REPORT FOR THE I HALF OF 2012

ORLEN

POLISH FINANCIAL SUPERVISION AUTHORITY
Consolidated half-year report PSr 2012
(year)

(in accordance with § 82 section 2 and § 83 section 3 of the Minister of Finance Regulation of 19 February 2009 with further amendments, Official Journal No.33, item 259)
(for issuers of securities whose business activity embraces manufacture, construction, trade and services)

for the half of the reporting year 2012 that is for the period from 01.01.2012 to 30.06.2012, 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 26 July 2012
(submission date)

KPMG AUDYT Sp. z o.o.
(Entity authorized to conduct audit)

POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA		
(full name of the issuer)		
PKN ORLEN		**OIL & GAS**
(abbreviated name of the issuer)		(industrial sector in line with classification of Warsaw Stock Exchange)
09-411		**PŁOCK**
(zip-code)		(location)
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(street)		(number)
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ORLEN CAPITAL GROUP
SELECTED FINANCIAL DATA
(Translation of document originally issued in Polish)

SELECTED CONSOLIDATED FINANCIAL DATA	PLN thousand		EUR thousand	
	I half of 2012 cummulative data	I half of 2011 cummulative data	I half of 2012 cummulative data	I half of 2011 cummulative data
I. Sales revenues	57 202 311	48 315 099	13 540 290	11 436 609
II. Profit from operations	1 314 172	2 348 375	311 076	555 881
III. Profit before tax	1 630 180	2 494 317	385 878	590 427
IV. Net profit attributable to equity holders of the parent	1 254 916	2 003 159	297 050	474 165
V. Net profit	1 204 304	2 065 906	285 069	489 018
VI. Total comprehensive income attributable to equity holders of the parent	851 366	2 194 989	201 526	519 573
VII. Total net comprehensive income	748 440	2 342 577	177 162	554 509
VIII. Net cash provided by operating activities	55 993	965 452	13 254	228 531
IX. Net cash (used in) investing activities	(891 158)	(1 010 093)	(210 945)	(239 098)
X. Net cash (used in) financing activities	(923 594)	(811 541)	(218 623)	(192 099)
XI. Net (decrease) in cash and cash equivalents	(1 758 759)	(856 182)	(416 314)	(202 666)
XII. Net profit and diluted net profit per share attributable to equity holders of the parent (in PLN/EUR per share)	2.93	4.68	0.69	1.11
	as at 30/06/2012	as at 31/12/2011	as at 30/06/2012	as at 31/12/2011
XIII. Non-current assets	27 960 183	28 599 141	6 561 421	6 711 365
XIV. Current assets	28 378 602	30 132 337	6 659 611	7 071 161
XV. Total assets	56 338 785	58 731 478	13 221 032	13 782 526
XVI. Long-term liabilites	11 708 498	12 120 002	2 747 635	2 844 203
XVII. Short-term liabilities	17 104 088	19 812 793	4 013 819	4 649 472
XVIII. Equity	27 526 199	26 798 683	6 459 578	6 288 852
XIX. Equity attributable to equity holders of the parent	25 392 864	24 533 773	5 958 948	5 757 345
XX. Share capital	1 057 635	1 057 635	248 195	248 195
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)	59.37	57.36	13.93	13.46

SELECTED SEPARATE FINANCIAL DATA	PLN thousand		EUR thousand	
	I half of 2012 cummulative data	I half of 2011 cummulative data	I half of 2012 cummulative data	I half of 2011 cummulative data
I. Sales revenues	41 402 784	35 729 040	9 800 403	8 457 378
II. Profit from operations	1 223 070	1 650 938	289 511	390 792
III. Profit before tax	1 798 464	2 342 400	425 712	554 467
IV. Net profit	1 481 137	1 963 683	350 598	464 821
V. Total net comprehensive income	1 192 708	2 065 030	282 324	488 811
VI. Net cash provided by/(used in) operating activities	55 576	(278 784)	13 155	(65 991)
VII. Net cash (used in) investing activities	(508 036)	(909 319)	(120 256)	(215 244)
VIII. Net cash provided by/(used in) financing activities	(1 276 526)	212 386	(302 165)	50 274
IX. Net (decrease) in cash and cash equivalents	(1 728 986)	(975 717)	(409 266)	(230 961)
X. Net profit and diluted net profit per share (in PLN/EUR per share)	3.46	4.59	0.82	1.09
	as at 30/06/2012	as at 31/12/2011	as at 30/06/2012	as at 31/12/2011
XI. Non-current assets	22 324 150	22 429 271	5 238 812	5 263 481
XII. Current assets	20 818 890	23 439 812	4 885 573	5 500 625
XIII. Total assets	43 143 040	45 869 083	10 124 385	10 764 106
XIV. Long-term liabilites	9 500 027	9 844 384	2 229 373	2 310 183
XV. Short-term liabilities	11 603 581	15 177 975	2 723 014	3 561 818
XVI. Equity	22 039 432	20 846 724	5 171 997	4 892 104
XVII. Share capital	1 057 635	1 057 635	248 195	248 195
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)	51.53	48.74	12.09	11.44

The above data for I half of 2012 and I half of 2011 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 2012 – 4.2613 PLN/EUR;
- items of statement of 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 1 January – 30 June 2012 – 4.2246 PLN/EUR.

ORLEN CAPITAL GROUP
Consolidated Report for the I half of 2012
(Translation of document originally issues in Polish)

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HALF-YEAR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE ORLEN GROUP FOR THE PERIOD ENDED 30 JUNE 2012 PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION

ORLEN

Polski Koncern Naftowy ORLEN
Spółka Akcyjna

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 30/06/2012 (unaudited)	as at 31/12/2011
ASSETS			
Non-current assets			
Property, plant and equipment		26 057 622	26 578 651
Investment property		118 092	117 645
Intangible assets		1 254 351	1 323 044
Perpetual usufruct of land		95 124	95 664
Investments accounted for under equity method		12 268	13 125
Financial assets available for sale		40 560	40 520
Deferred tax assets		348 678	399 526
Other non-current assets		33 488	30 966
		27 960 183	**28 599 141**
Current assets			
Inventories		16 170 712	16 296 517
Trade and other receivables		8 346 667	8 071 011
Other short-term financial assets	3.3.	151 360	293 434
Income tax receivable		43 761	33 684
Cash and cash equivalents		3 647 435	5 409 166
Non-current assets held for sale		**18 667**	**28 525**
		28 378 602	**30 132 337**
Total assets		**56 338 785**	**58 731 478**
EQUITY AND LIABILITIES			
EQUITY			
Share capital		1 057 635	1 057 635
Share premium		1 227 253	1 227 253
Hedging reserve		(309 051)	(24 305)
Revaluation reserve		6 973	5 301
Foreign exchange differences on subsidiaries from consolidation		295 152	415 628
Retained earnings		23 114 902	21 852 261
Total equity attributable to equity holders of the parent		**25 392 864**	**24 533 773**
Non-controlling interest		**2 133 335**	**2 264 910**
Total equity		**27 526 199**	**26 798 683**
LIABILITIES			
Long-term liabilities			
Interest-bearing loans and borrowings	3.5.	10 124 989	10 537 792
Provisions	3.4.	604 592	621 379
Deferred tax liabilities		784 167	740 910
Deferred income		17 494	16 239
Other long-term liabilities		177 256	203 682
		11 708 498	**12 120 002**
Short-term liabilities			
Trade and other liabilities		13 563 667	15 092 524
Interest-bearing loans and borrowings	3.5.	1 737 342	2 459 799
Income tax liability		52 244	673 643
Provisions	3.4.	664 778	1 008 140
Deferred income		424 357	136 379
Other financial liabilities		661 700	442 308
		17 104 088	**19 812 793**
Total liabilities		**28 812 586**	**31 932 795**
Total equity and liabilities		**56 338 785**	**58 731 478**

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

ORLEN CAPITAL GROUP
Report for the I half of 2012
Half-year condensed consolidated financial statements
(all amounts in PLN thousands)
(Translation of document originally in Polish)

Consolidated statement of comprehensive income

	Note	for 6 months ended 30/06/2012 (unaudited)	for 3 months ended 30/06/2012 (unaudited)	for 6 months ended 30/06/2011 (unaudited)	for 3 months ended 30/06/2011 (unaudited)
Income statement					
Sales revenues	3.6.	57 202 311	27 954 845	48 315 099	25 641 150
Cost of sales	3.7.	(53 301 605)	(26 320 773)	(43 616 730)	(23 440 217)
Gross profit on sales		**3 900 706**	**1 634 072**	**4 698 369**	**2 200 933**
Distribution expenses		(1 839 746)	(902 146)	(1 784 843)	(906 976)
General and administrative expenses		(739 737)	(373 055)	(691 424)	(361 850)
Other operating revenues	3.8.	249 780	138 307	363 870	199 193
Other operating expenses	3.8.	(256 831)	(121 766)	(237 597)	(121 733)
Profit from operations		**1 314 172**	**375 412**	**2 348 375**	**1 009 567**
Financial revenues	3.9.	782 001	597 185	406 479	159 060
Financial expenses	3.9.	(465 452)	(874 181)	(447 675)	(172 502)
Financial revenues and expenses		**316 549**	**(276 996)**	**(41 196)**	**(13 442)**
Share in profit from investments accounted for under equity method		(541)	(37)	187 138	122 901
Profit before tax		**1 630 180**	**98 379**	**2 494 317**	**1 119 026**
Income tax expense	3.10.	(425 876)	(138 045)	(428 411)	(201 388)
Net profit/(loss)		**1 204 304**	**(39 666)**	**2 065 906**	**917 638**
Items of other comprehensive income					
Hedging instruments valuation		(276 453)	(477 938)	50 747	(422 890)
Hedging instruments settlement		(71 991)	17 031	68 454	70 794
Fair value measurement of investment property as at the date of reclassification		3 277	3 277	-	-
Foreign exchange differences from subsidiaries on consolidation		(176 279)	58 411	180 118	10 119
Deferred tax on other comprehensive income items		65 582	86 950	(22 648)	66 898
		(455 864)	**(312 269)**	**276 671**	**(275 079)**
Total net comprehensive income		**748 440**	**(351 935)**	**2 342 577**	**642 559**
Net profit/(loss) attributable to		**1 204 304**	**(39 666)**	**2 065 906**	**917 638**
equity holders of the parent		1 254 916	(5 242)	2 003 159	898 649
non-controlling interest		(50 612)	(34 424)	62 747	18 989
Total comprehensive income attributable to		**748 440**	**(351 935)**	**2 342 577**	**642 559**
equity holders of the parent		851 366	(298 317)	2 194 989	611 412
non-controlling interest		(102 926)	(53 618)	147 588	31 147
Net profit/(loss) and diluted net profit/(loss) per share attributable to equity holders of the parent (in PLN per share)		2.93	(0.01)	4.68	2.10

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

Consolidated statement of cash flows

	for 6 months ended 30/06/2012 (unaudited)	for 3 months ended 30/06/2012 (unaudited)	for 6 months ended 30/06/2011 (unaudited)	for 3 months ended 30/06/2011 (unaudited)
Cash flows - operating activities				
Net profit/(loss)	**1 204 304**	**(39 666)**	**2 065 906**	**917 638**
Adjustments for:				
Share in profit from investments accounted for under equity method	541	37	(187 138)	(122 901)
Depreciation and amortisation	1 121 621	543 036	1 131 074	576 743
Foreign exchange (gain)/loss	(363 504)	24 744	66 948	(2 741)
Interest, net	183 429	96 208	192 973	117 711
Dividends	(1 761)	(1 761)	(1 278)	(1 278)
(Profit)/Loss on investing activities	(54 934)	(90 651)	9 138	32 202
Change in receivables	(374 945)	286 914	(1 279 843)	(407 120)
Change in inventories	52 928	1 830 926	(3 193 895)	(1 653 213)
Change in liabilities	(1 177 303)	(2 088 980)	1 866 128	1 478 033
Change in provisions	198 223	45 955	289 154	132 702
Income tax expense	425 876	138 045	428 411	201 388
Income tax (paid)	(893 975)	(713 148)	(134 180)	(74 477)
Other adjustments	(264 507)	(123 612)	(287 946)	(187 327)
Net cash provided by/(used in) operating activities	**55 993**	**(91 953)**	**965 452**	**1 007 360**
Cash flows - investing activities				
Acquisition of property, plant and equipment and intangible assets	(990 680)	(442 218)	(1 250 995)	(401 260)
Disposal of property, plant and equipment and intangible assets	16 246	5 133	273 381	99
Acquisition of shares	(10 803)	(1 225)	(12 471)	(12 397)
Disposal of shares	362	94	3 415	213
Acquisition of securities and deposits	(17 192)	-	(91 814)	(38 096)
Disposal of securities and deposits	20 418	12 913	71 721	60 511
Interest received	4 151	921	4 834	902
Dividends received	1 742	1 742	1 589	1 589
(Outflows)/Proceeds from loans granted	(48 975)	(51 006)	3 162	104
Other	133 573	138 321	(12 915)	(14 219)
Net cash (used in) investing activities	**(891 158)**	**(335 325)**	**(1 010 093)**	**(402 554)**
Cash flows - financing activities				
Proceeds from loans and borrowings received	5 633 952	1 850 732	12 682 800	9 642 359
Debt securities issued	1 000 000	-	-	-
Repayments of loans and borrowings	(6 616 202)	(1 903 242)	(13 225 917)	(10 766 665)
Redemption of debt securities	(750 000)	-	-	-
Interest paid	(173 120)	(80 202)	(253 437)	(154 921)
Payments of liabilities under finance lease agreements	(14 648)	(7 357)	(13 109)	(6 585)
Other	(3 576)	(1 803)	(1 878)	842
Net cash (used in) financing activities	**(923 594)**	**(141 872)**	**(811 541)**	**(1 284 970)**
Net (decrease) in cash and cash equivalents	**(1 758 759)**	**(569 150)**	**(856 182)**	**(680 164)**
Effect of exchange rate changes	(2 972)	682	(5 606)	945
Cash and cash equivalents, beginning of the period	**5 409 166**	**4 215 903**	**2 820 742**	**2 638 173**
Cash and cash equivalents, end of the period	**3 647 435**	**3 647 435**	**1 958 954**	**1 958 954**

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

Statement of changes in consolidated equity

	Equity attributable to equity holders of the parent							
	Share capital and share premium	Hedging reserve	Foreign exchange differences on subsidiaries from consolidation	Revaluation reserve	Retained earnings	Total	Non-controlling interest	Total equity
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)								
1 January 2011	2 284 888	63 872	(149 492)	-	19 428 670	21 627 938	2 612 015	24 239 953
Net profit	-	-	-	-	2 003 159	2 003 159	62 747	2 065 906
Items of other comprehensive income	-	98 386	93 444	-	-	191 830	84 841	276 671
Total net comprehensive income	**-**	**98 386**	**93 444**	-	**2 003 159**	**2 194 989**	**147 588**	**2 342 577**
Change in the structure of non-controlling interest	**-**	**-**	**-**	**-**	2 776	2 776	(22 222)	(19 446)
Dividends	**-**	**-**	**-**	-	**-**	**-**	**(12 904)**	(12 904)
30 June 2011	**2 284 888**	**162 258**	**(56 048)**	**-**	**21 434 605**	**23 825 703**	**2 724 477**	**26 550 180**
(unaudited)								

The accompanying notes disclosed on pages 8 – 16 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 for the I half of 2012

1.1. Statement of compliance and general principles for preparation

The foregoing half-year condensed consolidated financial statements („consolidated financial statements") were prepared in accordance with requirements of IAS 34 "Interim financial reporting" and in the scope required under the Minister of Finance Regulation of 19 February 2009, with further amendments, 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) ("Regulation") and present the PKN ORLEN S.A. Capital Group's ("Group","Capital Group", "ORLEN Capital Group") financial position as at 30 June 2012 and 31 December 2011, financial results and cash flows for the period of 6 and 3 months ended 30 June 2012 and 30 June 2011.

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 condensed half-year 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 and net result.

1.2.2. In respect of an entity authorized to conduct review of 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 have been prepared according to principles described in ORLEN Capital Group's consolidated financial statements for the year ended 31 December 2011.

In these foregoing half-year condensed consolidated financial statements, the significant assumptions made by the Management Board regarding adoption of accounting principles and main uncertainties were the same as those applied in the consolidated financial statements for the year 2011.

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 these amendments to IFRSs on the Group's future consolidated financial statements is being analyzed.

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

a) functional currency and presentation currency

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

b) methods applied to translation of financial data

Financial statements of foreign entities, for consolidation purposes, are translated into PLN using the following methods:

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

All resulting exchange differences are recognized in equity, as foreign exchange differences on subsidiaries from consolidation.

CURRENCY	for 6 months ended 30/06/2012	for 3 months ended 30/06/2012	for 6 months ended 30/06/2011	for 3 months ended 30/06/2011	as at 30/06/2012	as at 31/12/2011
PLN/EUR	4.2456	4.2600	3.9522	3.9600	4.2613	4.4168
PLN/USD	3.2756	3.3248	2.8178	2.7508	3.3885	3.4174
PLN/CZK	0.1687	0.1687	0.1624	0.1629	0.1664	0.1711

2. Operating segments

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

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 note C.2.

Revenues, expenses and financial result by operating segments

for 6 months ended 30 June 2012

	Refining Segment (unaudited)	Retail Segment (unaudited)	Petrochemical Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
Sales to external customers	30 351 567	18 688 655	8 107 048	55 041	-	57 202 311
Transactions with other segments	14 086 472	63 551	1 932 413	107 623	(16 190 059)	-
Sales revenues	44 438 039	18 752 206	10 039 461	162 664	(16 190 059)	57 202 311
Operating expenses	(43 741 898)	(18 471 959)	(9 343 309)	(513 981)	16 190 059	(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)	(44 462)	85	(256 831)
Segment operating profit/(loss)	**665 780**	**278 498**	**725 139**	**(355 245)**	**-**	**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**

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(all amounts in PLN thousands)
(Translation of document originally issued in Polish)

for 3 months ended 30 June 2012

	Refining Segment (unaudited)	Retail Segment (unaudited)	Petrochemical Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
Sales to external customers	14 289 029	9 772 063	3 860 960	32 793	-	27 954 845
Transactions with other segments	7 060 986	32 094	967 878	53 787	(8 114 745)	-
Sales revenues	21 350 015	9 804 157	4 828 838	86 580	(8 114 745)	27 954 845
Operating expenses	(21 407 733)	(9 562 574)	(4 471 918)	(268 494)	8 114 745	(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 operating profit/(loss)	**(66 263)**	**252 035**	**379 505**	**(189 865)**	**-**	**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)**

for 6 months ended 30 June 2011

	Refining Segment (unaudited)	Retail Segment (unaudited)	Petrochemical Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
Sales to external customers	25 984 233	15 345 724	6 939 200	45 942	-	48 315 099
Transactions with other segments	11 483 164	57 199	1 612 187	108 255	(13 260 805)	-
Sales revenues	37 467 397	15 402 923	8 551 387	154 197	(13 260 805)	48 315 099
Operating expenses	(35 967 868)	(15 171 676)	(7 746 313)	(467 948)	13 260 808	(46 092 997)
Other operating revenues	124 770	37 411	132 464	69 254	(29)	363 870
Other operating expenses	(86 659)	(49 571)	(32 135)	(69 261)	29	(237 597)
Segment operating profit/(loss)	**1 537 640**	**219 087**	**905 403**	**(313 758)**	**3**	**2 348 375**
Financial revenues						406 479
Financial expenses						(447 675)
Share in profit from investments accounted for under equity method	(196)	-	(274)	187 608	-	187 138
Profit before tax						**2 494 317**
Income tax expense						(428 411)
Net profit						**2 065 906**

for 3 months ended 30 June 2011

	Refining Segment (unaudited)	Retail Segment (unaudited)	Petrochemical Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
Sales to external customers	13 681 557	8 407 446	3 526 629	25 518	-	25 641 150
Transactions with other segments	6 172 307	30 452	841 381	54 892	(7 099 032)	-
Sales revenues	19 853 864	8 437 898	4 368 010	80 410	(7 099 032)	25 641 150
Operating expenses	(19 372 378)	(8 238 936)	(3 931 659)	(265 121)	7 099 051	(24 709 043)
Other operating revenues	58 579	26 885	95 101	18 642	(14)	199 193
Other operating expenses	(29 938)	(33 288)	(10 805)	(47 716)	14	(121 733)
Segment operating profit/(loss)	**510 127**	**192 559**	**520 647**	**(213 785)**	**19**	**1 009 567**
Financial revenues						159 060
Financial expenses						(172 502)
Share in profit from investments accounted for under equity method	(61)	-	17	122 945	-	122 901
Profit before tax						**1 119 026**
Income tax expense						(201 388)
Net profit						**917 638**

Assets by operating segments

	as at 30/06/2012 (unaudited)	as at 31/12/2011
Refining Segment	32 591 970	32 821 176
Retail Segment	6 373 799	6 067 744
Petrochemical Segment	12 962 370	13 030 826
Segment assets	**51 928 139**	**51 919 746**
Corporate Functions	4 888 680	7 077 508
Adjustments	(478 034)	(265 776)
	56 338 785	**58 731 478**

3. Other notes

3.1. Impairment allowances of assets

	for 6 months ended 30/06/2012 (unaudited)	for 3 months ended 30/06/2012 (unaudited)	for 6 months ended 30/06/2011 (unaudited)	for 3 months ended 30/06/2011 (unaudited)
Property, plant and equipment				
Increase	(38 188)	(12 872)	(22 053)	(19 106)
Decrease	43 982	24 134	23 919	19 677
Intangible assets				
Increase	(28 797)	(10 885)	-	-
Decrease	2 080	1 487	11 807	8 623
Financial assets available for sale				
Increase	(198)	(198)	(131)	(6)
Decrease	222	7	315	315
Receivables				
Increase	(47 166)	(24 212)	(44 299)	(26 758)
Decrease	31 218	12 984	45 604	17 847
Non-current assets held for sale				
Increase	(14 501)	(13 990)	(2 598)	60
Decrease	35	-	3 321	602

Recognition and reversal of impairment allowances in the 6 and 3 months period ended 30 June 2012 and 30 June 2011 related mainly to:
- impairment of property, plant and equipment,
- increase/decrease in prices of CO_2 emission rights,
- fair value measurement of non-current assets held for sale,
- extinction of indicators in respect of overdue receivables, occurrence of uncollectible receivables and receivables in court,
- fair value measurement of financial assets available for sale, quoted on active markets.

3.2. Inventories written down to net realizable value

	for 6 months ended 30/06/2012 (unaudited)	for 3 months ended 30/06/2012 (unaudited)	for 6 months ended 30/06/2011 (unaudited)	for 3 months ended 30/06/2011 (unaudited)
Increase	(263 791)	(200 451)	(93 993)	(53 075)
Decrease	275 069	176 095	55 741	36 718

3.3. Other short-term financial assets

	as at 30/06/2012 (unaudited)	as at 31/12/2011
Cash flow hedge instruments	**52 941**	**225 910**
foreign currency forwards	26 697	25 898
commodity swaps	26 243	200 012
Derivatives not designated as hedge accounting	**29 234**	**48 003**
foreign currency forwards	2 146	30 395
foreign currency swaps	437	3 410
commodity swaps	26 651	14 198
Embedded derivatives	**348**	**180**
foreign currency swaps	348	180
Deposits/other debt securities	**12 953**	**15 197**
Loans granted	**55 799**	**4 041**
Other	**85**	**103**
	151 360	**293 434**

3.4. Provisions

	long-term		short-term		Total	
	as at 30/06/2012 (unaudited)	as at 31/12/2011	as at 30/06/2012 (unaudited)	as at 31/12/2011	as at 30/06/2012 (unaudited)	as at 31/12/2011
Environmental provision	291 713	292 413	29 478	42 416	321 191	334 829
Jubilee and post-employment benefits provision	253 161	254 568	37 059	36 604	290 220	291 172
Business risk provision	20 437	26 903	69 942	67 488	90 379	94 391
Shield programs provision	2 365	2 365	52 367	64 704	54 732	67 069
Provision for CO_2 emission	-	-	222 005	542 054	222 005	542 054
Other	36 916	45 130	253 927	254 874	290 843	300 004
	604 592	**621 379**	**664 778**	**1 008 140**	**1 269 370**	**1 629 519**

3.5. Interest – bearing loans and borrowings

	long-term		short-term		Total	
	as at 30/06/2012 (unaudited)	as at 31/12/2011	as at 30/06/2012 (unaudited)	as at 31/12/2011	as at 30/06/2012 (unaudited)	as at 31/12/2011
Bank loans	8 748 579	10 179 994	1 663 060	1 644 324	10 411 639	11 824 318
Borrowings	-	-	32 670	10 055	32 670	10 055
Debt securities	1 376 410	357 798	41 612	805 420	1 418 022	1 163 218
	10 124 989	**10 537 792**	**1 737 342**	**2 459 799**	**11 862 331**	**12 997 591**

3.6. Sales revenues

	for 6 months ended 30/06/2012 (unaudited)	for 3 months ended 30/06/2012 (unaudited)	for 6 months ended 30/06/2011 (unaudited)	for 3 months ended 30/06/2011 (unaudited)
Revenues from sales of finished goods and services, net	44 003 107	21 876 554	38 600 197	20 498 897
Revenues from sales of merchandise and raw materials, net	13 199 204	6 078 291	9 714 902	5 142 253
	57 202 311	**27 954 845**	**48 315 099**	**25 641 150**

3.7. Operating expenses

Cost of sales

	for 6 months ended 30/06/2012 (unaudited)	for 3 months ended 30/06/2012 (unaudited)	for 6 months ended 30/06/2011 (unaudited)	for 3 months ended 30/06/2011 (unaudited)
Costs of finished goods and services sold	(40 807 927)	(20 621 930)	(34 499 952)	(18 608 462)
Cost of merchandise and raw materials sold	(12 493 678)	(5 698 843)	(9 116 778)	(4 831 755)
	(53 301 605)	**(26 320 773)**	**(43 616 730)**	**(23 440 217)**

Cost by kind

	for 6 months ended 30/06/2012 (unaudited)	for 3 months ended 30/06/2012 (unaudited)	for 6 months ended 30/06/2011 (unaudited)	for 3 months ended 30/06/2011 (unaudited)
Materials and energy	(39 652 922)	(19 395 196)	(33 223 169)	(17 904 375)
Cost of merchandise and raw materials sold	(12 493 678)	(5 698 843)	(9 116 778)	(4 831 755)
External services	(2 062 412)	(1 046 476)	(1 933 219)	(1 015 233)
Employee benefits costs	(1 068 840)	(541 458)	(1 009 564)	(518 168)
Depreciation and amortisation	(1 121 621)	(543 036)	(1 131 074)	(576 743)
Taxes and charges	(253 839)	(126 110)	(225 925)	(107 984)
Other	(438 843)	(215 494)	(416 666)	(208 196)
	(57 092 155)	**(27 566 613)**	**(47 056 395)**	**(25 162 454)**
Change in inventories	887 974	(180 956)	560 833	237 107
Cost of products and services for own use	66 262	29 829	164 968	94 571
Operating expenses	**(56 137 919)**	**(27 717 740)**	**(46 330 594)**	**(24 830 776)**
Distribution expenses	1 839 746	902 146	1 784 843	906 976
General and administrative expenses	739 737	373 055	691 424	361 850
Other operating expenses	256 831	121 766	237 597	121 733
Cost of sales	**(53 301 605)**	**(26 320 773)**	**(43 616 730)**	**(23 440 217)**

3.8. Other operating revenues and expenses

Other operating revenues

	for 6 months ended 30/06/2012 (unaudited)	for 3 months ended 30/06/2012 (unaudited)	for 6 months ended 30/06/2011 (unaudited)	for 3 months ended 30/06/2011 (unaudited)
Profit on sale of non-financial non-current assets	16 074	9 096	37 999	6 239
Reversal of provisions	25 372	11 871	36 812	24 628
Reversal of receivables impairment allowances	25 799	10 957	38 930	14 807
Reversal of impairment allowances of property, plant and equipment and intangible assets	45 671	25 578	30 398	27 818
Penalties and compensations earned	31 856	19 871	86 219	45 920
Grants	9 583	6 222	24 811	10 272
Other	95 425	54 712	108 701	69 509
	249 780	**138 307**	**363 870**	**199 193**

The line “other” in the 6 and 3 months period ended 30 June 2012 and 30 June 2011 mainly includes the effect of CO_2 emission rights surpluses received free of charge in relation to actual emissions of PLN 55,989 thousand and PLN 37,425 thousand and PLN 51,331 thousand and PLN 32,766 thousand, respectively.

Other operating expenses

	for 6 months ended 30/06/2012 (unaudited)	for 3 months ended 30/06/2012 (unaudited)	for 6 months ended 30/06/2011 (unaudited)	for 3 months ended 30/06/2011 (unaudited)
Loss on sale of non-financial non-current assets	(24 162)	(4 855)	(32 584)	(21 954)
Recognition of provisions	(28 622)	(17 692)	(32 209)	(15 181)
Recognition of receivables impairment allowances	(38 349)	(20 852)	(36 443)	(22 699)
Recognition of impairment allowances of property, plant and equipment and intangible assets	(81 060)	(37 744)	(22 053)	(19 106)
Costs of damages, breakdowns and compensations	(17 619)	(11 039)	(27 949)	(7 821)
Other	(67 019)	(29 584)	(86 359)	(34 972)
	(256 831)	**(121 766)**	**(237 597)**	**(121 733)**

The line “other” in the 6 and 3 months period ended 30 June 2012 and 30 June 2011 mainly includes update of provision for CO_2 emissions of PLN (25,697) thousand and PLN (7,133) thousand and PLN (30,004) thousand and PLN (6,710) thousand, respectively.

3.9. Financial revenues and expenses

Financial revenues

	for 6 months ended 30/06/2012 (unaudited)	for 3 months ended 30/06/2012 (unaudited)	for 6 months ended 30/06/2011 (unaudited)	for 3 months ended 30/06/2011 (unaudited)
Interest	81 704	32 696	26 019	15 309
Foreign exchange gains surplus	438 500	376 260	346 002	130 343
Settlement and valuation of financial instruments	251 898	183 149	25 393	10 045
Reversal of receivables impairment allowances	5 419	2 027	6 674	3 040
Reversal of investment impairment allowances	222	222	315	315
Other	4 258	2 831	2 076	8
	782 001	**597 185**	**406 479**	**159 060**

Financial expenses

	for 6 months ended 30/06/2012 (unaudited)	for 3 months ended 30/06/2012 (unaudited)	for 6 months ended 30/06/2011 (unaudited)	for 3 months ended 30/06/2011 (unaudited)
Interest	(194 839)	(100 732)	(198 992)	(118 974)
Foreign exchange losses surplus	(94 945)	(675 089)	(100 003)	(29 827)
Settlement and valuation of financial instruments	(147 160)	(87 180)	(132 252)	(16 147)
Recognition of receivables impairment allowances	(8 817)	(3 360)	(7 856)	(4 059)
Recognition of investment impairment allowances	(198)	(198)	(144)	(13)
Other	(19 493)	(7 622)	(8 428)	(3 482)
	(465 452)	**(874 181)**	**(447 675)**	**(172 502)**

Borrowing costs capitalized in the 6 and 3 months period ended 30 June 2012 and 30 June 2011 amounted to PLN (8,257) thousand and PLN (4,954) thousand and PLN (45,002) thousand and PLN (12,223) thousand, respectively.

3.10. Income tax expense

	for 6 months ended 30/06/2012 (unaudited)	for 3 months ended 30/06/2012 (unaudited)	for 6 months ended 30/06/2011 (unaudited)	for 3 months ended 30/06/2011 (unaudited)
Current income tax	(262 197)	(43 365)	(378 522)	(131 582)
Deferred income tax	(163 679)	(94 680)	(49 889)	(69 806)
	(425 876)	**(138 045)**	**(428 411)**	**(201 388)**

Deferred income tax for the 6 and 3 months period ended 30 June 2012 include mainly the effect of revaluation of tax value of non-monetary assets in Orlen Lietuva due to changes in LTL/USD exchange rates and tax losses in Unipetrol Group, for which no deferred tax assets were recognized of PLN (110,592) thousand and PLN (107,530) thousand, respectively.

3.11. Methods applied in determining fair values of financial instruments recognised 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 principles are not met, are recognized in a current period profit or loss. Valuation of others, for which hedge accounting is applied, is recognized in equity.
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 observable (so called Level 2).

Fair value hierarchy

	as at 30/06/2012 (unaudited)		as at 31/12/2011	
	Level 1	Level 2	Level 1	Level 2
Financial assets				
Quoted shares	819	-	690	-
Embedded derivatives and hedging instruments	-	82 523	-	274 174
	819	**82 523**	**690**	**274 174**
Financial liabilities				
Embedded derivatives and hedging instruments	-	748 460	-	555 910
	-	**748 460**	**-**	**555 910**

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

3.12. Finance lease payments

As at 30 June 2012 and 31 December 2011, the Group possessed as a lessee, the finance lease agreements, concerning mainly buildings, machinery and equipment as well as means of transportation.

	as at 30/06/2012 (unaudited)	as at 31/12/2011
Future value of minimum lease payments	111 456	107 107
Present value of minimum lease payments	95 409	90 468

3.13. Information concerning seasonal or cyclical character of the 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 2012 and 31 December 2011 the value of future liabilities resulting from investment contracts signed until this day amounted to PLN 441,461 thousand and PLN 449,293 thousand, respectively.

3.15. Issue, redemption and repayment of debt and capital securities

In the first quarter of 2012 the Group redeemed debt securities of PLN 750,000 thousand. Additionally, according to strategy of financing diversification and debt refinancing implemented by Group, 7-year debt securities of PLN 1,000,000 thousand were issued. On 27 June 2012, 7-year debt securities were introduced to trading on the Catalyst debt securities market on the Warsaw Stock Exchange. Moreover, in order to optimize liquidity in ORLEN Capital Group, short-term debt securities were issued to and repurchased from the Group companies.

3.16. Parent Company's profit distribution for 2011

Ordinary General Shareholders' Meeting of PKN ORLEN S.A as at 30 May 2012 decided to distribute the net profit for the year 2011 of PLN 1,386,165,827.51 to reserve capital of the Parent Company.

3.17. Contingent liabilities

	as at 31/12/2011	increase/ (decrease)	as at 30/06/2012 (unaudited)
Anti-trust proceedings of the OCCP	14 000	(14 000)	-
Other legal cases at court	16 845	(13 257)	3 588
	30 845	**(27 257)**	**3 588**

Court proceedings as at 30 June 2012 relate mainly to claims arising from trade contracts with contractors and employees' claims.

In March 2012, the anti-trust proceeding conducted by the Office for Competition and Consumer Protection was finalized – detailed information in Note 7.1.2.2. of the Management's Board Report on ORLEN Capital Group's operations.

The Management Board of Spolana a.s. is undertaking actions to extend the validity period of their environmental permit under Integrated Pollution Prevention and Control (IPPC) without the necessity to change the current chlorine production method using mercury electrolysis. Simultaneously, it is considering continuing the production based on purchased raw materials. It will require the electrolysis building to be adapted as a warehouse, which might help avoid potential reclamation costs as the purpose of the building will likely change. Further information is disclosed in Note 36 of the Consolidated Annual Report for 2011.

3.18. Sureties and guarantees

Excise tax guarantees and excise tax on goods and merchandise under the excise tax suspension procedure as at 30 June 2012 and 31 December 2011 amounted to PLN 1,365,903 thousand and PLN 1,336,701 thousand, respectively.
Guarantees granted as at 30 June 2012 and 31 December 2011 amounted to PLN 121,221 thousand and PLN 156,346 thousand, respectively. They are related mostly to liabilities to third parties and were granted as part of ordinary business activities as appropriate performance, customs, gage or payment guarantees.

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 STATEMENT OF PKN ORLEN S.A. FOR THE PERIOD ENDED 30 JUNE 2012 PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION

Polski Koncern Naftowy ORLEN
Spółka Akcyjna

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 30/06/2012 (unaudited)	as at 31/12/2011
ASSETS			
Non-current assets			
Property, plant and equipment		11 996 501	12 190 347
Intangible assets		390 504	362 791
Perpetual usufruct of land		89 376	89 692
Shares in related parties		9 129 960	9 051 706
Financial assets available for sale		40 372	40 328
Deferred tax assets		-	11 280
Other non-current assets	3.3.	677 437	683 127
		22 324 150	**22 429 271**
Current assets			
Inventories		11 619 062	11 549 043
Trade and other receivables		6 389 484	7 271 441
Other short-term financial assets	3.4.	225 538	320 480
Income tax receivable		16 391	1 142
Cash and cash equivalents		2 561 895	4 291 187
Non-current assets held for sale		**6 520**	**6 519**
		20 818 890	**23 439 812**
Total assets		**43 143 040**	**45 869 083**
EQUITY AND LIABILITIES			
EQUITY			
Share capital		1 057 635	1 057 635
Share premium		1 227 253	1 227 253
Hedging reserve		(303 046)	(14 617)
Retained earnings		20 057 590	18 576 453
Total equity		**22 039 432**	**20 846 724**
LIABILITIES			
Long-term liabilities			
Interest-bearing loans	3.6.	8 970 057	9 346 203
Provisions	3.5.	327 418	327 747
Deferred tax liabilities		59 266	-
Other long-term liabilities		143 286	170 434
		9 500 027	**9 844 384**
Short-term liabilities			
Trade and other liabilities		8 938 809	10 998 036
Interest-bearing loans and borrowings	3.6.	1 284 106	2 320 861
Income tax liability		-	613 182
Provisions	3.5.	332 729	442 181
Deferred income		241 798	118 423
Other financial liabilities		806 139	685 292
		11 603 581	**15 177 975**
Total liabilities		**21 103 608**	**25 022 359**
Total equity and liabilities		**43 143 040**	**45 869 083**

The accompanying notes disclosed on pages 22 - 29 are an integral part of the foregoing half-year condensed separate financial statements.

Separate statement of comprehensive income

	Note	for 6 months ended 30/06/2012 (unaudited)	for 3 months ended 30/06/2012 (unaudited)	for 6 months ended 30/06/2011 (unaudited)	for 3 months ended 30/06/2011 (unaudited)
Income statement					
Sales revenues	3.7.	41 402 784	19 267 459	35 729 040	18 972 800
Cost of sales	3.8.	(38 790 614)	(18 036 298)	(32 825 962)	(17 604 352)
Gross profit on sales		**2 612 170**	**1 231 161**	**2 903 078**	**1 368 448**
Distribution expenses		(1 002 201)	(500 630)	(965 849)	(481 852)
General and administrative expenses		(373 860)	(189 661)	(299 573)	(162 273)
Other operating revenues	3.9.	102 722	57 009	143 851	50 237
Other operating expenses	3.9.	(115 761)	(44 978)	(130 569)	(63 641)
Profit from operations		**1 223 070**	**552 901**	**1 650 938**	**710 919**
Financial revenues	3.10.	771 900	227 087	919 935	641 491
Financial expenses	3.10.	(196 506)	(655 904)	(228 473)	(130 897)
Financial revenues and expenses		**575 394**	**(428 817)**	**691 462**	**510 594**
Profit before tax		**1 798 464**	**124 084**	**2 342 400**	**1 221 513**
Income tax expense	3.11.	(317 327)	772	(378 717)	(167 262)
Net profit		**1 481 137**	**124 856**	**1 963 683**	**1 054 251**
Items of other comprehensive income					
Hedging instruments valuation		(267 991)	(466 413)	49 678	(436 465)
Hedging instruments settlement		(88 094)	20 318	75 441	77 782
Deferred tax on other comprehensive income items		67 656	84 758	(23 772)	68 150
		(288 429)	**(361 337)**	**101 347**	**(290 533)**
Total net comprehensive income		**1 192 708**	**(236 481)**	**2 065 030**	**763 718**
Net profit and diluted net profit per share (in PLN per share)		3.46	0.29	4.59	2.46

The accompanying notes disclosed on pages 22 - 29 are an integral part of the foregoing half-year condensed separate financial statements.

Separate statement of cash flows

	for 6 months ended 30/06/2012 (unaudited)	for 3 months ended 30/06/2012 (unaudited)	for 6 months ended 30/06/2011 (unaudited)	for 3 months ended 30/06/2011 (unaudited)
Cash flows - operating activities				
Net profit	**1 481 137**	**124 856**	**1 963 683**	**1 054 251**
Adjustments for:				
Depreciation and amortisation	530 073	266 796	448 916	236 317
Foreign exchange (gain)/loss	(349 790)	392 699	(229 520)	(81 841)
Interest, net	159 451	82 681	150 901	98 309
Dividends	(159 358)	(150 026)	(400 702)	(389 972)
(Profit)/Loss on investing activities	(37 420)	(41 111)	(8 476)	12 082
Change in receivables	863 587	925 409	(1 341 702)	(664 070)
Change in inventories	(62 641)	745 776	(2 527 510)	(1 454 142)
Change in liabilities	(1 848 888)	(2 135 094)	1 298 670	1 218 416
Change in provisions	124 812	30 437	189 839	78 840
Income tax expense	317 327	(772)	378 717	167 262
Income tax (paid)	(807 554)	(666 000)	(64 834)	(46 707)
Other adjustments	(155 160)	(55 661)	(136 766)	(109 332)
Net cash provided by/(used in) operating activities	**55 576**	**(480 010)**	**(278 784)**	**119 413**
Cash flows - investing activities				
Acquisition of property, plant and equipment and intangible assets	(480 023)	(178 493)	(717 237)	(213 992)
Disposal of property, plant and equipment and intangible assets	7 070	1 384	239 230	2 096
Acquisition of shares	(10 803)	(1 225)	(12 279)	(12 279)
Disposal of shares	116	116	100	100
Interest received	18 673	14 581	5 627	3 648
Dividends received	106 518	106 518	29 826	27 826
Additional repayable payments to subsidiaries' equity	(67 670)	(67 270)	(23 000)	(23 000)
Proceeds from additional repayable payments to subsidiaries' equity	-	-	5 000	5 000
Long-term loans granted	-	-	(561 380)	(561 380)
(Outflows)/Proceeds from short-term loans granted	(67 888)	258 290	261 973	(16 361)
(Outflows) from cash pool facility	(14 857)	(64 733)	(128 299)	(114 667)
Other	828	15 979	(8 880)	(8 780)
Net cash provided by/(used in) investing activities	**(508 036)**	**85 147**	**(909 319)**	**(911 789)**
Cash flows - financing activities				
Proceeds from loans and borrowings received	2 544 139	1 240 101	10 946 310	9 078 276
Debt securities issued	5 697 226	1 892 604	3 002 523	1 695 915
Repayments of loans and borrowings	(3 900 841)	(1 283 346)	(10 686 014)	(9 105 876)
Redemption of debt securities	(5 388 027)	(2 050 266)	(2 848 847)	(1 654 180)
Interest paid	(170 487)	(78 219)	(226 007)	(139 004)
Payments of liabilities under finance lease agreements	(4 930)	(2 634)	(2 682)	(1 605)
(Outflows)/Proceeds from cash pool facility	(53 606)	46 061	27 103	10 019
Net cash provided by/(used in) financing activities	**(1 276 526)**	**(235 699)**	**212 386**	**(116 455)**
Net (decrease) in cash and cash equivalents	**(1 728 986)**	**(630 562)**	**(975 717)**	**(908 831)**
Effect of exchange rate changes	(306)	(432)	(630)	1 313
Cash and cash equivalents, beginning of the period	**4 291 187**	**3 192 889**	**1 396 060**	**1 327 231**
Cash, end of the period	**2 561 895**	**2 561 895**	**419 713**	**419 713**

The accompanying notes disclosed on pages 22 - 29 are an integral part of the foregoing half-year condensed separate financial statements.

Separate statement of changes in equity

	Share capital and share premium	Hedging reserve	Retained earnings	Total equity
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)				
1 January 2011	2 284 888	63 874	17 190 287	19 539 049
Net profit	-	-	1 963 683	1 963 683
Items of other comprehensive income	-	101 347	-	101 347
Total net comprehensive income	**-**	**101 347**	**1 963 683**	**2 065 030**
30 June 2011	**2 284 888**	**165 221**	**19 153 970**	**21 604 079**
(unaudited)				

The accompanying notes disclosed on pages 22 - 29 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 for I half of 2012

1.1. Statement of compliance and general principles for preparation

The foregoing half-year condensed separate financial statements ("separate financial statements") were prepared in accordance with requirements of IAS 34 "Interim financial reporting" and in the scope required under the Minister of Finance Regulation of 19 February 2009, with further amendments, 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) ("Regulation") and present the PKN ORLEN S.A. ("Company", "Parent Company", "PKN ORLEN") financial position as at 30 June 2012 and 31 December 2011, financial results and cash flows for the period of 6 and 3 months ended 30 June 2012 and 30 June 2011.

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 an 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 have been prepared according to principles described in PKN ORLEN S.A. separate financial statements for the year ended 31 December 2011.

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 were the same as those applied in the separate financial statement for the year 2011.

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 separate financial statements in accordance with their effective date. The possible impact of these amendments to IFRSs on the Company's future separate financial statements is being analyzed.

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,

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 2012

	Refining Segment (unaudited)	Retail Segment (unaudited)	Petrochemical Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
Sales to external customers	27 875 521	9 621 050	3 867 393	38 820	-	41 402 784
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)	(357 030)	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 operating profit/(loss)	**727 954**	**211 750**	**571 002**	**(287 636)**	**-**	**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)	Retail Segment (unaudited)	Petrochemical Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
Sales to external customers	12 275 134	5 086 797	1 882 540	22 988	-	19 267 459
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)	(186 343)	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 operating profit/(loss)	**175 411**	**189 180**	**343 072**	**(154 762)**	**-**	**552 901**
Financial revenues						227 087
Financial expenses						(655 904)
Profit before tax						**124 084**
Income tax expense						772
Net profit						**124 856**

for 6 months ended 30 June 2011

	Refining Segment (unaudited)	Retail Segment (unaudited)	Petrochemical Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
Sales to external customers	24 863 694	7 984 128	2 854 585	26 633	-	35 729 040
Transactions with other segments	9 642 268	-	1 381 860	33 129	(11 057 257)	-
Sales revenues	34 505 962	7 984 128	4 236 445	59 762	(11 057 257)	35 729 040
Operating expenses	(33 230 991)	(7 818 019)	(3 766 429)	(333 202)	11 057 257	(34 091 384)
Other operating revenues	54 257	23 871	4 610	61 113	-	143 851
Other operating expenses	(37 421)	(46 061)	(3 184)	(43 903)	-	(130 569)
Segment operating profit/(loss)	**1 291 807**	**143 919**	**471 442**	**(256 230)**	**-**	**1 650 938**
Financial revenues						919 935
Financial expenses						(228 473)
Profit before tax						**2 342 400**
Income tax expense						(378 717)
Net profit						**1 963 683**

for 3 months ended 30 June 2011

	Refining Segment (unaudited)	Retail Segment (unaudited)	Petrochemical Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
Sales to external customers	12 999 602	4 420 456	1 538 381	14 361	-	18 972 800
Transactions with other segments	5 207 347	-	724 698	15 780	(5 947 825)	-
Sales revenues	18 206 949	4 420 456	2 263 079	30 141	(5 947 825)	18 972 800
Operating expenses	(17 768 410)	(4 272 129)	(1 959 066)	(196 697)	5 947 825	(18 248 477)
Other operating revenues	14 986	19 192	3 112	12 947	-	50 237
Other operating expenses	(6 253)	(32 168)	-	(25 220)	-	(63 641)
Segment operating profit/(loss)	**447 272**	**135 351**	**307 125**	**(178 829)**	**-**	**710 919**
Financial revenues						641 491
Financial expenses						(130 897)
Profit before tax						**1 221 513**
Income tax expense						(167 262)
Net profit						**1 054 251**

Assets by operating segments

	as at 30/06/2012 (unaudited)	as at 31/12/2011
Refining Segment	20 179 175	21 044 325
Retail Segment	3 396 089	3 342 511
Petrochemical Segment	6 276 763	6 392 544
Segment assets	**29 852 027**	**30 779 380**
Corporate Functions	13 291 013	15 089 703
	43 143 040	**45 869 083**

3. Other notes

3.1. Impairment allowances of assets

	for 6 months ended 30/06/2012 (unaudited)	for 3 months ended 30/06/2012 (unaudited)	for 6 months ended 30/06/2011 (unaudited)	for 3 months ended 30/06/2011 (unaudited)
Property, plant and equipment				
Increase	(16 899)	(6 844)	(20 602)	(17 918)
Decrease	23 822	9 229	12 428	11 719
Intangible assets				
Increase	(5)	(5)	-	-
Decrease	12	6	-	-
Financial assets available for sale				
Increase	(172)	(172)	(131)	(6)
Decrease	216	-	315	315
Receivables				
Increase	(31 258)	(14 268)	(30 315)	(17 308)
Decrease	21 342	8 292	36 364	12 231
Non-current assets held for sale				
Increase	-	-	-	-
Decrease	-	-	490	-

Recognition and reversal of impairment allowances in the 6 and 3 months period ended 30 June 2012 and 30 June 2011 related to:
- impairment of property, plant and equipment,
- fair value measurement of non-current assets held for sale,
- extinction of indicators in respect of overdue receivables, occurrence of uncollectible receivables and receivables in court,
- fair value measurement of financial assets available for sale, quoted on active markets.

3.2. Inventories written down to net realizable value

	for 6 months ended 30/06/2012 (unaudited)	for 3 months ended 30/06/2012 (unaudited)	for 6 months ended 30/06/2011 (unaudited)	for 3 months ended 30/06/2011 (unaudited)
Increase	(1 187)	(2)	(1 558)	(61)
Decrease	1 325	834	2 013	1 817

3.3. Other long-term assets

	as at 30/06/2012 (unaudited)	as at 31/12/2011
Cash flow hedge instruments - foreign currency forwards	-	81
Loans granted	677 373	682 882
Other	64	164
	677 437	**683 127**

3.4. Other short-term financial assets

	as at 30/06/2012 (unaudited)	as at 31/12/2011
Cash flow hedge instruments	**43 775**	**204 423**
foreign currency forwards	17 531	4 411
commodity swaps	26 244	200 012
Derivatives not designated as hedge accounting	**-**	**1 317**
foreign currency forwards	-	1 317
Embedded derivatives	**348**	**179**
foreign currency swaps	348	179
Loans granted	**52 046**	**4**
Cash pool	**129 369**	**114 557**
	225 538	**320 480**

3.5. Provisions

	long-term		short-term		Total	
	as at 30/06/2012 (unaudited)	as at 31/12/2011	as at 30/06/2012 (unaudited)	as at 31/12/2011	as at 30/06/2012 (unaudited)	as at 31/12/2011
Environmental provision	202 164	202 493	21 130	32 149	223 294	234 642
Jubilee and post-employment benefits provision	125 254	125 254	22 616	22 616	147 870	147 870
Business risk provision	-	-	14 339	18 706	14 339	18 706
Shield programs provision	-	-	29 281	29 692	29 281	29 692
Provision for CO_2 emissions	-	-	115 943	225 679	115 943	225 679
Other	-	-	129 420	113 339	129 420	113 339
	327 418	**327 747**	**332 729**	**442 181**	**660 147**	**769 928**

3.6. Interest – bearing loans and borrowings

	long-term		short-term		Total	
	as at 30/06/2012 (unaudited)	as at 31/12/2011	as at 30/06/2012 (unaudited)	as at 31/12/2011	as at 30/06/2012 (unaudited)	as at 31/12/2011
Bank loans	7 948 204	9 346 203	182 219	477 120	8 130 423	9 823 323
Borrowings	-	-	463 149	501 026	463 149	501 026
Debt securities	1 021 853	-	638 738	1 342 715	1 660 591	1 342 715
	8 970 057	**9 346 203**	**1 284 106**	**2 320 861**	**10 254 163**	**11 667 064**

3.7. Sales revenues

	for 6 months ended 30/06/2012 (unaudited)	for 3 months ended 30/06/2012 (unaudited)	for 6 months ended 30/06/2011 (unaudited)	for 3 months ended 30/06/2011 (unaudited)
Revenues from sales of finished goods and services, net	24 042 983	12 379 949	19 837 056	10 601 541
Revenues from sales of merchandise and raw materials, net	17 359 801	6 887 510	15 891 984	8 371 259
	41 402 784	**19 267 459**	**35 729 040**	**18 972 800**

3.8. Operating expenses

Cost of sales

	for 6 months ended 30/06/2012 (unaudited)	for 3 months ended 30/06/2012 (unaudited)	for 6 months ended 30/06/2011 (unaudited)	for 3 months ended 30/06/2011 (unaudited)
Cost of finished goods and services sold	(21 655 805)	(11 294 219)	(17 159 937)	(9 322 659)
Cost of merchandise and raw materials sold	(17 134 809)	(6 742 079)	(15 666 025)	(8 281 693)
	(38 790 614)	**(18 036 298)**	**(32 825 962)**	**(17 604 352)**

Cost by kind

	for 6 months ended 30/06/2012 (unaudited)	for 3 months ended 30/06/2012 (unaudited)	for 6 months ended 30/06/2011 (unaudited)	for 3 months ended 30/06/2011 (unaudited)
Materials and energy	(21 741 885)	(11 238 676)	(16 863 353)	(9 166 632)
Cost of merchandise and raw materials sold	(17 134 809)	(6 742 079)	(15 666 025)	(8 281 693)
External services	(1 062 729)	(548 677)	(974 955)	(517 306)
Employee benefits costs	(322 016)	(158 584)	(304 487)	(150 245)
Depreciation and amortisation	(530 073)	(266 796)	(448 916)	(236 317)
Taxes and charges	(179 846)	(86 829)	(155 622)	(72 914)
Other	(185 539)	(79 661)	(212 722)	(107 593)
	(41 156 897)	**(19 121 302)**	**(34 626 080)**	**(18 532 700)**
Change in inventories	832 223	337 129	260 401	126 892
Cost of products and services for own use	42 238	12 606	143 726	93 690
Operating expenses	**(40 282 436)**	**(18 771 567)**	**(34 221 953)**	**(18 312 118)**
Distribution expenses	1 002 201	500 630	965 849	481 852
General and administrative expenses	373 860	189 661	299 573	162 273
Other operating expenses	115 761	44 978	130 569	63 641
Cost of sales	**(38 790 614)**	**(18 036 298)**	**(32 825 962)**	**(17 604 352)**

3.9. Other operating revenues and expenses

Other operating revenues

	for 6 months ended 30/06/2012 (unaudited)	for 3 months ended 30/06/2012 (unaudited)	for 6 months ended 30/06/2011 (unaudited)	for 3 months ended 30/06/2011 (unaudited)
Profit on sale of non-financial non-current assets	3 374	1 286	31 537	2 206
Reversal of provisions	6 400	4 264	4 005	968
Reversal of receivables impairment allowances	18 950	8 046	31 322	10 229
Reversal of impairment allow ances of property, plant and equipment and intangible assets	21 505	7 903	12 865	11 708
Penalties and compensations earned	8 582	2 632	38 193	3 297
Other	43 911	32 878	25 929	21 829
	102 722	**57 009**	**143 851**	**50 237**

Other operating expenses

	for 6 months ended 30/06/2012 (unaudited)	for 3 months ended 30/06/2012 (unaudited)	for 6 months ended 30/06/2011 (unaudited)	for 3 months ended 30/06/2011 (unaudited)
Loss on sale of non-financial non-current assets	(20 712)	(2 364)	(12 005)	(6 984)
Recognition of provisions	(13 864)	(4 178)	(15 081)	(12 089)
Recognition of receivables impairment allowances	(27 591)	(13 203)	(27 233)	(16 831)
Recognition of impairment allowances of property, plant and equipment and intangible assets	(16 904)	(6 849)	(20 602)	(17 918)
Cost of damages and breakdowns	(4 978)	(2 657)	(9 247)	(2 488)
Other	(31 712)	(15 727)	(46 401)	(7 331)
	(115 761)	**(44 978)**	**(130 569)**	**(63 641)**

3.10. Financial revenues and expenses

Financial revenues

	for 6 months ended 30/06/2012 (unaudited)	for 3 months ended 30/06/2012 (unaudited)	for 6 months ended 30/06/2011 (unaudited)	for 3 months ended 30/06/2011 (unaudited)
Interest	79 334	32 046	11 502	6 739
Foreign exchange gains surplus	452 031	-	493 915	204 635
Dividends	159 358	150 026	400 702	389 972
Settlement and valuation of financial instruments	68 259	39 017	5 034	35 650
Reversal of receivables impairment allowances	2 392	246	5 042	2 001
Reversal of investment impairment allowances	216	-	315	315
Other	10 310	5 752	3 425	2 179
	771 900	**227 087**	**919 935**	**641 491**

Financial expenses

	for 6 months ended 30/06/2012 (unaudited)	for 3 months ended 30/06/2012 (unaudited)	for 6 months ended 30/06/2011 (unaudited)	for 3 months ended 30/06/2011 (unaudited)
Interest	(180 729)	(93 755)	(159 316)	(103 650)
Foreign exchange losses surplus	-	(556 766)	-	-
Settlement and valuation of financial instruments	(9 937)	(2 792)	(63 440)	(24 915)
Recognition of receivables impairment allowances	(3 667)	(1 065)	(3 082)	(477)
Recognition of investment impairment allowances	(172)	(172)	(131)	(6)
Other	(2 001)	(1 354)	(2 504)	(1 849)
	(196 506)	**(655 904)**	**(228 473)**	**(130 897)**

Borrowing costs capitalized in the 6 and 3 month period ended 30 June 2012 and 30 June 2011 amounted to PLN (5,446) thousand and PLN (2,888) thousand and PLN (42,491) thousand, and PLN (9,354) thousand, respectively.

3.11. Income tax expense

	for 6 months ended 30/06/2012 (unaudited)	for 3 months ended 30/06/2012 (unaudited)	for 6 months ended 30/06/2011 (unaudited)	for 3 months ended 30/06/2011 (unaudited)
Current income tax	(179 125)	(5 222)	(277 561)	(86 770)
Deferred income tax	(138 202)	5 994	(101 156)	(80 492)
	(317 327)	**772**	**(378 717)**	**(167 262)**

3.12. 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 principles are not met, are recognized in a current period profit or loss. Valuation of others, for which hedge accounting is applied, is recognized in equity.

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, apart from market quotations, which are directly or indirectly observable (so called Level 2).

Fair value hierarchy

	as at 30/06/2012 (unaudited)		as at 31/12/2011	
	Level 1	Level 2	Level 1	Level 2
Financial assets				
Quoted shares	734	-	690	-
Embedded derivatives and hedging instruments	-	44 123	-	206 000
	734	**44 123**	**690**	**206 000**
Financial liabilities				
Embedded derivatives and hedging instruments	-	607 447	-	460 129
	-	**607 447**	**-**	**460 129**

During the reporting period and comparative period there were no reclassifications of financial instruments between Level 1 and Level 2.

3.13. Finance lease payments

The Company possesses as a lessee, the finance lease agreements, concerning mainly petrol stations, cars and car wash.

	as at 30/06/2012 (unaudited)	as at 31/12/2011
Future value of minimum lease payments	83 982	82 537
Present value of minimum lease payments	68 226	66 807

3.14. 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.

3.15. Future liabilities resulting from signed investment contracts

As at 30 June 2012 and 31 December 2011 the value of future liabilities resulting from investment contracts signed until that day amounts to PLN 249,592 thousand and PLN 253,076 thousand, respectively.

3.16. Issue, redemption and repayment of debt and capital securities

In the first quarter of 2012 the Company redeemed debt securities of PLN 750,000 thousand. Additionally, according to strategy of financing diversification and debt refinancing implemented by PKN ORLEN, 7-year debt securities of PLN 1,000,000 thousand were issued. On 27 June 2012, 7-year debt securities were introduced to trading on the Catalyst debt securities market on the Warsaw Stock Exchange. Moreover, in order to optimize liquidity in ORLEN Capital Group, short-term debt securities were issued to and repurchased from the Group companies.

3.17. Company's profit distribution for 2011

Ordinary General Shareholders' Meeting of PKN ORLEN S.A as at 30 May 2012 decided to distribute the net profit for the year 2011 of PLN 1,386,165,827.51 to reserve capital of the Company.

3.18. Contingent liabilities

	as at 31/12/2011	increase/ (decrease)	as at 30/06/2012 (unaudited)
Anti-trust proceedings of the OCCP	14 000	(14 000)	-
Other legal cases at court	13 778	(12 778)	1 000
	27 778	**(26 778)**	**1 000**

Court proceedings as at 30 June 2012 relate mainly to claims arising from trade contracts with contractors and employees' claims.

In March 2012, the anti-trust proceeding conducted by the Office for Competition and Consumer Protection was finalized – detailed information in Note 7.1.2.2. of the Management's Board Report on ORLEN Capital Group's operations.

3.19. Sureties and guarantees

Excise tax guarantees and excise tax on goods and merchandise under the excise tax suspension procedure as at 30 June 2012 and 31 December 2011 amounted to PLN 1,080,268 thousand and PLN 958,411 thousand, respectively.

Guarantees granted as at 30 June 2012 and 31 December 2011 amounted to PLN 99,372 thousand and PLN 102,114 thousand, respectively. They were related mostly to appropriate performance of contracts the beneficiaries of which were the Company's business partners.

3.20. 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 2012

Polski Koncern Naftowy ORLEN
Spółka Akcyjna

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. 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 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 mainly in Poland, Germany, Czech Republic and Lithuania.

CONSOLIDATION SCHEME OF THE CAPITAL GROUP – first level

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

*PKN ORLEN is in the process of mandatory buyout of non-controlling interest

fully consolidated entities

entities consolidated under proportionate method

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

name of the group	Share in total voting rights	
	30/06/2012	31/12/2011
1. Capital Group of Rafineria Trzebinia S.A.	86%	86%
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.	99%	90%
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%
Petro-Oil Małopolskie Centrum Sprzedaży Sp. z o.o.	-	100%
Petro-Oil Zachodniopomorskie Centrum Sprzedaży Sp. z o.o.	-	24%
Petro-Oil Wielkopolskie Centrum Sprzedaży Sp. z o.o.	22%	22%
4. Capital Group of ORLEN Lietuva	100%	100%
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.	63%	63%
Capital Group of UNIPETROL RPA s.r.o	100%	100%
UNIPETROL DOPRAVA s.r.o.	100%	100%
UNIPETROL SLOVENSKO s.r.o.	100%	100%
POLYMER INSTITUTE BRNO spol. s.r.o.	100%	100%
HC Benzina Litvinov a.s.	71%	71%
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%
Capital Group of PARAMO a.s.	100%	100%
MOGUL SLOVAKIA s.r.o.	100%	100%
PARAMO OIL s.r.o.	100%	100%
PARAMO ASFALT s.r.o.	100%	100%
CESKA RAFINERSKA a.s.	51%	51%
Butadien Kralupy s.r.o.	51%	51%
6. Capital Group of "Anwil" S.A.	95%	95%
Przedsiębiorstwo Inwestycyjno-Remontowe Remwil Sp. z o.o.	100%	100%
Przedsiębiorstwo Produkcyjno-Handlowo-Usługowe Pro-Lab Sp. z o.o.	99%	99%
Przedsiębiorstwo Usług Specjalistycznych i Projektowych Chemeko Sp. z o.o.	56%	56%
Spolana a.s.	100%	100%
Zakład Usługowo Produkcyjny EKO-Dróg Sp. z o.o.	49%	49%
Przedsiębiorstwo Usług Technicznych Wircom Sp. z o.o.	49%	49%
Specjalistyczna Przychodnia Przemysłowa Prof-Med Sp. z o.o.	46%	46%

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

name of the group	Share in total voting rights	
	30/06/2012	31/12/2011
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.	99%	99%
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%	69%
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%	-

* 94% share in consolidated financial data

In the I half of 2012 the following changes in the composition of Capital Group occurred:

- sale of Petro-Oil Zachodniopomorskie Centrum Sprzedaży Sp. z o.o. from ORLEN Oil Group,
- acquisition of non-controlling interest in Rafineria Nafty Jedlicze S.A., IKS Solino and Anwil S.A.,
- inclusion of Petro-Oil Małopolskie Centrum Sprzedaży Sp. z o.o. in Platinium Oil Sp. z o.o. from ORLEN Oil Group,
- foundation of Orlen Apsauga UAB, subsidiary of Orlen Ochrona Sp. z o.o.

3. Consolidated statement of comprehensive income

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

In the I half of 2012 revenues from sale of ORLEN Group were higher by PLN 8,887,212 thousand (y/y) and reached the level of PLN 57,202,311 thousand.

The profit from operations of the ORLEN Group for the I half of 2012 amounted to PLN 1,314,172 thousand in comparison to PLN 2,348,375 thousand in the prior year.

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. Therefore, 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 valuation of ORLEN Group inventories and consequently profit from operations in I half of 2012 was higher by PLN (-) 1,248,212 thousand (y/y).

Improvement of macroeconomics factors, particularly in the refining segment, contributed to the increase of profit from operations by approximately PLN 364,000 thousand.

Positive volume effect reflecting growth in retail and petrochemical sales with limited volumes in refining segment mainly due to cyclical maintenance shutdown of refinery in ORLEN Lietuva contributed to decrease of ORLEN Group profit from operations by PLN 302,000 thousand (y/y).

Positive impact of processing of oil with low sulphur content in order to minimize the effects of maintenance shutdowns and repurchase of I part of mandatory reserves of crude oil in I half of 2011 amounted to approximately PLN 507,000 thousand (y/y). Positive effect of repurchase of II part of mandatory reserves in January 2012 amounted to approximately PLN 240,000 thousand (y/y). As the result, net impact of above one-off events on results in I half of 2012 was negative and amounted to PLN (-) 267,000 thousand (y/y).

Other operating items amounted to PLN (-) 51,667 thousand (y/y) and were connected mainly with implementation of legislative changes in the respect of bio components in fuels taxation.

Change in other operating result amounted to PLN (-) 133,324 thousand (y/y) was mainly connected to lack of revenues due to compensations received from ENERGA-OPERATOR S.A. and received compensations related to fire and grants for reduction of nitrous oxides emissions in Anwil S.A. which occurred in I half of 2011.

Result of the selected companies of ORLEN Group

- PKN ORLEN– result from operations was lower by PLN (-) 427,868 thousand (y/y) and amounted to PLN 1,223,070 thousand.
  - result of refining segment, lower by PLN (-) 563,853 thousand (y/y) was mainly the effect of negative impact of decreasing crude oil prices in inventory valuation of PLN (-) 735,610 thousand (y/y), accompanied by positive impact of macroeconomic factors,
  - result of the retail segment, higher by PLN 67,831 thousand (y/y) was mainly the effect of increasing sales volume and higher fuel margins as well as those on sales of non-fuel merchandise and services ,
  - result of the petrochemical segment, higher by PLN 99,560 thousand (y/y) includes positive impact of higher sales volume, accompanied by negative impact of macroeconomic factors and increasing depreciation and amortization costs due to launching of PX/PTA Complex,
  - costs of corporate functions, higher by PLN (-) 31,406 thousand (y/y) are mainly the effect of lack of revenues due to compensations received from ENERGA-OPERATOR S.A. which occurred in I half of 2011.

- ORLEN Lietuva Group – the result from operations was lower by PLN (-) 300,075 thousand (y/y) and amounted to PLN (-) 196,055 thousand.
  - lower by PLN (-) 304,598 thousand (y/y) operating result of the refining segment was mainly the effect of negative impact of decreasing crude oil prices on inventory valuation of PLN (-) 274,988 thousand (y/y) and lower sales volume due to cyclical maintenance shutdowns, with positive impact of macroeconomic factors,
  - higher by PLN 232 thousand (y/y) result of the retail segment was mainly the effect of higher sales volume and earned fuel and non-fuel margins,
  - costs of corporate functions, lower by PLN 4,291 thousand (y/y) are mainly related to the lack of negative effects on other operating activities of 2011 related mainly to disposal of redundant property elements.

- Unipetrol Group – the result from operations was lower by PLN (-) 191,655 thousand (y/y) and amounted to PLN (-) 74,663 thousand.
  - result of the refining segment, higher by PLN 16,273 thousand (y/y) was mainly the effect of positive impact of macroeconomic factors and activities to optimize operating costs of segment accompanied by negative impact of crude oil prices on inventory valuation of PLN (-) 88,623 thousand (y/y),
  - result of the retail segment, lower by PLN (-) 5,548 thousand (y/y) was mainly the effect of decreased sales volume and lower fuel and non-fuel margins,
  - result of petrochemical segment lower by PLN (-) 190,930 thousand (y/y) is mainly the effect of negative impact of crude oil prices on inventory valuation of PLN (-) 85,268 thousand (y/y), lower sales volume and negative trends in macroeconomic factors,
  - costs of corporate functions, higher by PLN (-) 11,450 thousand (y/y) are the effect of negative result on other operating activities related mainly to receivables impairment allowances.

Operating segments

– **Refining segment**

The profit from operations of refining segment of the ORLEN Group for the I half of 2012 amounted to PLN 665,780 thousand and was lower by PLN (-) 871,860 thousand (y/y).

Negative impact of inventory valuation, due to changes in crude oil prices was higher in comparison to I half of 2011 by PLN (-)1,114,802 thousand (y/y).

Total positive impact of changes in macroeconomic factors including changes in URAL/Brent differential, refining margins and foreign exchange rates and lower sales volume due to cyclical maintenance shutdown in ORLEN Lietuva amounted to PLN 607,000 thousand (y/y).

Positive effect of throughput of crude oil with low sulfur content in order to minimize the effects of maintenance shutdowns and repurchase of I tranche of mandatory reserves of crude oil in I half of 2011 amounted to PLN 507,000 thousand (y/y). Positive effect of repurchase of II tranche of mandatory reserves of crude oil in January 2012 amounted to approximately PLN 240,000 thousand (y/y). In the result, net effect of above one-off events on results in I half of 2012 was negative and amounted to PLN (-) 267,000 thousand (y/y).

Impact of other operating items connected mainly with implementation of legislative changes in the respect of bio components in fuels taxation amounted to PLN (-) 97,058 thousand (y/y).

In the I half of 2012, the segment's CAPEX increased by PLN 70,582 thousand (y/y) to the level of PLN 472,686 thousand.
The most significant investments held in the I half of 2012 comprised: construction of K8 boiler in Heat and Power station, modernization and intensification of Alkylation HF installation in PKN ORLEN S.A and construction works on Granulation and Desulphurization Installation and cyclical maintenance shutdown in ORLEN Lietuva.

– **Retail segment**

In the I half of 2012 profit from operations of the retail segment of the ORLEN Group amounted to PLN 278,498 thousand and increased by PLN 59,411 thousand (y/y).

The increase in fuel sales volume by 5% (y/y), achieved on Polish, German and Lithuanian markets influenced improvement of segment operating result by PLN 37,100 thousand (y/y).

Improvement of fuel margins on Polish and German markets in relation with higher margins realized on non-fuel merchandise and services influenced increase of operating result by PLN 92,000 thousand (y/y).

Other items related mainly to higher costs of fuel stations as a result of higher sales volume and higher amortization and depreciation expenses decreased segment operating result by PLN (-) 69,689 thousand (y/y).

In the I half of 2012 segment's CAPEX increased by PLN 14,553 thousand (y/y) to the level of PLN 126,068 thousand.

In the I half of 2012 in the ORLEN Group, 3 new fuel stations were launched in Poland and 1 new fuel station in Germany. In the I half of 2012, 27 fuel stations in Poland, 2 fuel stations in Czech Republic and 1 fuel station in Germany were modernized and 7 fuel stations in Poland and 2 fuel stations in Czech Republic were shut down. Additionally, 8 new fuel stations were launched in franchising system in Poland.

– **Petrochemical segment**

In the I half of 2012 profit from operations of petrochemical segment amounted to PLN 725,139 thousand and was lower by PLN (-) 180,264 thousand in comparison to I half of 2011.

Negative effect of changes in prices of petrochemical products on valuation of inventories decreased segment's operating result by PLN (-) 133,410 thousand (y/y).

Negative impact of lower petrochemical margins decreased segment's operating result by PLN (-) 275,000 thousand (y/y) and was compensated with higher sales volume by PLN 297,000 thousand (y/y).

Impact of other factors amounted to PLN (-) 68,854 thousand (y/y) and included mainly negative impact of changes in other operating activities due to lack of compensations related to fire in Anwil S.A., that occurred in I half of 2011.

In the I half of 2012 the segment's CAPEX was lower by PLN (-) 77,230 thousand (y/y) and amounted to PLN 159,417 thousand.
The most significant investments realized in the I half or 2012 comprised: modernization of pneumatic and automatic devices of Phenol division and expansion of the compressor on Olefins expedition division in PKN ORLEN S.A.; works associated with reduction of energy consumption and increase of production on fertilizers complex in Anwil S.A.; reconstruction of pirolytic furnance at Olefin's Installation in Unipetrol Group.

- **Corporate functions**

Corporate functions costs amounted to PLN (-) 355,245 thousand and were higher by PLN (-) 41,487 thousand (y/y) mainly as a result of lack of inflows due to return of fine paid to ENERGA-OPERATOR S.A. from the I half of 2011.

Capital expenditures („CAPEX") of corporate functions in the I half of 2012 decreased by PLN (-) 13,021 thousand (y/y) to the level of PLN 60,669 thousand and related mainly to the IT area projects, exploratory and analytical work on the geological data obtained from ongoing boreholes in upstream area.

Financial expenses and net result

Net financial expenses in the I half of 2012 amounted to PLN 316,549 thousand and comprised mainly positive foreign exchange differences on revaluation of loans and other trade and investment positions denominated in foreign currencies of PLN 343,555 thousand, measurement of financial instruments of PLN 104,738 thousand and net interest expense of PLN (-) 113,135 thousand.

After consideration of share in profit from investments accounted for under equity method and tax charges, net profit of ORLEN Group for the I half of 2012 amounted to PLN 1,204,304 thousand and was lower by PLN (-) 861,602 thousand in comparison to I half of prior year.

3.2 Statement of financial position

As at 30 June 2012 total assets of the ORLEN Group amounted to PLN 56,338,785 thousand and was lower by PLN (-) 2,392,693 thousand (by 4.1%) as compared to 31 December 2011.
Non-current assets decreased in the reporting period by PLN (-) 638,958 thousand (by 2.2%) mainly as a result of incurred capital expenditures of PLN 818,841 thousand and amortization and depreciation of PLN 1,121,621 thousand and as at 30 June 2012 amounted to PLN 27,960,183 thousand.

As at 30 June 2012 total current assets decreased, as compared to 31 December 2011, by PLN (-) 1,753,735 thousand and amounted to PLN 28,378,602 thousand. The decrease in total current assets was mainly a result of the net decrease in cash and cash equivalents.

Equity as at 30 June 2012 amounted to PLN 27,526,199 thousand and increased by PLN 727,516 thousand (by 2.7%) as compared to the end of 2011 mainly as a result of net profit generated in I half of 2012 in the amount of PLN 1,204,304 thousand, together with the decrease of foreign exchange differences on subsidiaries from consolidation by PLN (-) 120,476 thousand and hedging reserve by PLN (-) 284,746 thousand.

As at 30 June 2012 net indebtedness of the ORLEN Group amounted to PLN 8,214,896 thousand and was higher by PLN 626,471 thousand as compared to the end of 2011. Increase in net indebtedness, in the I half of 2012, due to net repayment of loans, debt securities valuation and decrease in the balance of cash and cash equivalents amounted to PLN 1,057,683 thousand (y/y) and was accompanied by decrease of foreign exchange differences surplus of PLN 431,212 thousand (y/y) .

The net debt to equity ratio (net financial leverage) decreased from 30.2% as at the end of 2011 to 29.1% as at the end of June 2012.

3.3 Statement of cash flows

Net cash provided by operating activities in I half of 2012 amounted to PLN 55,993 thousand and included the increase in demand for net working capital of PLN 1,499,320 thousand as well as the expenditures on current income tax of PLN (-) 893,975 thousand which include also tax settlement for 2011.

Net cash used in investing activities in I half of 2012 amounted to PLN (-) 891,158 thousand and included mainly net outflows related to the implementation of the investment programs of PLN (-) 974,434 thousand as well as inflows on settlement of financial instruments for which hedge accounting is not applied in the amounts of PLN 144,033 thousand recognized in other position.

In I half of 2012 net cash used in financing activities amounted to PLN (-) 923,594 thousand and included mainly the net effect of repayment of loans and borrowings and bond emission of PLN (-) 732,250 thousand, as well as interest expense of PLN (-) 173,120 thousand.

As a result cash and cash equivalents as at 30 June 2012 decreased by PLN (-) 1,758,759 thousand and amounted to PLN 3,647,435 thousand.

Factors and events that may influence future results

Similar macroeconomic factors as described above will also cause a significant influence on financial results in subsequent quarters of 2012.

3.4 The most significant events in the period from 1 January 2012 until the date of preparation of the foregoing report

On 12 January 2012 the Extraordinary General Meeting of PKN ORLEN S.A. revoked Mr Krzysztof Kołach from the Supervisory Board. At the same time the Extraordinary General Meeting appointed Mr Michał Gołębiowski to the PKN ORLEN Supervisory Board. Additionally, Minister of the State Treasury based on § 8 sec. 2 item 1 of Articles of Association as of 11 January 2012, acting on behalf of the State Treasury shareholder recalled Mr Janusz Zieliński from his office of the Supervisory Board of PKN ORLEN S.A. Concurrently Minister of the State Treasury, as of 12 January 2012 appointed Mr Cezary Banasiński to the Supervisory Board.

On 31 January 2012 the agreement with Maury Sp. z o.o. expired (that has been concluded on 23 December 2010) regarding gathering and keeping of mandatory reserves of crude oil on PKN ORLEN's account, upon which a part of mandatory reserves of crude oil for PLN 909,592 thousand translated at the transaction date's exchange rate (representing USD 299,968 thousand) has been sold.
Therefore, and in accordance with applicable regulations regarding the maintenance of mandatory reserves in Poland, PKN ORLEN acquired crude oil owned by Maury Sp. z o.o. for PLN 1,213,157 thousand translated at the transaction date's exchange rate (representing USD 374,050 thousand). The acquisition price of crude oil has been hedged with a forward contract. The settlement of the hedging transaction decreased the value of the acquired raw material by PLN 202,707 thousand translated at the transaction date's exchange rate (representing USD 63,283 thousand). The transfer of ownership of the raw material to PKN ORLEN has been made on 31 January 2012, after settlement of full amount of the transaction. As a result PKN ORLEN recognized the purchase of crude oil of PLN 1,010,450 thousand translated at the transaction date's exchange rate (representing USD 310,767 thousand) in the I quarter of 2012.

On 28 March 2012 within the process of changing the formula of maintenance of mandatory reserves of crude oil by PKN ORLEN, the Company has signed the contract for sale of part of mandatory reserves and the contract for gathering and keeping of crude oil reserves with Ashby sp. z o. o., with its registered office in Warsaw.
Based on the sale agreement PKN ORLEN has sold crude oil to Ashby Sp. z o. o. The value of crude oil sold was approximately PLN 1,250,000 thousand translated with exchange rate as at 28 March 2012 (approximately USD 403,000 thousand).
The price of raw material was determined based on market quotations.
Based on the agreement regarding gathering and keeping of crude oil reserves Ashby Sp. z o. o. will render service of maintaining mandatory reserves of crude oil on behalf of PKN ORLEN, while PKN ORLEN will guarantee storing of inventories at the current location. The agreement regarding gathering and keeping of crude oil reserves has been concluded for a period of 1 year, whereby the Parent Company takes into account the possibility of its extension for another period.

On 27 February 2012, according to the agreement dated 2006, PKN ORLEN redeemed the debt securities of PLN 750,000 thousand. At the same day, according to mentioned agreement, there was a new securities issue of PLN 1,000,000 thousand.

On 6 March 2012 the Supervisory Board of PKN ORLEN S.A. appointed Mr. Piotr Chełmiński to the position of the Management Board Member of PKN ORLEN S.A., Petrochemistry effective 10 March 2012.

On 7 March 2012 Ms. Grażyna Piotrowska-Oliwa, Management Board Member of PKN ORLEN S.A. – Sales, resigned from the position of the Management Board Member effective 18 March 2012.

On 14 March 2012 the Supervisory Board of PKN ORLEN S.A. appointed Mr. Marek Podstawa to the position of the Management Board Member of PKN ORLEN S.A., Sales effective 19 March 2012.

On 28 March 2012 Mr. Marek Karabuła and Mr. Piotr Wielowieyski resigned from the positions of Supervisory Board Members of PKN ORLEN S.A., effective from 28 March 2012.

On 30 May 2012, the Ordinary General Shareholders' Meeting appointed Mr. Paweł Białek as a Member of the Supervisory Board.

3.5 Significant risk factors influencing current and future financial results

3.5.1 Characteristics of risks connected with financial instruments

Operating activities of the Group are exposed to the following financial risks:
- credit risk;
- liquidity risk;
- market risks (including currency risk, interest rates risk, risk of changes in the prices of raw materials and oil derivative products, risk of changes in prices of CO_2 emission rights);
- other (risk related to the procurement of raw materials, risk of changes in legislation, risk of changes in trends in fuel consumption and import, risk related to the global economic crisis, change in the economic growth and unemployment rates).

Credit risk

The Capital Group, when conducting commercial activity sells products and services to business entities with deferred payment dates. Consequently, a credit risk may arise, that business partners will fail
to pay for the products and services delivered. To mitigate the credit risk and keep the working capital as low as possible, the Group has a procedure to grant a trade credit limits to customers and establish of pledges of appropriate types.

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

Liquidity risk

As at 30 June 2012 and 31 December 2011, current assets to short-term liabilities ratio (current ratio) amounted to 1.7 and 1.5, respectively.

An additional source of funds needed to secure the financial liquidity is the Bond Issue Programme launched in 2007 which enables the Group to go beyond the traditional bank market and obtain funds from other financial institutions, corporate or natural persons. Bond Issue Programme is used to manage liquidity within the Capital Group entities on domestic and foreign market.

In order to optimize the financial expenses, the Capital Group set up cash pooling systems: a PLN cash
pool system with 21 Capital Group companies as at 30 June 2012 and an international EUR, USD and PLN cash pool system operated by a foreign bank for PKN ORLEN and foreign Capital Group companies (ORLEN Finance, ORLEN Lietuva, ORLEN Deutschland, Unipetrol Deutschland).

Market risks

The Group is exposed to market risks connected with exchange rates, interest rates, commodity prices and prices of CO_2 emission rights.

PKN ORLEN has covered the main companies of the Capital Group with a consistent hedging policy concerning the currency risk, the interest rate risk, and the risk of goods and raw materials price changes (including CO_2 emission allowances). The ORLEN Capital Group manages the abovementioned market risks based on its adopted market risk policy, which specifies the methods of measuring individual exposures, parameters and periods of hedging against particulars risks, as well as the hedging instruments. The market risk policy is implemented by designated organizational units, supervised by the PKN ORLEN Financial Risk Committee, PKN ORLEN Management Board, and PKN ORLEN Supervisory Board.

- Currency risk

The Group is exposed to the currency risk arising out of the current accounts receivable and current accounts payable, cash and cash equivalents, capital expenditures, foreign currency loans and own debt securities denominated in foreign currencies, future planned cash flows relating to sale and purchase of goods and refinery and petrochemical products.
The currency risk exposure is hedged with such instruments as forwards or swaps.

The USD/PLN exchange rate is partially hedged naturally to a certain extent, since the revenues from the sales of products which value depends on the USD exchange rate, are balanced with the costs of crude oil purchases in the same currency. In the case of EUR/PLN exchange rate, in this currency the revenues from the sale of petrochemical

products are denominated. For this group the natural hedging applies to a limited extent (i.e., interest on the loans denominated in EUR, some investment purchases).

- **Interest rate risk**

The Capital Group is exposed to the risk of volatility of cash flows due to changes in interest 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 the prices of raw materials and oil derivatives**

The operating activity of the ORLEN Capital Group includes changes in prices of crude oil processed, the obligation to maintain reserves of crude oil and fuels, Ural/Brent differential fluctuations, changes in prices of refining and petrochemical products, which depend on quotations of crude oil and products on international markets.

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

- **CO_2 emission allowance prices risk**

Pursuant to the adopted by the EU Kyoto Protocol to the United Nations Framework Convention on Climate Change companies of the Capital Group have been apportioned CO_2 emission permits, as per the decision of the Council of Ministers.

As part of regularly conducted CO_2 allowance prices risk exposure reviews, a strategy of hedging against expected allowance shortages in the upcoming years has been developed. Additionally, efforts were made to release the capital frozen in the owned CO_2 emission allowance balance, which consisted in selling allowance on the spot market and, simultaneously, securing the buyback price of the same amount of allowances on the forward market.

3.5.2 Hedge accounting

Cash flow hedge accounting

The Group hedges against the currency risk affecting cash flows pertaining to operating revenues from sales of petrochemical and refinery products and operating expenses arising from oil purchases (EUR/PLN for sales, USD/PLN for sales and purchases) using currency forward contracts.

The Group hedges cash flows related to refinery margin, crack margin on products and sales/purchases of crude oil and other products using commodity swaps.

The Group also hedges cash flows from interest payments related to issuing bonds denominated in PLN using cross-currency swaps (CCS), whereas cash flows related to interest payments concerning external financing in EUR and USD are secured using interest rate swaps (IRS).

Net investment in a foreign operation hedge accounting

Since 2008 the Group has been using net investment in a foreign operation hedge accounting. The net investment hedge consists in hedging against currency risk affecting that part of the net investment in foreign operation whose functional currency is USD.

Financial liabilities denominated in USD were designated as an instrument hedging share in net assets of Orlen Lietuva Group. Foreign exchange differences resulting from translation of these liabilities into PLN (including its impact on the income tax) are presented in other comprehensive income as ‘Foreign exchange differences from subsidiaries on consolidation’.

The future performance will be affected by the risks described above.

4. Forecast development of the Group

In line with the adopted strategy, the ORLEN Capital Group consistently implements the initiatives aimed at increasing its value through:
– increase in efficiency and further development of the main segments of the activity,
– development of the new upstream segment and building of the power segment ,
– divestment of non-core assets.

Increase in efficiency and further development of the main segment's activity

Activities concerning the improved efficiency are focused on maintaining operational efficiency, assets integration and segment management, which brings measurable benefits and allows for further development of the ORLEN Capital Group in the area of its core business.

The increase in efficiency in the refining segment is achieved by investment projects and improvement initiatives to the operating activity. Maximization of cash flows from operating activity will be achieved i.a. through:
– reducing the cost of current installations and increasing their utilization,
– optimizing capital expenditures and investment in mandatory projects due to regulatory and environmental reasons,
– further integration of process management within the Capital Group.

Modernization and intensification of Alkylation installation in PKN ORLEN S.A. will increase the productive capacity of alkylate from 150 to 280 thousand tonnes/year and will reduce the threat created by its production process for the surroundings.
Additionally the finalization of construction of the new K8 boiler in the Heat and Power Plant in Płock in 2012 will strengthen the potential in respect of the steam and electrical power production. Also a planned construction of installation of wet desulphurisation and catalytic denitrogeneation of exhaust gases and covering electro-filters, will contribute in the following years to meeting the rigorous requirements in respect of reduction of industrial emissions from the beginning of 2016.

In the ORLEN Lietuva the project relating to the construction of Visbreaker Vacuum Flasher installation is being finalized, which will ensure higher yield of light fractions and reduction in use of medium distillates in the process of heavy heating oil compounding. The implementation of sulphur granulation installation is also at the high stage of development, which installation will enable the sulphur storage and sale.

Raising the efficiency of the main operating segments in the following years will also be possible due to maintenance works performed on production installations. The overhaul standstills performed in 2012 in Pipe-Tower Distillation, Gudron Hydrodesulphurisation installations and Diesel Oil Hydrodesulphurisation VI installation in PKN ORLEN S.A. and periodical overhaul standstill in ORLEN Lietuva refinery will ensure thorough upgrade of production installations aimed at increasing the yield level, reliability and reduction in energy consumption.

The increase in efficiency within the area of fuel product logistics, will be based on three pillars: improved cost efficiency, elimination of bottlenecks and reliability of supply. The main contributors to cost efficiency improvement (further decrease of the unit cost) will be: restructuring and development of own warehouse resources, e.g. utilizing the vast spaces of subterranean warehouses (caverns). Taking advantage of all possible synergies in the ORLEN Capital Group will also be possible due to the implementation of cutting-edge IT tools for delivery management.

In the retail segment, ORLEN Capital Group plans to increase the competitiveness of the network while shifting its focus to non-fuel services.

Development of new segments

Main development investments in ORLEN Capital Group are focused on new segments - prospecting for and exploration of hydrocarbons and production of electricity.
In respect of the upstream segment development the works commenced by the ORLEN Capital Group will be continued relating to:
– 3 conventional oil and gas related projects:
  – in the Latvian zone of the Baltic Sea shelf in co-operation with Kuwait Energy Company,
  – in the Polish Lowland near Sieraków with Polskie Górnictwo Naftowe i Gazownictwo,
  – in the Lublin region,
– 3 projects relating to unconventional resources:

- Lublin Shale,
- Hrubieszów Shale,
- Mid-Poland Unconventionals.

The projects involving exploration of unconventional gas are implemented in the area of 8 concessions held by the ORLEN Capital Group. Those projects might generate additional synergy with development of the power sector. Should those projects succeed, they will generate the source of fuels for future gas power plants.

The ORLEN Capital Group systematically carries out the preparatory works in respect of the construction of the gas power plant in Włocławek of the nominal capacity of up to 500 MWe. The construction of the power unit is planned to commence in 2012 and the power unit is planned to be put into operation at the turn of the year 2015 and 2016. The second out of key projects in the power segment involves the upgrade of the heat and power plant in Płock.

Divestments of non-core assets

Activities relating to potential divestment in Anwil S.A. or its part are continued. The analytical works were resumed as regards separation of two business units – fertilisers and PVC. The above can influence the increased interest of prospective investors in the offer. In December 2011 PKN ORLEN S.A. increased its share in the share capital of Anwil S.A. up to 95% and further buyout of Anwil S.A.'s shares will be continued in 2012, which should facilitate the potential transaction in the future.

5. Achievements in research and technological development

In the I half of 2012, the ORLEN Capital Group carried out a number of studies relating to the development of modern production technologies and improvement of quality of manufactured products, improvement of technology production, as well as reduction of negative environmental impact. The studies were carried out independently and together with institutions and research centres, universities and entities conducting research and development activities.

5.1 Refining segment

The research and development activity in ORLEN Capital Group was mainly conducted in cooperation with institutes and research centres and universities. In the I half of 2012, 36 new contracts were executed and 7 contracts were amended. The most important studies in this period include:

- review and unification of the methodology of hydrocarbon emissions calculation for PKN ORLEN S.A. Production Plant (including PTA in Włocławek),
- conducting an analysis of the influence of technological furnaces of Refinery and Petrochemistry installations in the PKN ORLEN S.A. Production Plant on the environment, focusing on air protection and considering the optimisation of types, proportions and the quality of the fuels used,

A cyclical standstill in the ORLEN Lietuva refinery was used to implement a number of technological improvements on production installations. The most important changes in the production processes include replacement of cyclones in the Fluidal Catalytic Cracking installation, which in combination with an internal optimization of the installation work, will affect the increase in fuel yield and reduce consumption of steam and catalysts. Additionally, installing a new cooling system for column K-601 on Vacuum Distillation Unit will increase the yield of light products melt in summer season and thus will reduce the production of vacuum residues.

The research and development activity in the Unipetrol Group in the refining segment were conducted in cooperation with the company Výzkumný Ústav Anorganické Chemie a.s. (VUAnCh). The conducted projects were aimed on further improvement and optimization of production process. The most important work included analysis of the possibilities of use of alternative fractions available from the production of lubricants and oils on the Installation of Fluidal Catalytic Cracking. Another project involved gathering the information on current work and research status of potential use of vacuum distillate on Hydrocracking and Visbreaking Installation.

The company ORLEN Oil Sp. z o.o. was conducting the research and development works mainly relating to the development and implementation of new and modernization of current production technologies in oil segment for automotives and industry. A program of obtaining approvals of producers of passenger cars and trucks was continued and a new development areas for base oil for lubricants were defined that will meet the future requirements of technical specifications and environmental protection, particularly in the area of motor oils for trucks, hydraulic oils and hydraulic fluids in mining, Metal Working Fluid oils and greases.

5.2 Petrochemical segment

In the Unipetrol Group, the research and development activity in the area of monomers was conducted in cooperation with VUAnCh and in the area of polymers – in cooperation with Polymer Institute Brno s.r.o.
The main works conducted in the I half of 2012 related to impact of quality of a raw material on yields from the Olefin Installation, research on the use of free benzene production powers to utilize refinery aroma fractions and evaluation of current analitycal methods defining the content of impurities in propylene used in the polymerization and the choice of optimal, commercially available methods of decontamination.
As regards polymers, a new type of silica was developed, that is tested for the production of new type of polymer (blow-molding PE). Additionally the content of polyethylene (Liten PL10) used in the production of pipes was optimized. Furthermore, works related to multilevel modification of polymerization process for polypropylene installations in Unipetrol RPA were conducted.

The most important research and development works in Anwil Group in the area of environment protection related to development of a sewage containment method in Vinyl Chloride Unit, which would significantly reduce the emissions of chlorine derivatives to the atmosphere.
After the test results the project is currently in the phase of an in-depth data analysis, necessary to make the decision on whether to continue with the investment or not.
As regards projects related to the development of technological processes, works were continued to prepare the PVC installation for tests concerning the implementation of the CID technology (Continuous Initiator Dosing), which will significantly decrease the electricity consumption. Additionally, works on a project of Chlorine and Soda Lye Unit modernisation have begun, aiming at lowering the heat energy consumption.

5.3 Upstream and power area

In the 6 months period of 2012, ORLEN Capital Group continued implementation of the Power and Environmental Investment Program, that is aimed to meet new industrial emission standards effective from 1 January 2016. Within the program the works related to construction of new K-8 boiler, that meet the most rigorous environmental requirements in respect of the sulphur dioxide, nitrogen oxides and dust emissionsin the Heat and Power Plant in Płock were finalized. Additionally the process of selecting of the manufacturer of gas denitrification installation was finalized and the works were conducted to select the manufacturer for the installation of flue gas desulphurization.

In the I half of 2012 as a part of a work related to the development and construction of gas and steam power plant (CCGT) in Włocławek of the capacity of up to 500 MWe, a selection process of a power plant manufacturer was conducted. The main advantages of the gas and steam power plants include the high efficiency as well as flexibility in comparison to the conventional electric energy production systems that are based on carbon fuel. Technology used in CCGT blocks enables significant reduction of emissions of harmful substances, such as NOx, SO_2 and greenhouse gas.

In the I half of 2012 as a part of a joint activity of ORLEN Upstream Sp. z o.o. and PGNiG S.A. in the Polish Lowland in the area of Sierakow, a preparatory works were realized to perform second reconnaissance borehole.
As part of the Karbon Project, works were being conducted in the Lublin area, focusing on the 3D seismic data analysis in order to determine the location of a borehole, the launch of which is planned for the end of 2012.
The ORLEN Capital Group, in co-operation with Kuwait Energy Company, was also doing research in the Latvian zone of the Baltic Sea shelf. The works concentrated on determining the location of, and the preparation for the drilling works.
As part of the Lublin Shale Project related to the unconventional resources, the ORLEN Capital Group continued in 2012 its works to get data of processing and data integration from new seismic profiles on the concession blocks Wierzbica and Lubartów The drilling works started in 2011 were continued and the analysis of the data from the drillings in the well Syczyn OU-1 and Berejów OU-1 and available archival data started. Currently a preparatory works are conducted for the next research drillings, which are to continue in the II half of 2012.
With respect to the Hrubieszów Shale project and Mid-Poland Unconventionals project, the ongoing works related to acquisition, reprocessing and reinterpretation of archival geological data were carried out.

5.4 Environmental protection

In the I half of 2012 ORLEN Capital Group continued integrated activities for environmental protection. As a part of initiatives, the Group undertook education, investment and organization activities dedicated to protect the environment and engaged plenty of employees to participate therein.
The most important activities implemented in this period, dedicated to protect the environment included:

- preparing applications for changes in the integrated permits for the Production Unit in Płock and the Tereftal Acid Production Unit in Włocławek,
- preparing an Environmental Report, containing the description of the impact of the ORLEN Capital Group entities on the environment's components,
- preparing an Environmental Report for new investment projects, including installations for denitrification and desulphurisation of exhaust fumes in the Heat and Power Plant Unit in Płock,

Conducted proecological activities, implementing innovative solutions and adopted strategy aimed at reducing the negative impact of technological processes on the environment has been recognized by the National Enviromental Council, which in February 2012 grated PKN ORLEN S.A. a European Environmental Award.

5.5 Health and Safety

The main purpose of the Health and Safety ("H&S") in the ORLEN Capital Group is the development of appropriate working conditions and the continuous identification and elimination of hazards. The system includes all organizational units of PKN ORLEN as well as companies of the ORLEN Capital Group. H&S issues are a priority action for the Management Board and executive personnel, which result is the improvement of accident rates in the ORLEN Capital Group. In the I half of 2012 the number of accidents at work dropped by more than 12% compared to prior year.

6. Information on related parties

Information on significant related party transactions

6.1. Information on material 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 2012 and 30 June 2011, 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, 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 2012 and 30 June 2011, 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 2012 and 31 December 2011 there are no loans granted by the Group companies to managing and supervising persons and their relatives.

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

In the 6 and 3 months period ended 30 June 2012 and 30 June 2011 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 Group companies	Sales (in PLN thousand)				Purchases (in PLN thousand)			
	for 6 months ended 30/06/2012 (unaudited)	for 3 months ended 30/06/2012 (unaudited)	for 6 months ended 30/06/2011 (unaudited)	for 3 months ended 30/06/2011 (unaudited)	for 6 months ended 30/06/2012 (unaudited)	for 3 months ended 30/06/2012 (unaudited)	for 6 months ended 30/06/2011 (unaudited)	for 3 months ended 30/06/2011 (unaudited)
Managing persons	36	5	34	17	7	4	6	3
Other key executive personnel	24	4	24	12	-	-	-	-
	60	**9**	**58**	**29**	**7**	**4**	**6**	**3**

As at 30 June 2012 and 31 December 2011 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			
	for 6 months ended 30/06/2012 (unaudited)	for 3 months ended 30/06/2012 (unaudited)	for 6 months ended 30/06/2011 (unaudited)	for 3 months ended 30/06/2011 (unaudited)	for 6 months ended 30/06/2012 (unaudited)	for 3 months ended 30/06/2012 (unaudited)	for 6 months ended 30/06/2011 (unaudited)	for 3 months ended 30/06/2011 (unaudited)	for 6 months ended 30/06/2012 (unaudited)	for 3 months ended 30/06/2012 (unaudited)	for 6 months ended 30/06/2011 (unaudited)	for 3 months ended 30/06/2011 (unaudited)
Sales	1 025 565	501 024	953 372	471 610	33 706	18 524	84 151	41 513	1 059 271	519 548	1 037 523	513 123
Purchases	291 216	144 927	271 581	140 390	19 279	9 143	65 374	31 396	310 495	154 070	336 955	171 786
Financial revenues	426	206	1 008	491	131	32	459	378	557	238	1 468	870
Dividends	11 876	11 876	58 228	58 228	-	-	250 013	250 013	11 876	11 876	308 241	308 241
Financial expenses	33	22	6	3	-	-	2	-	33	22	8	3

	Jointly-controlled entities		Associates		Total	
	as at 30/06/2012 (unaudited)	as at 31/12/2011	as at 30/06/2012 (unaudited)	as at 31/12/2011	as at 30/06/2012 (unaudited)	as at 31/12/2011
Trade and other receivables	353 839	345 136	15 445	17 557	369 284	362 693
Trade and other liabilities	275 055	243 599	7 010	8 108	282 065	251 707

The above transactions with related parties include mainly: sale and purchase of petrochemical and refining products and crude oil as well as 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.

As at 30 June 2012 and 30 June 2011 the Group granted loan sureties to subsidiaries of PLN 2,159,516 thousand and PLN 2,117,823 thousand, respectively.

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 2012 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 PKN ORLEN S.A.'s equity

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

The claim regarded the payment of a compensation for losses related among others to unfair competition and illegal violation of reputation of Agrofert Holding a.s. , due to acquisition of UNIPETROL a.s. shares by PKN ORLEN.
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 approximately PLN 3,238,888 thousand translated at the exchange rate as at 30 June 2012 (representing CZK 19,464,473 thousand) with interest and obliged Agrofert Holding a.s. to cover the cost of proceedings born by PKN ORLEN.
In 2011 PKN ORLEN received from the court in Prague (Czech Republic) claim to overrule the sentence of arbitration court of the above mentioned case.
On 16 January 2012 PKN ORLEN submitted a response to Agrofert's claim. In its response PKN ORLEN appealed to dismiss all Agrofert Holding a.s.'s claim and adjudge it with proceeding costs refund. In the opinion of PKN ORLEN the decision included in judgment of the arbitration court dated 21 October 2010 is correct and there is no ground for its reverse. The District Court in Prague set the hearing on 10 January 2013.

7.1.2. Other significant proceedings with the total value not exceeding 10% of the PKN ORLEN S.A.'s equity

7.1.2.1. Tax proceedings

As at 30 June 2012 there are ongoing tax proceedings in Rafineria Trzebinia S.A. concerning excise tax settlements for the period May-September 2004.

In the prior years, as a result of the Customs Office proceeding, the excise tax liability for Rafineria Trzebinia S.A. was set at the amount above PLN 100,000 thousand.

Rafineria Trzebinia S.A. filed an appeal against the decisions imposing tax liabilities. On 29 July 2011 the Company filed an annulment of the sentence imposed by VAC in Krakow, that overulled on 20 April 2011 the decision of the Customs Chamber in Kraków and decided reexamine the case, to the Supreme Administrative Court with respect to the liabilities for May, June, July and August 2004. The annulment has not been examined by Supreme Administrative Court yet.
On 28 March 2012 the Company filed an annulment of the sentence imposed by VAC in Krakow, that overruled on 25 January 2012 the decision of the Customs Chamber in Krakow and decided to sustain the decision of Customs Office in Krakow regarding the excise tax liability for Rafineria Trzebinia S.A. for September 2004. This annulment, as well has not been examined yet.

Rafineria Trzebinia S.A. created a provision recognized in profit or loss of 2011 to cover the potential negative financial impact regarding the realization of excise tax liabilities.

7.1.2.2. Anti-trust proceedings

Anti-trust proceedings concern an allegation 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 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 of the OCCP to the Court of Competition and Consumer Protection dated 16 July 2010. The date of the appeal proceeding has been set on 13 September 2012.

Additionally, in the first quarter of 2012 the proceedings concerning an allegation that in the years 2000 – 2004 PKN ORLEN was using practice limiting competition on the domestic market of trading in glycol has been finished. On 6 October 2010 the Court of Competition and Consumer Protection repealed the decision of the Chairman of OCCP regarding the alleged misuse of PKN ORLEN's leading position on the glycol market and repealed the penalty imposed to PKN ORLEN of PLN 14,000 thousand. The President of the OCCP has issued an appeal against this verdict. On 15 September 2011 Court of Appeals in Warsaw revoked the appeal of the President of the OCCP. As a result, the verdict of the Court of Competition and Consumer Protection repealing the penalty imposed on PKN ORLEN of PLN 14,000 thousand. The President of OCCP did not file an annulment to the sentence of the Supreme Court from 15 September 2011. As a result, in the first half of March 2012 an appellate proceeding was finished.

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 half-year consolidated financial statements PKN ORLEN participates in two court proceedings concerning the settlement of system fee with ENERGA OPERATOR S.A. The subject of the court proceedings is regulated by the Regulation of the Minister of Economy dated 14 December 2000 relating to detailed methods of determination and computation of tariffs and electricity settlement regulations.

– **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. The obligation to settle power transfer fee results from the electricity sale agreement between ENERGA – OPERATOR S.A. and PKN ORLEN which was signed without determining contentious issues concerning system fee. The case was regarded as a civil case so contentious system fee should be judged by an appropriate court. The total amount of the claim is PLN 46,232 thousand increased by legal interest.
The proceedings were described in details in Note 42.1.2.4 to the Consolidated Financial Statements for the year 2011. On 4 August 2011, the Court of Appeals in Warsaw revoked the first instance authority sentence and submitted the case to re-examination by the District Court in Warsaw. The first hearing was conducted on 30 April 2012. The District Court set the date of next hearing on 1 October 2012.

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

In 2004 the District Court in Warsaw 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.

The proceedings were described in details in Note 42.1.2.4 to the Consolidated Financial Statements for the year 2011. PSE Operator S.A. submitted a cassation to Supreme Court from the verdict of the Court of Appeals dated 21 September 2011. 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.

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 interest shareholders of PARAMO a.s. and concerns change in compensation received due to losses incurred on compulsory shares buy-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 of buy-out of 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 no more than PLN 50,586 thousand at average exchange rate as at 30 June 2012 (representing CZK 304,000 thousand). UNIPETROL a.s. considers the above described claims of former shareholders of PARAMO a.s. as ungrounded.

7.1.2.5. Claim for compensation brought by I.P.-95 s.r.o. 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 in the total amount of app. PLN 297,616 thousand, translated using the exchange rate from 30 June 2012 (equivalent of CZK 1,788,559 thousand). The claim is related to the filing by UNIPETROL RPA s.r.o. motion for bankruptcy of I.P.-95 s.r.o. in November 2009.
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 I.P.-95 s.r.o.'s claim is groundless. The case is being heard in the Regional Court in Ostrava. The parties are waiting for the date of the first hearing.

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

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

The proceedings 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. Demands of PKN ORLEN concern reimbursement of the amount of approximately PLN 847,125 thousand at exchange rate as at 30 June 2012 (representing USD 250,000 thousand), 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.
The proceedings were described in details in Note 42.2.1 to the Consolidated Financial Statements for the year 2011.
At the closing of the evidentiary seating held between 28 November and 8 December 2011 the Court of Arbitration obliged the parties to submit final pleadings and proceeding costs refund in March and April 2012. On 29 February 2012 PKN Orlen submitted final pleading. Yukos International submitted as well the pleading. On 30 March 2012 PKN ORLEN and Yukos International submitted the response to the above-mentioned pleadings. On 13 and 27 April 2012 the parties submitted motions for the proceeding cost refund. After the submission of above mentioned pleadings, PKN ORLEN is expecting for the final decision of the Court of Arbitration.

7.2.2 Compensation due to property damages

- Rafineria Trzebinia S.A. acts as a co-plaintiff in the proceedings held by District Court in Kraków 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.

- AB Orlen Lietuva is a plaintiff in the compensation 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. due to losses incurred during the accident in Butinge Terminal (the tanker ship hit a terminal buoy) on 29 December 2005. The total compensation claim amounts to approximately PLN 74,046 thousand translated at the exchange rate as at 30 June 2012 (representing approximately LTL 60,000 thousand). The proceedings is held in 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 for 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 54,080 thousand translated using exchange rate as at 30 June 2012 (representing approximately CZK 325,000 thousand).

8. Other information

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

Shareholder	% of votes at the GSM as at the date of the foregoing half-year report filing **	% of votes at the GSM as at the date of the prior quarterly report filing *	Number of shares as at the date of the foregoing half-year report filing **	Number of shares as at the date of the prior quarterly report filing *
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
Others	62.38%	67.40%	266 790 431	288 254 829
	100.00%	**100.00%**	**427 709 061**	**427 709 061**

* According to the received confirmations as at 16 April 2012
** According to the information possessed by the Company as at 16 July 2012
*** According to the received confirmations as at 9 February 2010
**** According to the received confirmations as at 30 March 2012

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 as at the date of filing this report.

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 date of the foregoing half-year report filing **	Increase	(Decrease)	Number of shares, options as at the date of the prior quarterly report filing *
Supervisory Board	**3 300**	**-**	-	**3 300**
Grzegorz Borowiec	100	-	-	100
Artur Gabor	3 200	-	-	3 200

* According to the received confirmations as at 16 April 2012
** According to the information possessed by the Company as at 16 July 2012

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 2012 PKN ORLEN S.A. 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 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 compliance with corporate governance rules in the Capital Group

In the I half of 2012 PKN ORLEN S.A. complied with all rules of corporate governance included in the code of "Best Practices for Warsaw Stock Exchange Listed Companies" (further the "Best Practices for WSE Listed Companies"). Report on compliance with corporate governance rules in PKN ORLEN S.A. in 2011 was published by the Company on 29 March 2012, as part of the Management Board Report on the operations of PKN ORLEN S.A. for 2011 as well as part of the Management Board report on the operations of the ORLEN Capital Group for 2011. The code of Best Practices for WSE Listed Companies can be found on the website dedicated to the corporate governance on the Warsaw Stock Exchange www.corp-gov.gpw.pl as well as on corporate website www.orlen.pl in section dedicated to shareholders – WSE best practices.

The foregoing half-year report was authorized by the Management Board of the Parent Company on 24 July 2012.

……
Dariusz Krawiec
President of the Board

……
Sławomir Jędrzejczyk
Vice-President of the Board

……
Piotr Chełmiński
Member of the Board

……
Krystian Pater
Member of the Board

……
Marek Podstawa
Member of the Board

Signature of the person responsible for keeping account books

……..……

Rafał Warpechowski

Executive Director

Planning and Reporting