with related parties

	Jointly-controlled entities				Associates				Total			
	6 MONTHS ENDED 30/06/2013 (unaudited)	3 MONTHS ENDED 30/06/2013 (unaudited)	6 MONTHS ENDED 30/06/2012 (unaudited)	3 MONTHS ENDED 30/06/2012 (unaudited)	6 MONTHS ENDED 30/06/2013 (unaudited)	3 MONTHS ENDED 30/06/2013 (unaudited)	6 MONTHS ENDED 30/06/2012 (unaudited)	3 MONTHS ENDED 30/06/2012 (unaudited)	6 MONTHS ENDED 30/06/2013 (unaudited)	3 MONTHS ENDED 30/06/2013 (unaudited)	6 MONTHS ENDED 30/06/2012 (unaudited)	3 MONTHS ENDED 30/06/2012 (unaudited)
Sales	1 009 784	478 644	1 025 565	501 024	26 662	16 674	33 706	18 524	1 036 446	495 318	1 059 271	519 548
Purchases	280 470	133 723	291 216	144 927	17 872	8 969	19 279	9 143	298 342	142 692	310 495	154 070
Financial revenues	208	103	426	206	151	66	131	32	359	169	557	238
Financial expenses	1	1	33	22	10	10	-	-	11	11	33	22

	Jointly-controlled entities		Associates		Total	
	AS AT 30/06/2013 (unaudited)	AS AT 31/12/2012	AS AT 30/06/2013 (unaudited)	AS AT 31/12/2012	AS AT 30/06/2013 (unaudited)	AS AT 31/12/2012
Trade and other receivables	397 393	403 803	15 040	11 218	412 433	415 021
Trade and other liabilities	296 047	251 411	5 984	8 122	302 031	259 533

The above transactions with related parties include mainly sale and purchase of refining and petrochemical products as well as sale and purchase of repair, transportation and other services. Sale and purchase transactions with related parties were concluded on market terms. Balances of settlements with related parties include trade receivables and trade and financial liabilities.

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

As at 30 June 2013 the ORLEN Capital Group entities were parties in the following significant proceedings in front of court, body appropriate for arbitration proceedings or in front of public administration bodies:

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

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

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

The claim regarded the payment of a compensation for losses related among others to alleged unfair competition of PKN ORLEN included in Agrofert Holding a.s. claim and alleged illegal violation of reputation of Agrofert Holding a.s. in relation to purchase by PKN ORLEN of UNIPETROL a.s. shares.
On 21 October 2010 the Court of Arbitration in Prague overruled the entire claim of Agrofert Holding a.s. against PKN ORLEN regarding the payment of PLN 3,248,621 thousand translated using exchange rate as at 30 June 2013 (representing CZK 19,464,473 thousand) with interest and obliged Agrofert Holding a.s. to cover the cost of proceedings born by PKN ORLEN.
The Court of Arbitration ruling dated 21 October 2010 ended the last of four arbitration proceedings initiated by Agrofert Holding a.s.
On 3 October 2011 PKN ORLEN received from the court in Prague (Czech Republic) claim which overruled the sentence of arbitration court of the above mentioned case.
On 16 January 2012 PKN ORLEN submitted a response to Agrofert Holding a.s.' claim. In its response PKN ORLEN took a position to the allegations of Agrofert Holding a.s., appealed to dismiss all Agrofert Holding a.s.' claim and adjudge it with proceeding costs refund. On 10 January 2013 there was the hearing in front of the court in Prague. During the hearing the rules of the further proceeding have been arranged. On 23-24 April and 11 July 2013 next hearings were held, during which the court analyzed the evidence. The date of next hearing was not currently set. In

the opinion of PKN ORLEN the decision of the Court of Arbitration dated 21 October 2010 is correct and there are no grounds for its annulment.

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

7.1.2.1. Tax proceedings

There are ongoing tax proceedings against Rafineria Trzebinia S.A. concerning excise tax settlements for the period May-September 2004.
As a result of the Customs Office proceeding, the excise tax liability for the period May – September 2004 was set at the amount of approximately PLN 100,000 thousand. Rafineria Trzebinia filed an appeal against the discussed decisions. In December 2005 the Director of the Customs Chamber in Cracow (Director of the CC) kept the first instance authority's decisions in force. The company appealed against above listed decisions. According to the sentence dated 12 November 2008 the Voivodship Administrative Court (VAC) inclined to the appeal of Rafineria Trzebinia and overruled the decision of Director of the CC.

May – August 2004

On 25 September 2009 the Head of the Customs Office in Cracow (first instance authority) issued decisions for the period May - August 2004 increasing the tax liability of approximately PLN 80,000 thousand. On 14 October 2009 Rafineria Trzebinia S.A. appealed to the Director of the Customs Chamber in Cracow regarding the above mentioned decision. On 22 January 2010 the Director of the Customs Chamber in Cracow dismissed entirely the first instance authority's decisions and decided to revoke them to reexamination.
On 23 March 2011 the Head of the Customs Office suspended proceedings. Rafineria Trzebnia appealed against decisions of the Director of the Customs Chamber. On 20 April 2011 the VAC overruled the complaint of Rafineria Trzebinia. On 29 June 2011 company filed an annulment claim to the Supreme Administrative Court (SAC) of the VAC's sentence. As at 20 March 2013 SAC overruled the annulment claim. On 3 July 2013 the Head of the Customs Office in Cracow issued decisions on the basis of which the proceedings to determine the amount of excise tax liabilities for the period May - August 2004 have been started.

September 2004

On 24 November 2010 Head of the Customs Office in Cracow issued a decision determining the amount of excise tax liability for September 2004 of PLN 37,612 thousand. On 15 December 2010 Rafineria Trzebinia S.A. raised a complaint to the Director of the Customs Chamber in Cracow regarding the above mentioned decision.
On 9 May 2011 the Director of the Customs Chamber in Cracow issued a decision keeping the first instance authority's decisions in force. On 19 May 2011 Rafineria Trzebinia S.A. appealed against the above mentioned decision to the VAC in Cracow and filed a supplement to the appeal on 13 June 2011.
On 25 January 2012 the VAC in Cracow overruled the appeal of Rafineria Trzebinia S.A. and issued a sentence sustaining the decision of the Head of the Customs Office in Cracow regarding the excise tax liability of PLN 37,612 thousand for September 2004. On 28 March 2012 the company filed an annulment of the above sentence of VAC. An annulment claim has not been examined yet.

As at 30 June 2013 Rafineria Trzebinia S.A. presented a provision to cover the potential negative financial impact regarding the realization of excise tax liabilities estimated based on information available at the end of the reporting period.

7.1.2.2. Anti-trust proceedings

Anti-trust proceeding was held due to suspition that in the years 1996–2007, PKN ORLEN, Petrol Station Kogut Sp.j. and MAGPOL B. Kułakowski i Wspólnicy Sp.j. were using practice limiting competition on the domestic market of wholesale of petrol and diesel oil by setting retail selling prices of petrol and diesel oil. On 16 July 2010 the President of the Office of Competition and Consumer Protection ("OCCP") issued a decision, in which PKN ORLEN and Petrol Station Kogut Sp.j. were found guilty of participating till 16 July 2007 in anti-competition actions. The President of OCCP has imposed a fine on PKN ORLEN of PLN 52,700 thousand. On 2 August 2010 PKN ORLEN appealed from the decision to the Court of Competition and Consumer Protection. In the decision dated 25 September 2012 the Court included partially the Company's appeal from the decision imposing a fine and decreased the amount of the fine to PLN 26,368 thousand. The Company appealed from the sentence, demanding to revoke the decision in the matter of taking part in anti-competition actions, possibly by reducing the fine. An appeal against the court judgment of the Competition and Consumer Protection Court was also submitted by the President of the OCCP. The case is being considered by the Warsaw Court of Appeal. In the decision dated 16 July 2013 the Warsaw Court of Appeal included the Company's appeal from the decision imposing a fine and reduced the amount of the fine to PLN 1,000 thousand. The decision is legally binding. The parties have the right to submit an annulment to the Supreme Court.

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

As at the date of preparation of these foregoing half-year condensed consolidated financial statements PKN ORLEN participates in two court proceedings concerning the settlement of system fee with ENERGA OPERATOR S.A.

– **Court proceedings in which PKN ORLEN acts as a defendant**

The subject of the court proceedings concerns settlement of the contentious system fee for the period from 5 July 2001 to 30 June 2002 of PLN 46,232 thousand with interest.
In its judgment on 25 June 2008 the Regional Court in Warsaw dismissed entirely the claim of Energa Operator S.A. against PKN ORLEN. In its judgment dated 4 August 2011 the Court of Appeals in Warsaw dismissed the above mentioned judgment and remanded the case back to the court of first instance.
During the retrial, court hearings were held on 30 April 2012 and 19 November 2012. In addition, opinion has been prepared by an expert witness for the damages calculation. On 2 July 2013 the seating in front of the Regional Court in Warsaw was held where evidence was analysed. The court set a new trial date on 21 November 2013.

– **Court proceedings in which PKN ORLEN acts as an outside intervener**

In 2004 the Court summoned PKN ORLEN as a co-defendant in a court case PSE – Operator S.A. (legal successor of PGE Polska Grupa Energetyczna S.A., former Polskie Sieci Elektroenergetyczne) against ENERGA – OPERATOR S.A.

In March 2008 the District Court in Warsaw pronounced its verdict according to which ENERGA – OPERATOR S.A. is to pay PSE the amount of PLN 62,514 thousand with interest and the amount of PLN 143 thousand as a refund of proceedings costs. ENERGA - OPERATOR S.A. appealed against the above verdict. In its sentence dated 19 March 2009 the Court of Appeals declined the appeal of ENERGA - OPERATOR S.A. against the verdict of the first instance Court that sentenced the specified amount. The defendant submitted an appeal against this sentence. Having examined the appeal, the Supreme Court in its judgment dated 26 March 2010 repealed the sentence and revoked it to reexamination by the Court of Appeals in Warsaw.
On 21 September 2011 the Court of Appeals in Warsaw pronounced its verdict, according to which claims of PSE – Operator S.A. were overruled, the plantiff was adjudged to refund proceedings costs to the defendant and return PLN 122,000 thousand to ENERGA - OPERATOR S.A.
From the pronounced by the Court of Appeals overruling verdict of 21 September 2011, the companies PSE Operator S.A. and ENERGA - OPERATOR S.A. filed an annulment claim to the Supreme Court.
On 11 January 2013 the Supreme Court issued a sentence, in which it revoked the appeal of ENERGA –OPERATOR S.A., partially agreed to the appeal of PSE Operator, revoked the previous sentence and passed the case back to the Court of Appeals for reexamination, which should include the statement of the cassation costs. The Court of Appeals in Warsaw suspended proceedings for the joint request of the parties.

The Court ruling does not result in liabilities directly on the side of PKN ORLEN, as PKN ORLEN acts only as an outside intervener in the case, but this interpretation of the law may influence other court decisions in the ENERGA OPERATOR S.A.'s claims against PKN ORLEN described above.

7.1.2.4. Compensation due to compulsory buy-out of non-controlling interest in PARAMO a.s.

The Company UNIPETROL a.s. is a party in a proceeding initiated in 2009 by former non-controlling shareholders of PARAMO a.s. and concerns change in compensation received on squeeze out performed by UNIPETROL a.s. in 2009. The claim concerns the difference between officially approved price of PARAMO a.s. shares as at the date to buy – out amounting to CZK 977 per share, and the requested by shareholders price ranging from CZK 1,800 to CZK 3,200 per share. The total amount of the claim is approximately up to PLN 50,738 thousand at average exchange rate as at 30 June 2013 (representing approximately CZK 304,000 thousand). UNIPETROL a.s. considers the above described claims of former shareholders of PARAMO a.s. as ungrounded.

The Court confirmed by its sentence issued 26 January 2012 that PARAMO a.s. Shareholders Meeting's resolution regarding the share buyout is fully valid and effective. Two plaintiffs appealed from the sentence to the Supreme Court in the Czech Republic. The claim will be considered only if the Supreme Court recognizes an important law issue in the case.

7.1.2.5. I.P. – 95 s.ro. compensation claim against UNIPETROL RPA s.r.o.

On 23 May 2012, UNIPETROL RPA s.r.o. received from the Regional Court in Ostrava a claim brought by I.P.-95 s.r.o. for compensation related to the filing by UNIPETROL RPA s.r.o. motion for bankruptcy of I.P.-95 s.r.o. in November 2009. Total amount of the compensation is approximately PLN 298,510 thousand, translated using the exchange rate from 30 June 2013 (representing CZK 1,788,559 thousand). UNIPETROL RPA s.r.o. is one of the eight defendants against which the claim was brought.
According to the UNIPETROL RPA s.r.o the claim is unjustified and groundless. The case is pending in the Regional Court in Ostrava. The parties are waiting for the date of the first hearing.

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

7.2.1. Arbitration proceedings against Yukos International UK B.V.

On 15 July 2009 PKN ORLEN submitted in the Court of Arbitration by the International Chamber of Commerce ("ICC") the request for arbitration proceedings against Yukos International UK B.V., seated in the Netherlands, in connection with purchase transaction of AB ORLEN Lietuva (previously AB Mazeikiu Nafta) shares. Claims of PKN ORLEN concern inconsistency of Yukos International's statements with the actual state of AB ORLEN Lietuva at the closing date of the purchase of AB ORLEN Lietuva shares by PKN ORLEN.

On 14 September 2009 Yukos International submitted a response to PKN ORLEN's request for arbitration proceedings. In its response Yukos International appealed to dismiss all PKN ORLEN's claims and adjudge it with proceeding costs refund.

On the first seating of the Arbitration Court in London, PKN ORLEN and Yukos International agreed i.a. proceedings schedule and extent of competence of the Arbitration Court. On 3 May 2010, according to the schedule PKN ORLEN issued a law suit in which it demands from Yukos International a reimbursement of PLN 829,375 thousand at exchange rate as at 30 June 2013 (representing USD 250,000 thousand) with interest and costs of proceedings. The amount is deposited in the escrow account as a part of the payment for AB ORLEN Lietuva shares in order to secure the potential claims of PKN ORLEN towards Yukos International. On 31 December 2010 Yukos International submitted a response to the law suit, in which PKN ORLEN's claim was considered as unjustified and appealed for dismissal of all claims and for refund of proceeding costs.

On 29 April 2013 PKN ORLEN received the decision of the Court of Arbitration by the International Chamber of Commerce ("ICC") dismissing the claims of PKN ORLEN and obliged PKN ORLEN to cover the costs incurred by Yukos International.
On 28 May 2013 PKN ORLEN appealed to High Court of Justice, Queen's Bench Division, Commercial Court in London to dismiss above-mentioned decision from 15 April 2013. On 18 July 2013 PKN ORLEN received the High Court of Justice, Queen's Bench Division, Commercial Court decision that overruled PKN ORLEN's claim. The Management Board of PKN ORLEN analyzes Court's decision and possible further legal actions on that matter.

7.2.2. Compensations due to property damages

- Rafineria Trzebinia S.A. acts as an auxiliary prosecutor in the proceedings held by District Court in Cracow concerning abuses associated with the realization of investment in installation for the estherification of biodiesel oil, on which Rafineria Trzebinia S.A. claims to incur a loss of approximately PLN 79,000 thousand. The indictment in this case was raised in December 2010. The Company issued a motion to the court requesting to oblige the defendant to repair the incurred damages. On 12 February 2013 the Court discharged the proceedings. The Company complained about the decision. On 21 May 2013 the Court of Appeals in Cracow dismissed the District Court in Cracow decision of discharging the proceedings. As the result, the claim is being heard in first instance court.

- AB Orlen Lietuva is a plaintiff in the court proceeding against RESORT MARITIME SA, The London Steamship Owners' Mutual Insurance Association Limited, Sigma Tankers Inc., Cardiff Maritime Inc., Heidenreich Marine, Heidenreich Maritime Inc. and Heidmar Inc. regarding compensation payment for damage caused by the hit of tanker ship into terminal buoy in Butinge Terminal on 29 December 2005. The total compensation claim amounts to approximately PLN 75,228 thousand at exchange rate as at 30 June 2013 (representing approximately LTL 60,000 thousand). The proceeding is held in the first instance in front of district court in Klajpeda.

7.2.3. Tax proceedings

UNIPETROL RPA s.r.o., acting as a legal successor of CHEMOPETROL a.s., is a party in a tax proceeding related to validity of investment tax relief for 2005. UNIPETROL RPA s.r.o. claims the return of income tax paid in 2006 for the fiscal year 2005 by CHEMOPETROL a.s. The claim concerns unused investment relief attributable to CHEMOPETROL a.s. The total value of claim amounts to approximately PLN 54,243 thousand translated using exchange rate as at 30 June 2013 (representing approximately CZK 325,000 thousand).

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

On 20 December 2012 PKN ORLEN sent an arbitration call to Basell Europe Holding B.V. regarding *ad hoc* proceeding relating to Joint Venture Agreement signed in 2002 between PKN ORLEN and Basell Europe Holding B.V. PKN ORLEN seeks compensation in its own favour or, depending on the court's decision, in favor of Basell Orlen Polyolefins Sp. z o.o. of PLN 118,720 thousand at exchange rate as at 30 June 2013 (representing approximately EUR 27,423 thousand) plus interest. The compensation regards the price of goods manufactured by Basell Orlen Polyolefins sp. z o.o. which are acquired by Basell Sales & Marketing Company B.V. (entity related to Basell Europe Holdings B.V. in the meaning of Joint Venture Agreement) with the purpose of re-sell within own network. The arbitration proceeding will take place in London Court of *ad hoc* Arbitration Tribunal, acting based on Regulations of United Nation Commission on International Trade Law (UNCITRAL).
On 10 June 2013 the Court of Arbitration issued the Procedural Order in which he confirmed the constitution of the Court of Arbitration, and also established the first, incomplete schedule of arbitration proceedings according to which first hearing was set for 2-6 June 2014.

7.2.5. Proceedings against Aon UK Limited

AB Orlen Lietuva acted as a plaintiff in the proceeding against Aon UK Limited, in which requests a compensation for damages incurred due to improper performance of brokerage services as a consequence of which Orlen Lietuva did not receive full compensation for the loss resulting from the refinery fire in 2006. Value of AB Orlen Lietuva compensation claim amounts to approximately PLN 414,688 thousand at exchange rate as at 30 June 2013 (representing approximately USD 125,000 thousand). The proceeding is held in the first instance in front of court in Great Britain.

Additional information concerning the abovementioned proceedings was presented in the Consolidated Financial Statements for 2012 - note 44.

8. Other information

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

Shareholder	Percentage share in total voting rights at Shareholder's Meeting as at the submission date of		Number of shares as at the submission date of	
	the foregoing half-year report	the previous quarterly report	the foregoing half-year report	the previous quarterly report
State Treasury	27.52%	27.52%	117 710 196	117 710 196
Aviva OFE*	5.08%	5.08%	21 744 036	21 744 036
ING OFE**	5.02%	5.02%	21 464 398	21 464 398
Other	62.38%	62.38%	266 790 431	266 790 431
	100.00%	**100.00%**	**427 709 061**	**427 709 061**

* According to the received confirmations by fund as at 9 February 2010
** According to the received confirmations by fund as at 30 March 2012

The information in the table were determined on the basis of the notifications received by the Parent Company from the shareholders in accordance with article 69 section 1 of the Act of 29 July 2005 on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies (Journal of Laws 2009 No. 185, item. 1439, as amended).

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

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

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

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

* According to the received confirmations as at 17 April 2013
** According to the information possessed by the Company as at 15 July 2013

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

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

In the period from 1 January to 30 June 2013 PKN ORLEN and its subsidiaries did not grant any loan sureties or guarantees to another entity or its subsidiary, where the value of sureties and guarantees constituted at least 10% of the Parent Company's equity.

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

The ORLEN Capital Group has not published forecasts of the results.

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

In the I half of 2013, PKN ORLEN S.A. applied all the mandatory corporate governance rules set out in "Code of Best Practice for Companies Listed on the Stock Exchange" (further the "CBP") valid for the WSE in Warsaw except for the principles set out in Part IV Section 10 of "CBP", regarding ensuring Shareholders to participate in the General Meeting by means of electronic communication, involving the broadcast of General Meetings and real-time bilateral communication.
Report on application of corporate governance rules in PKN ORLEN S.A. in 2012 was published by the Company on 29 March 2013, as a part of the Management Board Report on the Operations of PKN ORLEN S.A. for 2012, as well as a part of Management Board Report on the Operations of the ORLEN Capital Group for 2012.
The Code of Best Practice for WSE Listed Companies can be found on the website dedicated to the corporate governance at the Warsaw Stock Exchange: www.corp-gov.gpw.pl and on the corporate website: www.orlen.pl in the "Investor Relations" section dedicated to the Company's shareholders under "Shareholder services & tools" in the "WSE Best Practice" tab.

The foregoing half-year report was authorized by the Management Board of the Parent Company on 22 July 2013.

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

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

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

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

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

Signature of a person responsible for keeping accounting books

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