Polski Koncern Naftowy ORLEN
Spółka Akcyjna

ORLEN GROUP

CONSOLIDATED QUARTERLY REPORT

FOR THE 1st QUARTER 2021

ORLEN GROUP - SELECTED DATA

	PLN million		EUR million	
	3 MONTHS ENDED 31/03/2021	3 MONTHS ENDED 31/03/2020	3 MONTHS ENDED 31/03/2021	3 MONTHS ENDED 31/03/2020
Sales revenues	24 562	22 077	5 372	5 022
Operating profit/(loss) increased by depreciation and amortisation (EBITDA)	3 533	(969)	773	(220)
Profit/(Loss) from operations (EBIT)	2 241	(1 904)	490	(433)
Profit/(Loss) before tax	2 171	(2 562)	475	(583)
Net profit/(loss)	**1 882**	**(2 245)**	**412**	**(511)**
Total net comprehensive income	1 990	(2 275)	435	(517)
Net profit/(loss) attributable to equity owners of the parent	1 855	(2 244)	406	(510)
Total net comprehensive income attributable to equity owners of the parent	1 968	(2 274)	430	(517)
Net cash from operating activities	3 856	530	843	121
Net cash (used) in investing activities	(3 746)	(1 527)	(819)	(347)
Net cash from/(used in) financing activities	589	(135)	129	(31)
Net increase/(decrease) in cash and cash equivalents	699	(1 132)	153	(257)
Net profit/(loss) and diluted net profit/(loss) per share attributable to equity owners of the parent (in PLN/EUR per share)	4.34	(5.25)	0.95	(1.19)
	31/03/2021	31/12/2020 (restated data)	31/03/2021	31/12/2020
Non-current assets	62 190	59 421	13 345	12 831
Current assets	29 849	24 615	6 405	5 334
Total assets	**92 039**	**84 036**	**19 750**	**18 165**
Share capital	1 058	1 058	227	229
Equity attributable to equity owners of the parent	43 581	41 596	9 352	9 014
Total equity	**44 394**	**42 379**	**9 526**	**9 183**
Non-current liabilities	20 116	18 713	4 316	4 015
Current liabilities	27 529	22 944	5 908	4 967
Number of shares	427 709 061	427 709 061	427 709 061	427 709 061
Carrying amount and diluted carrying amount per share attributable to equity owners of the parent (in PLN/EUR per share)	101.89	97.25	21.86	21.07

PKN ORLEN – SELECTED DATA

	PLN million		EUR million	
	3 MONTHS ENDED 31/03/2021	3 MONTHS ENDED 31/03/2020	3 MONTHS ENDED 31/03/2021	3 MONTHS ENDED 31/03/2020
Sales revenues	15 853	17 238	3 467	3 921
Profit/(Loss) from operations increased by depreciation and amortisation (EBITDA)	1 636	(88)	358	(20)
Profit/(Loss) from operations (EBIT)	1 135	(555)	248	(126)
Profit/(Loss) before tax	1 067	(3 204)	233	(729)
Net profit/(loss) before net impairment allowances on non-financial and financial non-current assets	987	(971)	216	(221)
Net profit/(loss)	**964**	**(3 022)**	**211**	**(687)**
Total net comprehensive income	824	(3 196)	180	(727)
Net cash from operating activities	2 380	881	521	200
Net cash (used) in investing activities	(2 856)	(514)	(625)	(117)
Net cash from/(used in) financing activities	1 043	(625)	228	(142)
Net increase/(decrease) in cash	567	(258)	124	(59)
Net profit/(loss) and diluted net profit/(loss) per share (in PLN/EUR per share)	2.25	(7.07)	0.49	(1.61)
	31/03/2021	31/12/2020 (restated data)	31/03/2021	31/12/2020
Non-current assets	40 517	38 993	8 694	8 449
Current assets	20 131	15 559	4 320	3 372
Total assets	**60 648**	**54 552**	**13 014**	**11 821**
Share capital	1 058	1 058	227	229
Total equity	**32 693**	**31 869**	**7 015**	**6 906**
Non-current liabilities	10 370	9 093	2 225	1 970
Current liabilities	17 585	13 590	3 774	2 945
Number of shares	427 709 061	427 709 061	427 709 061	427 709 061
Carrying amount and diluted carrying amount per share (in PLN/EUR per share)	76.44	74.51	16.40	16.15

The above financial data for the 3-month period of 2021 and 2020 was translated into EUR using the following exchange rates:

– items in the statement of profit or loss and other comprehensive income and the statement of cash flows - by the arithmetic average of average exchange rates quoted by the National Bank of Poland as of the last day of each month during the reporting period: from 1 January to 31 March 2021 – 4.5721 EUR/PLN and 1 January to 31 March 2020 – 4.4742 EUR/PLN;
– items of assets, equity and liabilities – by the average exchange rate published by the National Bank of Poland as at 31 March 2021 – 4.6603 EUR/PLN and as at 31 December 2020– 4.6148 EUR/PLN.

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INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE 3-MONTH PERIOD ENDED 31 MARCH 2021

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

(in PLN million)

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

Consolidated statement of profit or loss and other comprehensive income

	NOTE	3 MONTHS ENDED 31/03/2021 (unaudited)	3 MONTHS ENDED 31/03/2020 (unaudited)
Sales revenues	5.1	24 562	22 077
revenues from sales of finished goods and services		*18 570*	*17 922*
revenues from sales of merchandise and raw materials		*5 992*	*4 155*
Cost of sales	5.2	(20 172)	(22 706)
cost of finished goods and services sold		*(15 038)*	*(19 023)*
cost of merchandise and raw materials sold		*(5 134)*	*(3 683)*
Gross profit/(loss) on sales		**4 390**	**(629)**
Distribution expenses		(1 920)	(1 620)
Administrative expenses		(671)	(507)
Other operating income	5.4	1 996	3 183
Other operating expenses	5.4	(1 653)	(2 351)
(Loss)/reversal of loss due to impairment of trade receivables		18	8
Share in profit from investments accounted for using the equity method		81	12
Profit/(Loss) from operations		**2 241**	**(1 904)**
Finance income	5.5	551	387
Finance costs	5.5	(620)	(1 043)
Net finance income and costs		**(69)**	**(656)**
(Loss)/reversal of loss due to impairment of loans and interest on trade receivables		(1)	(2)
Profit/(Loss) before tax		**2 171**	**(2 562)**
Tax expense		(289)	317
current tax		*(173)*	*(152)*
deferred tax		*(116)*	*469*
Net profit/(loss)		**1 882**	**(2 245)**
Other comprehensive income:			
which will not be reclassified subsequently into profit or loss		**(45)**	**(11)**
actuarial gains and losses		*(58)*	*-*
gains/(losses) on investments in equity instruments at fair value through other comprehensive income		*4*	*(13)*
deferred tax		*9*	*2*
which will be reclassified into profit or loss		**153**	**(19)**
hedging instruments		*(589)*	*(478)*
hedging costs		*348*	*193*
exchange differences on translating foreign operations		*346*	*189*
deferred tax		*48*	*77*
		108	**(30)**
Total net comprehensive income		**1 990**	**(2 275)**
Net profit/(loss) attributable to		**1 882**	**(2 245)**
equity owners of the parent		*1 855*	*(2 244)*
non-controlling interest		*27*	*(1)*
Total net comprehensive income attributable to		**1 990**	**(2 275)**
equity owners of the parent		*1 968*	*(2 274)*
non-controlling interest		*22*	*(1)*
Net profit/(loss) and diluted net profit/(loss) per share attributable to equity owners of the parent (in PLN per share)		4.34	(5.25)

The accompanying notes disclosed on pages 9 – 36 are an integral part of this interim condensed consolidated financial statements.

ORLEN ORLEN GROUP (in PLN million)

Consolidated statement of financial position

	NOTE	31/03/2021 (unaudited)	31/12/2020 (restated data)
ASSETS			
Non-current assets			
Property, plant and equipment		50 416	49 596
Intangible assets		3 935	2 534
Right-of-use asset	5.10.1	5 305	5 252
Investments accounted for using the equity method		1 108	758
Deferred tax assets		770	687
Derivatives	5.7	226	179
Long-term lease receivables		2	2
Other assets	5.7	428	413
		62 190	**59 421**
Current assets			
Inventories		14 392	12 279
Trade and other receivables		11 532	9 640
Current tax assets		475	449
Cash and cash equivalents		2 003	1 240
Derivatives	5.7	880	440
Short-term lease receivables		9	11
Other assets	5.7	551	530
Non-current assets classified as held for sale		7	26
		29 849	**24 615**
Total assets		**92 039**	**84 036**
EQUITY AND LIABILITIES			
EQUITY			
Share capital		1 058	1 058
Share premium		1 227	1 227
Hedging reserve		(209)	(16)
Revaluation reserve		(34)	(37)
Exchange differences on translating foreign operations		1 691	1 328
Retained earnings		39 848	38 036
Equity attributable to equity owners of the parent		**43 581**	**41 596**
Non-controlling interests		**813**	**783**
Total equity		**44 394**	**42 379**
LIABILITIES			
Non-current liabilities			
Loans, borrowings and bonds	5.6	10 415	9 430
Provisions	5.8	2 299	2 264
Deferred tax liabilities		2 105	1 999
Derivatives	5.7	352	138
Lease liabilities		4 553	4 501
Other liabilities	5.7	382	370
Liabilities from contracts with customers		10	11
		20 116	**18 713**
Current liabilities			
Trade and other liabilities		15 966	14 024
Lease liabilities		651	713
Liabilities from contracts with customers		507	442
Loans, borrowings and bonds	5.6	5 084	4 930
Provisions	5.8	3 474	2 300
Current tax liabilities		127	66
Derivatives	5.7	281	270
Other liabilities	5.7	1 439	199
		27 529	**22 944**
Total liabilities		**47 645**	**41 657**
Total equity and liabilities		**92 039**	**84 036**

The accompanying notes disclosed on pages 9 – 36 are an integral part of this interim condensed consolidated financial statements.

(in PLN million)

Consolidated statement of changes in equity

	Equity attributable to equity owners of the parent							
	Share capital and share premium	Hedging reserve	Revaluation reserve	Exchange differences on translating foreign operations	Retained earnings	Total	Non-controlling interests	Total equity
01/01/2021	2 285	(16)	(37)	1 328	38 036	41 596	783	42 379
Net profit	-	-	-	-	1 855	1 855	27	1 882
Components of other comprehensive income	-	(193)	3	346	(43)	113	(5)	108
Total net comprehensive income	**-**	**(193)**	**3**	**346**	**1 812**	**1 968**	**22**	**1 990**
Liquidation of company	-	-	-	17	-	17	-	17
Acquisition of subsidiary	-	-	-	-	-	-	8	8
31/03/2021	**2 285**	**(209)**	**(34)**	**1 691**	**39 848**	**43 581**	**813**	**44 394**
(unaudited)								
01/01/2020	2 285	328	(33)	847	35 169	38 596	11	38 607
Net (loss)	-	-	-	-	(2 244)	(2 244)	(1)	(2 245)
Components of other comprehensive income	-	(208)	(11)	189	-	(30)	-	(30)
Total net comprehensive income	**-**	**(208)**	**(11)**	**189**	**(2 244)**	**(2 274)**	**(1)**	**(2 275)**
31/03/2020	**2 285**	**120**	**(44)**	**1 036**	**32 925**	**36 322**	**10**	**36 332**
(unaudited)								

The accompanying notes disclosed on pages 9 – 36 are an integral part of this interim condensed consolidated financial statements.

ORLEN GROUP (in PLN million)

Consolidated statement of cash flows

	3 MONTHS ENDED 31/03/2021 (unaudited)	3 MONTHS ENDED 31/03/2020 (unaudited)
Cash flows from operating activities		
Profit/(Loss) before tax	**2 171**	**(2 562)**
Adjustments for:		
Share in profit from investments accounted for using the equity method	(81)	(12)
Depreciation and amortisation	1 292	935
Foreign exchange loss	20	557
Net interest	100	35
(Profit) on investing activities, incl,:	(422)	(600)
recognition/(reversal) of impairment allowances of property, plant and equipment, intangible assets and other non-current assets	*4*	*504*
settlement and valuation of derivative financial instruments	*(286)*	*(1 106)*
(profit) on change in the ownership structure of Baltic Power	*(156)*	*-*
Change in provisions	1 128	318
Change in working capital	(306)	1 408
inventories, incl.:	*(1 967)*	*2 984*
impairment allowances of inventories to net realizable value	*6*	*2 075*
receivables	*(679)*	*1 478*
liabilities	*2 340*	*(3 054)*
Other adjustments, incl.:	93	676
settlement of grants for property rights	*(264)*	*(179)*
security deposits	*304*	*481*
change in settlements of settled cash flow hedging instruments	*(2)*	*188*
Income tax (paid)	(139)	(225)
Net cash from operating activities	**3 856**	**530**
Cash flows from investing activities		
Acquisition of property, plant and equipment, intangible assets and right-of-use asset	(3 394)	(1 233)
Acquisition of shares lowered by cash	(210)	-
Disposal of property, plant and equipment, intangible assets and right-of-use asset	24	22
Short term deposits	34	(108)
Change in the ownership structure in Baltic Power	(35)	-
Settlement of derivatives not designated as hedge accounting	(181)	(199)
Other	16	(9)
Net cash (used) in investing activities	**(3 746)**	**(1 527)**
Cash flows from financing activities		
Proceeds from loans and borrowings received	4 304	126
Bonds issued	994	-
Repayment of loans and borrowings	(4 407)	(2)
Interest paid from loans and bonds	(31)	(14)
Interest paid on lease	(65)	(52)
Payments of liabilities under lease agreements	(209)	(193)
Other	3	-
Net cash from/(used in) financing activities	**589**	**(135)**
Net increase/(decrease) in cash and cash equivalents	**699**	**(1 132)**
Effect of changes in exchange rates	64	77
Cash and cash equivalents, beginning of the period	1 240	6 159
Cash and cash equivalents, end of the period	**2 003**	**5 104**
including restricted cash	*365*	*1 089*

The accompanying notes disclosed on pages 9 – 36 are an integral part of this interim condensed consolidated financial statements.

ORLEN GROUP (in PLN million)

EXPLANATORY NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Principal activity of the ORLEN Group

The Parent Company of the Polski Koncern Naftowy ORLEN S.A. Capital Group is Polski Koncern Naftowy ORLEN S.A. ("PKN ORLEN", "Company", "Parent Company") with its headquarters in Płock, 7 Chemików Street.
The core business of the ORLEN Group is the processing of crude oil and the production of fuel, petrochemical and chemical products as well as their wholesale and retail sale and generates, distributes and trades of electricity and heat. The ORLEN Group also conducts exploration, recognition and extraction of hydrocarbons.
The activity of the ORLEN Group companies is also service-related activity: storage of crude oil and fuels, transportation, maintenance and overhaul services, laboratory, security, design, administrative, courier services, press distribution, insurance and financial services and media activities (newspapers and websites).

2. Information on principles adopted in the preparation of the interim condensed consolidated financial statements

2.1. Statement of compliance and general principles of preparation

This interim condensed consolidated financial statements were prepared in accordance with requirements of IAS 34 "Interim financial reporting" and in the scope required by the Minister of Finance Regulation of 29 March 2018 on current and periodical information to be published by issuers of securities and conditions of consideration of information required by the law of non-member country's law as equal (Official Journal 2018, item 757) and present the Polski Koncern Naftowy ORLEN S.A. Capital Group's ("Group", "ORLEN Group") financial position as at 31 March 2021 and as at 31 December 2020, financial results and cash flows for the 3-month period ended 31 March 2021 and 31 March 2020.

This interim condensed consolidated financial statements were prepared on the assumption that the Group will continue to operate as a going concern in the foreseeable future. As at the date of approval of this interim condensed consolidated financial statements there is no evidence indicating that the Group will not be able to continue its operations as a going concern.

The Parent Company and the entities comprising the ORLEN Group have unlimited period of operations.

This interim condensed consolidated financial statements, except for the consolidated statement of cash flows, were prepared using the accrual basis of accounting.

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

2.2.1. Accounting principles

In this interim condensed consolidated financial statements, the significant accounting policies applied by the Group and significant values based on judgments and estimates were the same as described in individual explanatory notes in the Consolidated Financial Statements for 2020, except for below changes, in force from 1 January 2021, which were implemented as a result of the ongoing integration process with Energa Group and work on harmonization of the applied accounting principles throughout the ORLEN Group:
- changing the method of presentation of grants related to assets,
- changing the method of settlement of granted owned rights ("white"),
- changing the presentation of recognized interest and other similar costs, as well as exchange rate differences related to the provisions created.

So far, the Group has recognized grants related to assets as a reduction of the carrying amount of an asset and, as a result, as a reduction of depreciation expense over the useful life of the asset. Starting from 1 January 2021, the Group decided to change the method of presentation of grants related to assets, which are currently recognized as deferred income and recognised in other operating income on a systematic basis over the useful life of the asset. Retrospective application of this change in relation to data for 2020 resulted in an increase in the total assets and liabilities presented in the statement of financial position by PLN 209 million (by increasing the item of property, plant and equipment and deferred income presented under other non-current and current liabilities by the value of unsettled grants as at 31 December 2020) as well as an increase in depreciation expense and other operating income in the consolidated statement of profit or loss and other comprehensive income by PLN 5 million, representing the value of settled grants during the year.

The table below shows the impact of the above changes on the positions of the consolidated statement of financial position as at 31 December 2020:

	31/12/2020	Change of presentation	31/12/2020 (restated data)
ASSETS, incl.:	**83 827**	**209**	**84 036**
Property, plant and equipment	49 387	209	49 596
LIABILITIES, incl.:	**83 827**	**209**	**84 036**
Non-current other liabilities	**181**	189	**370**
Current other liabilities	**179**	20	**199**

Additionally, with respect to the granted owned rights ("white"), the Group changed the method of settlement of grants, which from 1 January 2021 are recognized in other operating income on the systematic basis during the depreciation period of the non-current asset, in connection with which these rights were obtained. Until the end of 2020, granted owned rights were recognized on a one-off basis in other operating income. The currently introduced change would not have a significant impact on the comparative data for the 1st quarter of 2020.

The Group also decided to change the presentation of recognized interest and other similar costs, as well as exchange rate differences related to the provisions created, which were previously recognized in the same position of the financial statements in which the principal amount of provision was presented. From 1 January 2021, these costs are presented in financial costs. With respect to the presented comparative data for the 1st quarter of 2020, the above change did not have a significant impact.

Due to the fact that the introduced changes related mainly to presentation and/or did not have a significant impact on the presented data for the previous reporting period, the Group did not restate the comparative data.

In the Group's opinion, the introduction of the above-mentioned changes to the accounting principles will provide more relevant data and information, which are also the basis for decisions made by the Management Board of PKN ORLEN as part of the implemented plan to create an integrated multi-energy concern, in particular, ongoing analyses of effectiveness measures of conducted activity by the Group, such as EBITDA ratio. Moreover, the harmonization of the accounting principles as part of the integration processes in the ORLEN Group enables the Parent Entity to carry out internal control and risk management activities in the process of drawing up financial statements in the Group as indicated under the applicable corporate governance more effectively.

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

2.3.1. Functional currency and presentation currency

The functional currency of the Parent Company and presentation currency of this interim condensed consolidated financial statements is Polish Zloty (PLN). Possible differences in the amount of PLN 1 million when summing up the items presented in the explanatory notes result from the adopted rounding's. The data is presented in PLN million, unless otherwise stated.

2.3.2. Methods applied to translation of financial data

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

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

CURRENCY	Average exchange rate for the reporting period		Exchange rate as at the end of the reporting period	
	3 MONTHS ENDED 31/03/2021	3 MONTHS ENDED 31/03/2020	31/03/2021	31/12/2020
EUR/PLN	4.5440	4.3231	4.6603	4.6148
USD/PLN	3.7700	3.9222	3.9676	3.7584
CZK/PLN	0.1742	0.1689	0.1783	0.1753
CAD/PLN	2.9768	2.9212	3.1500	2.9477

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

In the Energy segment sales and distribution of electricity and heat during the year are subject to seasonal fluctuations. The volume of energy sold and distributed, and consequently sales revenues, increases in the winter months and decreases in the summer months. This depends on the ambient temperature and day length. The range of these fluctuations is determined by low temperatures and shorter days in winter and higher temperatures and longer days in summer. The seasonal nature of energy sales and distribution applies to a much greater degree to small individual customers than to the industrial sector clients.
There is no significant seasonality or cyclicality of operations in the other segments of the ORLEN Group.

3. Financial situation and the organization of the ORLEN Group

3.1. Impact of coronavirus pandemic on the ORLEN Group's operations

In the 1st quarter of 2021, the COVID-19 pandemic continued to impact the global economy and the situation in the country, causing disruptions in the economic and administrative system. With respect to the market environment, the Group continued to observe high volatility in demand as well as prices of refining and petrochemical products and raw materials, including crude oil, energy prices and CO_2 emission allowances, which affected sales prices and the level of margin achieved in all operating segments. The Group's results in the 1st quarter 2021 by operating segments are presented in note 4.

Since the outbreak of the pandemic PKN ORLEN and entities comprising the Group have taken a number of actions in order to adapt to constantly changing business environment, as well as to prevent the spread of COVID-19 infections, both within its own employees and to support the government's fight against coronavirus, which were continued in the 1st quarter of 2021. The Group adjusts its operations on an ongoing basis to the changing epidemiological situation.

During the period covered by this interim condensed consolidated financial statements as well as presently all ORLEN petrol stations remain open, there are no disruptions in any area of operations within the concern or other production plants of ORLEN Group in the country. There were also no material disruptions in Group's operations on foreign markets. In Group's opinion currently there are no threats to the supply chain, both with respect to purchase of raw materials and goods, as well as in the field of internal logistic processes (among others supply of liquid fuels from the production plant to fuel terminals and then to petrol stations).

The total cost incurred in the 3-month period ended 31 March 2021 and 31 March 2020 due the preventive measures taken by the Group in order to limit the spread of the virus at the premises and protection of employees and customers amounted to PLN (16) million and PLN (11) million, respectively.

In the 1st quarter of 2021 the Group has not observed any significant deterioration in repayment ratio nor an increase in bankruptcies or restructuring among its clients. Due to effective management of trade credit and debt recovery the Group assess that despite the protracted coronavirus pandemic, the risk of unsettled receivables by customers did not change significantly, and the level of repayment of receivables presented in the balance sheet as at 31 March 2021, which payment dates fall in the coming months, will not change significantly. Due to the above, as at 31 March 2021, the Group did not identify any indicators for modification of assumptions taken for estimation of expected credit loss in terms of the potential need to include additional risk factor related to current economic situation and forecasts for the future.

The Group analyses on the current basis the situation on the markets and incoming signals from contractors which could indicate deterioration of financial situation and if there is a need, the Group will update adopted estimates for ECL calculation in following reporting periods.

Taking into account the situation related to the COVID-19 pandemic, which in the medium and long term will affect the domestic and global economic situation, at the end of 2020 the Group performed impairment tests on assets. As at 31 March 2021, on the basis of the analysis performed, the Group has not identified any indications, which would require the Group to conduct impairment tests with respect to non-current assets.

As at the date of preparation of this interim condensed consolidated financial statements the financial situation of the Group is stable. Working capital increased by PLN 306 million compared to the end of 2020, which was mainly related to growth in crude oil prices and prices of products, which translated into the value of inventories, receivables and liabilities.

In the Group's opinion, the ongoing coronavirus pandemic did not affect the level of risk in relation to guarantees granted as at 31 March 2021 and the probability of activation of these guarantees remains low.

The Group does not identify currently and within the next 12 months problems with liquidity. The Group also does not see risk of default on loans or other financing agreements. The Group takes optimization actions consisting, among others, on obtaining financing for projects in the project finance formula (i.e. financing directly to the SPV) and assumes maintaining a safe level of net debt and financial covenants included in the financing agreements.

As at the date of preparation of this interim condensed consolidated financial statements, the Group estimates, that it has sufficient sources of funding for implementation of all strategic development and investment projects as well as acquisitions as planned.

3.2. Group achievements and factors that have a significant impact on the interim condensed consolidated financial statements

Profit or loss for the 3 months of 2021

Sales revenues of the ORLEN Group for the 3 months of 2021 amounted to PLN 24,562 million and was higher by PLN 2,485 million (y/y). The increase of sales revenues (y/y), partially limited by (11)% (y/y) decrease in sales volumes in all operating segments result mainly from the recognition of new acquired subsidiaries in the consolidation of the ORLEN Group (mainly the ENERGA Group) and from increase by 22% (y/y) of crude oil prices and, as a result, also quotations of major products. In the 3-month period of 2021 in comparison to the same period of 2020 the fuel prices increased by 20%, diesel oil by 5%, aviation fuel by 6%, heavy heating oil by 51%, propylene by 7% with ethylene prices decrease by (1)%.

The operating expenses decreased totally by PLN 2,070 million (y/y) to PLN (22,763) million mainly as a result of a decrease in the costs of materials and energy consumption by (17)% (y/y) resulted mainly from the reduction by (1.4) million tons (y/y) of crude oil processing as a result of the unfavourable macroeconomic situation and realised maintenance shutdowns mainly in PKN ORLEN. Additionally the positive impact on the level of costs resulted from the lack of adjustment in the amount of PLN (2,017) million made in the 1st quarter of 2020 due to revaluation of inventories to net realisable value due to the sharp drop in oil prices and product quotations in March 2020.

The positive result of other operating activities amounted to PLN 343 million and was lower by PLN (489) million (y/y) mainly as a result of a change in the ownership structure of Baltic Power which translated into an increase in the result by PLN 156 million (additional information in note 3.4.5), impact of valuation and settlement of derivative financial instruments related to operating exposure (non-designated instruments for hedge accounting purposes) and the settlement of CO_2 futures contracts as a part of "transaction" portfolio in the amount of PLN (1,073) million (additional information in note 5.4), and lack in the 1st quarter of 2021 of impact of impairment allowances of property, plant and equipment and intangible assets, right of-use asset and other non-current assets recognised in the 1st quarter of 2020 in the amount of PLN 504 million.

As a result profit from operations amounted to PLN 2,241 million and was higher by PLN 4,145 million (y/y). An additional comment regarding the main reasons of the change in profit from operations increased by depreciation and amortisation (so-called EBITDA) is presented in point B1.

Net finance cost in the described period amounted to PLN (69) million and included mainly net foreign exchange loss in the amount of PLN (82) million, net interest expenses in the amount of PLN (107) million and settlement and valuation of financial instruments in the amount of PLN 121 million.

After the deduction of tax charges in the amount of PLN (289) million, the net profit of the ORLEN Group for the 3 months of 2021 amounted to PLN 1,882 million and was higher by PLN 4,127 million (y/y).

Statement of financial position

As at 31 March 2021, the total assets of the ORLEN Group amounted to PLN 92,039 million and was higher by PLN 8,003 million in comparison with 31 December 2020.
As at 31 March 2021, the value of non-current assets amounted to PLN 62,190 million and was higher by PLN 2,769 million in comparison with the end of the previous year, mainly due to increase in property, plant and equipment and intangible assets by PLN 2,221 million and an increase in the value of investments accounted for using the equity method by PLN 350 million, mainly as a result of the recognition of an investment in the Baltic Power joint venture in the amount of PLN 268 million (additional information in note 3.4.5).
Additionally the change in balance of property, plant and equipment and intangible assets comprised:

- investment expenditures in the amount of PLN 1,504 million including development of fertilizer production capacities in Anwil, construction of the Glikol installation in ORLEN Południe and Visbreaking Installation in Płock, expenditure of the production capacity of the olefin installation in Płock, construction of the DCPD installation (input for the production of specialized plastics) in ORLEN Unipetrol, projects in the Energy segment related mainly to the modernization of existing assets and the connection of new customers and modernization of the BB20p block in the ENERGA Group and projects in Retail and Upstream segment;
- depreciation and amortisation in the amount of PLN (1,117) million;
- purchase of CO_2 allowances and energy certificates in the amount of PLN 1,240 million;
- effect of recognition of new assets at the date of acquisition of new subsidiaries in the amount of PLN 291 million and
- effect of differences in balance on translating foreign operations in the amount of PLN 389 million.

The value of current assets as at 31 March 2021 increased by PLN 5,234 million in comparison with the end of the previous year, mainly as an increase in inventories by PLN 2,113 million, balance of cash and cash equivalents by PLN 763 million, trade and other receivables by PLN 1,892 million and valuation of derivative financial instruments by PLN 440 million. The increase in value of inventories is mainly the result of an increase in crude oil and petroleum product prices. The increase in trade receivables results mainly from higher sales in term of value.

As at 31 March 2021, total equity amounted to PLN 44,394 million and was higher by PLN 2,015 million in comparison with the end of 2020, mainly due to recognition of net profit for the 3 months of 2021 in the amount of PLN 1,882 million, negative impact of the change in hedging reserve in the amount of PLN (193) million and the impact of exchange differences on translating foreign operations in the amount of PLN 363 million.

The value of trade and other liabilities increased by PLN 1,942 million compared to the end of 2020 mainly due to increase of trade liabilities in the amount of PLN 2,108 million, tax liabilities in the amount of PLN 623 million related mainly to excise tax and fuel charge as well as value added tax due to higher volume sales and value of products by decrease in investment liabilities in the amount of PLN (692) million. The increase in trade liabilities results mainly from the higher prices on the markets.

As at 31 March 2021 the value of provisions amounted to PLN 5,773 million and was higher by PLN 1,209 million compared to the end of 2020. The increase resulted mainly from the change in the balance of net provision for estimated CO_2 emissions and energy certificates in the total amount of PLN 1,148 million mainly due to the update of the provision of 2020 in connection with an increase in the weighted average method price of CO_2 allowances, resulting from the purchase of 7 million CO_2 allowances as part of the implementation of forward contracts held by the Group in March 2021 and the creation of provisions for the 1st quarter of 2021.

Other short-term liabilities were higher by PLN 1,240 million in comparison to the end of 2020 and amounted to PLN 1,439 million, mainly due to the recognition of grants due to CO_2 in the amount of PLN 833 million and the security deposits in the amount of PLN 400 million.

As at 31 March 2021, net financial indebtedness of the ORLEN Group amounted to PLN 13,468 million and was higher by PLN 348 million in comparison with the end of 2020 mainly due mainly due to the net inflows, including inflows and repayments of loans, borrowings and redemption and issue of bonds in the amount of PLN 892 million, an increase in balance of cash and cash equivalents by PLN (763) million, short-term deposits in the amount of PLN (28) million and the net impact of negative exchange differences from revaluation, of the valuation of debt and interest in the total amount of PLN 247 million.

Statement of cash flows for the 3 months of 2021

Proceeds of net cash from operating activities for the 3 months of 2021 amounted to PLN 3,856 million and was higher by 3,326 million (y/y) mainly due to higher profit before tax by PLN 4,733 million, change in the balance of working capital by PLN (1,714) million mainly related to increase in crude oil prices and prices of products, which translated into the value of inventories, receivables and liabilities, foreign exchange losses in the amount of PLN (537) million mainly due to the adjustment of unrealized foreign exchange differences of investing and financing activities, increase of provision balance by PLN 810 million mainly as a result of an increase in the weighted average price of CO_2 allowances and decrease in other adjustments by PLN (583) million including mainly change in settlements of settled derivatives designated for hedge accounting by PLN (190) million and security deposits by PLN (177) million.

Net cash used in investing activities for the 3 months of 2021 amounted to PLN (3,746) million and was lower by PLN (2,219) million (y/y) mainly due to increase of net expenses for the acquisition and sales of property, plant and equipment, intangible assets and right-of-use asset in the net by PLN (2,159) million and acquisition of shares of subsidiaries adjusted by acquired cash and cash equivalents in the amount of PLN (210) million.

Net cash from financing activities for the 3 months of 2021 amounted to PLN 589 million and was higher by PLN 724 million (y/y) mainly due to the received of funds from the bond issue in the amount of PLN 994 million and the net repayment of net loans and borrowings in the amount of PLN (227) million.

Following inclusion of the revaluation of cash due to exchange differences, the cash balance in the 3-month period of 2021 increased by PLN 763 million and as at 31 March 2021 amounted to PLN 2,003 million.

Factors and events which may influence future results

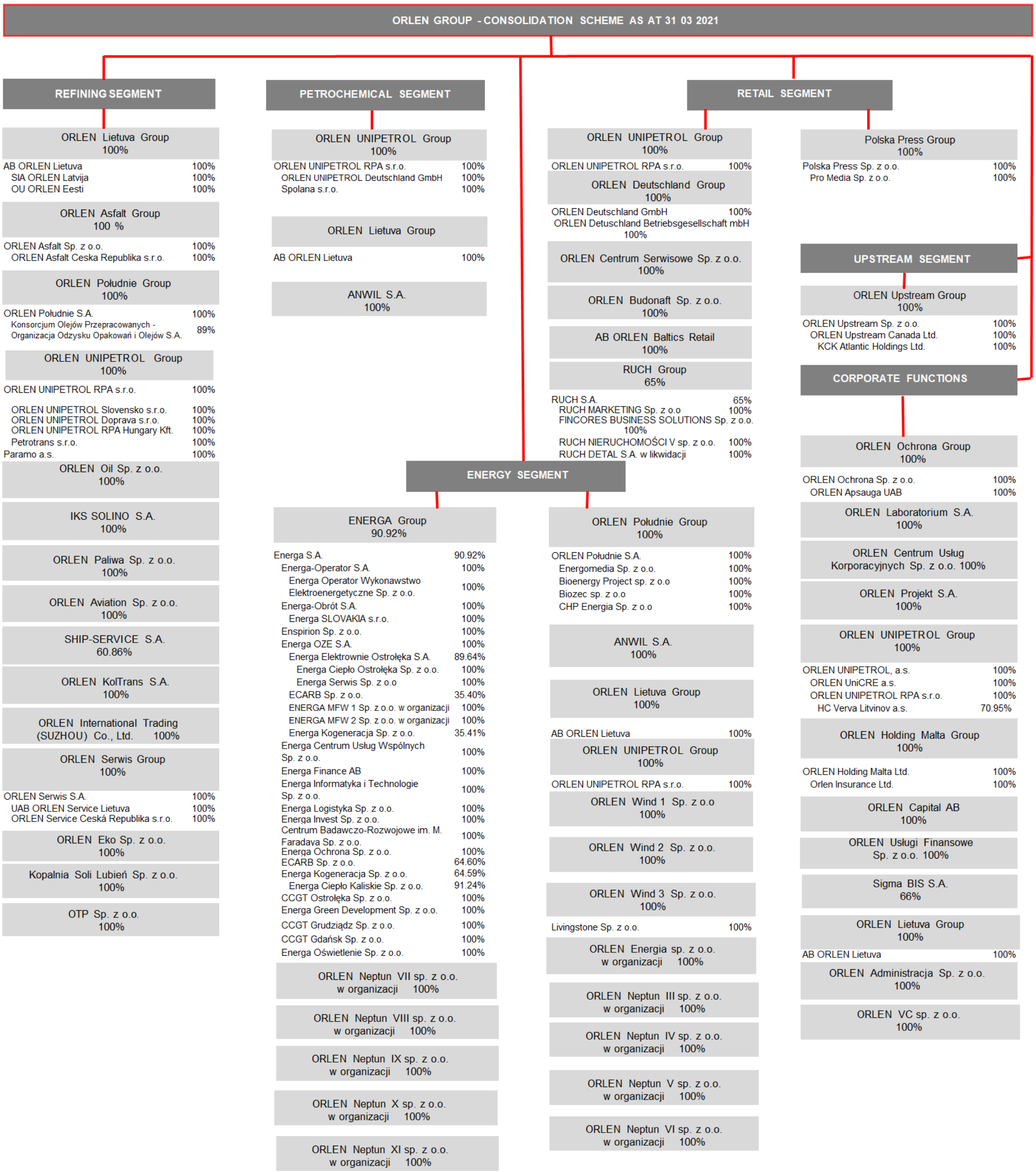
The factors that will affect future financial results of the ORLEN Group include:

- further impact of the COVID-19 pandemic on the macroeconomic environment,
- macroeconomic and geopolitical environment - crude oil and other energy resources prices, quotations on refinery and petrochemical products, foreign exchange rates (mainly EUR/USD, PLN/USD, PLN/EUR) and economic relations between the US, China and Iran, relations between the EU and the US with Russia
- economic situation - GDP level, fuel, electricity and other products of the Group consumption on the markets of its operations and the situation on the labour market,
- availability of production installations,
- refining overcapacity on a global scale and in Europe in relation to the expected demand,
- applicable legal regulations,
- situation on the financial market, in particular the possibility of obtaining debt financing,
- EU's climate policy and prices of rights and CO_2 emissions allowances, and consequently the price of electricity
- renewable electricity generation technology development.

3.3. Description of the organization of the ORLEN Group

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

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



3.4. Changes in the structure of the ORLEN Group from 1 January 2021 up to the date of preparation of this report

– on 1 January 2021 the name of Unipetrol a.s. was changed to ORLEN Unipetrol a.s.,
– in January 2021, 2 companies from the ORLEN Upstream Group were liquidated: Frontier Exploration Inc. i FX Energy Inc.,
– in January 2021, 2 new companies were established in the ENERGA Group: CCGT Ostrołęka Spółka z ograniczoną odpowiedzialnością (share capital amounts to PLN 150,000 - 150 shares of PLN 1,000 each) and ENERGA Green Development Spółka z ograniczoną odpowiedzialnością (share capital amounts to PLN 600,000 -1,200 shares of PLN 500 each). ENERGA owns 100% of shares in both companies.
– on 11 February 2021, ORLEN Wind 3 Sp.z o.o., acquired 100% of the capital of Livingstone Sp.z o.o with its headquarters in Warsaw. Additional information in note 3.4.3;
– on 12 February 2021, the National Court Register registered the second increase in the share capital of RUCH S.A., in which PKN ORLEN SA acquired 65,000 shares with a nominal value of PLN 1, (issue value per share = PLN 1.83). Additional information in note 3.4.1;
– On 26 February 2021 ORLEN Wind 3 Sp. z o.o. has signed with investment funds: Taiga Inversiones Eolicas SCR SA and Santander Energias Renovables SCRA SA, headquartered in Madrid, Spain, a share purchase agreement for 100% of

shares in Nowotna Farma Wiatrowa Sp. z o.o., owner of the onshore wind farms Kobylnica, Subkowy, Nowotna ("Agreement"). The total power of wind farms that are to be purchased amounts to 89,4 MW. The value of the Agreement amounts to approximately PLN 380 million The Agreement has been signed under the condition that the approval of relevant antitrust authorities will be obtained.
PKN ORLEN holds 100% of the shares in ORLEN Wind 3, which has been set to realize the development of the PKN ORLEN activity in the area of renewable energy what comes from the current ORLEN Group strategy. The Company will inform in regulatory announcements about the next significant transactions within that activity. After obtaining a positive decision of the Office of Competition and Consumer Protection, ORLEN Wind 3 on 14 April 2021 acquired 100% of shares in Nowotna Farma Wiatrowa sp.z o.o. with its headquarters in Gdańsk. The company's share capital amounts to PLN 16,617,500 and is divided into 332,350 equal and indivisible shares with a nominal value of PLN 50 each. The value of the transaction amounted to PLN 372 million. As at 31 March 2021, the company was not fully consolidated.

- on 1 March 2021, PKN ORLEN acquired 100% of the Polska Press Sp. z o.o. shares with its headquarters in Warsaw, ie 12,000 shares with a nominal value of PLN 3,500 each, with a total nominal value of PLN 42 million. Additional information in note 3.4.2;
- on 18 March 2021 ORLEN Południe acquired 100% of the CHP Energia Sp. z o.o. shares for the amount of PLN 2 million. Additionally, a subrogation agreement was signed for the repayment by ORLEN Południe of a loan granted to CHP ENERGIA by third parties in the amount of PLN 6 million. On the acquisition date, ORLEN Południe contributed an additional capital contribution to CHP Energia Sp. z o.o. in the amount of PLN 3.5 million.
  The core business of the acquired company is the construction of a biogas plant and an integrated biomass solid fuel production plant in the form of pellets and the production of green electricity in cogeneration. As a result of this transaction, goodwill in the amount of PLN 10 million was recognized. As at the date of approval of this interim condensed consolidated financial statements, the process of allocating the purchase price has not yet been completed. The Company plans to complete settlement of the transaction by the end of 2021.
- on 24 March 2021, the Extraordinary General Meeting of Shareholders of Baltic Power sp. z o.o. adopted a resolution to increase the company's share capital by PLN 566,500, ie from PLN 600,000 to PLN 1,166,500, by creating 5,665 new shares with a nominal value of PLN 100 per share. All new shares, representing 48.56%, were acquired in full by NP Baltic Wind B.V. with its headquarters in Amsterdam and covered them in full with a cash contribution in the total amount of EUR 35,000,000 and PLN 93,108,895. The surplus of the cash contribution over the nominal value of the new shares in the amount of EUR 35,000,000 and PLN 92,542,395 was transferred to the supplementary capital of Baltic Power sp. z o.o. Additional information in note 3.4.5;
- on 26 March 2021, two new companies were established by ENERGA OZE SA:
  ENERGA MFW 1 Sp. z o.o. at a startup with its headquarters in Gdańsk with a share capital of PLN 5,000, 100 shares with a nominal value of PLN 50, the surplus of the cash contribution over the total nominal value of the shares in the amount of PLN 245,000 was transferred to the reserve capital.
  ENERGA MFW 2 Sp. z o.o. at a startup with its headquarters in Gdańsk with a share capital of PLN 5,000, 100 shares with a nominal value of PLN 50, the surplus of the cash contribution over the total nominal value of shares in the amount of PLN 245,000 was transferred to the reserve capital.
  The companies are 100% owned by ENERGA OZE SA.
- on 30 March 2021, new companies were established: ORLEN Neptun III sp. z o.o, ORLEN Neptun IV sp. z o.o, ORLEN Neptun V sp. z o.o, ORLEN Neptun VI sp. z o.o, ORLEN Neptun VII sp. z o.o, ORLEN Neptun VIII sp. z o.o, ORLEN Neptun IX sp. z o.o, ORLEN Neptun X sp. z o.o, ORLEN Neptun XI sp. z o.o (further ORLEN Neptun III-IX) and ORLEN Energia sp.z o.o. The share capital of ORLEN Neptun III - ORLEN Neptun XI amounts to PLN 1,750,000 and is divided into 700 shares with a nominal value of PLN 2,500 each.
  The share capital of ORLEN Energia amounts to PLN 5,000 and is divided into 50 shares with a nominal value of PLN 100 each. The surplus of the cash contribution over the total nominal value of the shares, in the amount of PLN 9,995,000, will be transferred to the company's reserve capital (agio).
  ORLEN Neptun III - ORLEN Neptun XI companies were established as part of the Morska Energetyka Wiatrowa project, and ORLEN Energia for wholesale trade in energy produced in the ORLEN Group;
- on 31 March 2021, PKN ORLEN acquired 454,546 shares of OTP Sp. z o.o. with its headquarters in Płock, which constitutes 100% of the share capital, thus PKN ORLEN became the sole owner of the company. Additional information in note 3.4.4.

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

3.4.1. Settlement of acquisition of RUCH S.A. shares in accordance with IFRS 3 Business Combinations

On 11 April 2019 PKN ORLEN approached RUCH S.A. (RUCH) with a conditional financing proposal relating to the intended acquisition of a controlling interest in the company. This decision was preceded by a due diligence of the company and a process to work out a framework for future restructuring measures. Since then, steps have been taken to adopt and approve restructuring arrangements, which were one of the pre-conditions to PKN ORLEN providing financing to RUCH. In the meantime, a detailed restructuring plan for the company was developed, and an investment agreement was negotiated with the other partners on the project – PZU S.A., PZU Życie S.A. and Alior Bank S.A. The signing of investment agreement in June 2020 and clearance from the anti-trust regulator for PKN ORLEN to acquire control of RUCH have enabled the acquisition process to move forward. The final and binding statement by the court of the performance of restructuring arrangements with creditors by RUCH in November 2020 as part of two accelerated arrangement proceedings was the last condition and enabled PKN ORLEN to finalize the acquisition of a majority stake in RUCH.

ORLEN ORLEN GROUP (in PLN million)

On 24 November 2020 General Meeting of RUCH adopted a resolution to increase the company's share capital by the amount of PLN 109,189,617, through the issue of 109,189,617 shares with a nominal value of PLN 1 each. The issue price of 1 share was PLN 1,83. As a part of the adopted resolution, PKN ORLEN acquired and at the same time paid for 70,973,251 shares of RUCH for the consideration of PLN 130 million, representing 64.94% of the share capital of the company and corresponding to 64.94% of the total number of votes at the General Meeting of RUCH. Thus, 24 November 2020 is the date on which PKN ORLEN obtained control of RUCH.

The acquisition of the RUCH shares is being settled using the acquisition method in accordance with IFRS 3 Business Combinations.

At the date of approval of this interim condensed consolidated financial statements, the purchase price allocation process had not been fully completed yet. As a result, the Group has decided to settle the transaction provisionally, under which:

- intangible assets not previously reported in the RUCH financial statements, in particular the fair value of the acquired trademarks were recognized,
- the acquired assets and liabilities were measured at their fair value, except for property, plant and equipment and investment property,
- contingent liabilities requiring recognition were identified and measured in accordance with the specific requirements of IFRS 3 Business Combinations.

The process of valuation at fair value of assets classified as property, plant and equipment and investment properties carried out by independent valuers has not been finalized yet. For the purposes of this financial statement, these items are provisionally presented at book values.

Therefore, the goodwill recognized on the acquisition may be modified as part of the final settlement of the RUCH transaction, which the Group plans to complete within 12 months of taking control of the company.

The settlement of the acquisition of RUCH S.A. shares at the date control was taken on the basis of the data prepared as at 30 November 2020. There were no material differences in the accounting data between 24 November 2020 and 30 November 2020.

The provisional value of identifiable assets acquired and liabilities assumed recognised as at the acquisition date are as follows:

Assets acquired	**A**	**337**
Non-current assets		
Property, plant and equipment		13
Intangible assets		25
Right-of-use asset		37
Deferred tax assets		10
Other assets		6
Current assets		
Inventories		54
Trade and other receivables		58
Cash and cash equivalents		131
Other assets		3
Assumed liabilities	**B**	**295**
Non-current liabilities		
Deferred tax liabilities		1
Lease liabilities		27
Current liabilities		
Trade and other liabilities		150
Lease liabilities		10
Loans, borrowings and bonds		35
Provisions		70
Other liabilities		2
Total net assets	**C = A - B**	**42**
Acquired net assets attributable to the equity owners of the parent	**D**	**42**
Non-controlling interest measured as a proportionate share in the net assets		**15**
% share in the share capital	**E**	64.94%
Value of shares measured as a proportionate share in the net assets	**F = D*E**	27
Fair value of the consideration transferred (Cash paid)	**G**	130
Goodwill	**I = G - F**	**103**

Positions at provisional values due to the fact that their settlement had not been completed at the date of acquisition

By acquiring RUCH, the Group is pursuing its strategy of developing the retail area based on locations outside fuel stations and comprehensive customer services, including courier services. Effective use of RUCH's assets will enable ORLEN Group to gain logistic advantages through significant expansion of the sales network and planned development of new catering and retail formats, as well as further increase competitiveness in terms of service quality, assortment, services and improved operating standards in the retail segment.

ORLEN ORLEN GROUP (in PLN million)

The goodwill arising from the acquisition of RUCH results from the projected synergies arising from the merger of RUCH's operations with ORLEN Group and represents the value of assets that could not be recognized separately under the requirements of IAS 38 (employees and their knowledge). As at 31 March 2021, the Group did not identify any impairment in relation to the recognized temporary goodwill.

At the date of taking control, as well as at present, securities were established on the assets of RUCH and its subsidiaries for the benefit of Alior Bank under the agreements signed with the bank. As of 31 March 2021, RUCH's debt to Alior Bank has been repaid in full. RUCH is in the process of taking the remaining steps necessary to release the securities established on its assets.

3.4.2. Settlement of acquisition of Polska Press shares in accordance with IFRS 3 Business Combinations

On 1 March 2021 PKN ORLEN acquired 100% shares in Polska Press Sp. z o.o. with its headquarters in Warsaw from German Verlagsgruppe Passau Capital Group. Polska Press is one of the largest publishing groups in Poland with about 20 regional dailies, nearly 120 local weeklies as well as about 500 online websites. The acquisition of Polska Press is in line with PKN ORLEN's strategic plans to strengthen retail sales, including non-fuel sales. By acquiring Polska Press the Company gained, i. a. access to 17.4 million Internet users and the possibility to acquire new customers, optimise marketing costs and develop big data tools within the Group. The acquisition price amounted to PLN 210 million and was determined as the sum of acquired cash surplus (i.e. negative net debt) in the amount of PLN 79 million and the estimated enterprise value in the amount of PLN 131 million. The book value of the acquired net assets at the moment of taking control amounted to PLN 200 million. As at the date of approval of this interim condensed consolidated financial statements, the process of purchase price allocation has not been completed yet. The Company plans to complete settlement of the transaction by the end of 2021.

On 17 March 2021, the Commissioner for Human Rights of Poland (Commissioner) announced in a communique published on his website that he appealed to the District Court in Warsaw (Court of Competition and Consumer Protection) against the decision of the President of the Office of Competition and Consumer Protection (OCCP) of 5 February 2021 on consent to concentration consisting in taking over by PKN ORLEN control over Polska Press sp. z oo. In the communique, the Commissioner also noted that, in accordance with the applicable regulations, the appeal itself is submitted to the court via the OCCP. The President of OCCP has 3 months to submit the appeal to the court (unless it changes the decision on consent to concentration under the self-control procedure). At the same time, the Commissioner filed a motion - directly to the court - to suspend the execution of the decision (including the ban on exercising participation rights by PKN ORLEN in Polska Press).

On 8 April 2021, the District Court issued an order to suspend the execution of the decision of the President of OCCP of 5 February 2021 until the court resolves the appeal submitted by the Commissioner. In the opinion of PKN ORLEN, this order does not affect the effectiveness of the acquisition by PKN ORLEN of shares in Polska Press, as the acquisition was made before the court issued this order; the court's order does not restrict PKN ORLEN in exercising its rights from shares in Polska Press (the court in its order did not consider the Commissioner's motion in this respect).
On the basis on its own judgment, on the obtained legal analyses prepared by external law firm, the Group assessed that as at 31 March 2021, in accordance with the requirements of IFRS 10, has control over Polska Press, and therefore it was consolidated using the full method. In the following reporting periods, the Group will analyse new facts and circumstances to assessing control.

The provisional value of identifiable assets acquired and liabilities assumed recognised as at the acquisition date are as follows:

Assets acquired	**A**	**255**
Non-current assets		
Property, plant and equipment		67
Intangible assets		1
Right-of-use asset		1
Deferred tax assets		20
Other assets		5
Current assets		
Inventories		19
Trade and other receivables		38
Cash and cash equivalents		104
Assumed liabilities	**B**	**55**
Non-current liabilities		
Provisions		7
Deferred tax liabilities		1
Current liabilities		
Trade and other liabilities		42
Liabilities from contracts with customers		4
Other liabilities		1
Total net assets	**C = A - B**	**200**
Non-controlling interest measured as a proportionate share in the net assets		8
Acquired net assets attributable to the equity owners of the parent	**D**	**192**
% share in the share capital	**E**	100.00%
Value of shares measured as a proportionate share in the net assets	**F = D*E**	192
Fair value of the consideration transferred (Cash paid)	**G**	210
Goodwill	**I = G - F**	**18**

The total value of non-controlling interest presented in the above table, valued at PLN 8 million and measured on a pro-rata basis of net assets includes the non-controlling interest within the Polska Press Group, related to net assets of subsidiary ProMedia, in which Polska Press does not hold 100% in share capital.
Net cash outflow related to the acquisition of Polska Press, being the difference between acquired net cash (recognised as cash flows from investing activities) and cash transferred as a consideration amounted to PLN (106) million.
If the acquisition of the Polska Press shares took place at the beginning of the annual reporting period, the Group's net profit would be PLN 1,876 million, and sales revenues would be PLN 24,605 million. The share of Polska Press in the in sales revenues generated by the ORLEN Group for the 1st quarter of 2021 was not material.

3.4.3. Settlement of acquisition of Livingstone Sp. z o.o shares in accordance with IFRS 3 Business Combinations

On 11 February 2021, ORLEN Wind 3 Sp. z o.o. w organizacji acquired 100% shares in Livingstone Sp.z o.o. with its headquarters in Warsaw, from foreign investment funds for the price of PLN 25 million. Furthermore, on the same day ORLEN Wind 3 signed with Livingstone Sp. z o.o. a loan agreement for the amount of PLN 76 million, which was designated for repayment of liabilities of the acquired company indicated in the share purchase agreement, including in particular liabilities towards former shareholders under granted loans and bank credits in the amount of PLN 34 million and PLN 41 million, respectively. The core business of the acquired company is generation of electricity from renewable energy sources at the Kanin wind farm located in the West Pomeranian province with a capacity of 20 MW. The transaction was executed as part of ORLEN Group's strategy aimed at, among other things, expanding its portfolio of zero-emission energy sources. The book value of the acquired net assets at the moment of taking control amounted to PLN 9 million. As at the date of approval of this interim condensed consolidated financial statements the process of purchase price allocation has not been completed yet. The Company plans to complete settlement of the transaction by the end of 2021.

The provisional value of identifiable assets acquired and liabilities assumed recognised as at the acquisition date are as follows:

Assets acquired	**A**	**105**
Non-current assets		
Property, plant and equipment		91
Right-of-use asset		8
Current assets		
Inventories		1
Trade and other receivables		3
Cash and cash equivalents		2
Assumed liabilities	**B**	**96**
Non-current liabilities		
Deferred tax liabilities		9
Loans and borrowings		71
Other liabilities		8
Current liabilities		
Deferred tax liabilities		1
Trade and other liabilities		1
Loans, borrowings and bonds		6
Total net assets	**C = A - B**	**9**
Acquired net assets attributable to the equity owners of the parent	D	9
% share in the share capital	E	100.00%
Value of shares measured as a proportionate share in the net assets	F = D*E	9
Fair value of the consideration transferred (Cash paid)	G	24
Goodwill	I = G - F	15

Net cash outflow related to the acquisition of Livingstone, being the difference between acquired net cash (recognised as cash flows from investing activities) and cash transferred as a consideration amounted to PLN (22) million.
If the acquisition of the Livingstone shares took place at the beginning of the annual reporting period, the Group's net profit would be PLN 1,880 million, and sales revenues would be PLN 24,562 million. The share of Livingstone in the in sales revenues generated by the ORLEN Group for the 1st quarter of 2021 was not material.

3.4.4. Settlement of acquisition of OTP Sp. z o.o. shares in accordance with IFRS 3 Business Combinations

On 31 March 2021, PKN ORLEN acquired from Trans Polonia Group, 100% of shares in OTP Sp. z o.o. with its headquarters in Płock.
OTP is one of the largest road transport service providers in Poland. The company was established on the basis of ORLEN Transport assets, the sale of which to Trans Polonia Group was decided in 2015.
In 2019, the company transported almost 6 million m^3 of fuels, aviation fuels and LPG. It operates a modern fleet of over 200 sets to the transport of dangerous goods by road (ADR) of class II and III. It employs nearly 700 employees, including over 550 drivers. The transaction will enable dynamic development and optimization of logistics processes. The reconstruction of own transport capacity within the Group's structures and the planned centralization of road logistics management will also have a positive impact on ORLEN Group's results. In this way, the Group will definitely strengthen its position on the road transport market. The purchase price amounted to PLN 89 million. The book value of the net assets acquired at the moment of taking control amounted to PLN 17 million. As at the date of approval of these consolidated financial statements, the process of purchase price allocation has not been completed yet.

ORLEN GROUP (in PLN million)

The provisional value of identifiable assets acquired and liabilities assumed recognised as at the acquisition date are as follows:

Assets acquired	**A**	**82**
Non-current assets		
Property, plant and equipment		3
Right-of-use asset		46
Deferred tax assets		1
Current assets		
Trade and other receivables		24
Cash and cash equivalents		8
Assumed liabilities	**B**	**65**
Non-current liabilities		
Lease liabilities		36
Other liabilities		
Trade and other liabilities		15
Lease liabilities		14
Total net assets	**C = A - B**	**17**
Acquired net assets attributable to the equity owners of the parent	D	**17**
% share in the share capital	E	100.00%*
Value of shares measured as a proportionate share in the net assets	F = D*E	17
Fair value of the consideration transferred (Cash paid)	G	89
Goodwill	**I = G - F**	**72**

Net cash outflow related to the acquisition of OTP, being the difference between acquired net cash (recognised as cash flows from investing activities) and cash transferred as a consideration amounted to PLN (81) million.

If the acquisition of the Livingstone shares took place at the beginning of the annual reporting period, the Group's net profit would be PLN 1,884 million, and sales revenues would be PLN 24,566 million.

3.4.5. Change in the shareholding structure in Baltic Power

On 24 March 2021, by the decision of the Extraordinary General Meeting of Shareholders of Baltic Power sp.z o.o. (Baltic Power) a resolution to increase the company's share capital by PLN 1 million by creating 5,665 new shares with a nominal value of PLN 100 each was adopted. All new shares, representing 48.56% of the share capital, were acquired in full by NP Baltic Wind B.V. with its headquarters in Amsterdam (a subsidiary of Northland Power) and covered them in full with a cash contribution in the total amount of EUR 35 million (i.e. PLN 163 million translated using the exchange rate as at 31 March 2021) and PLN 93 million. The surplus of the cash contribution over the nominal value of the new shares in the amount of EUR 35 million (i.e. PLN 163 million translated using the exchange rate as at 31 March 2021) and PLN 92 million was transferred to the reserve capital of Baltic Power sp.z o.o.
As a result of this transaction, PKN ORLEN lost control over Baltic Power. Taking into account the terms of the partnership agreement signed with NP Baltic Wind B.V., PKN ORLEN assessed the continued investment in Baltic Power as a joint venture, which was included in this interim condensed consolidated financial statements using the equity method. As at 31 March 2021, the share of PKN ORLEN in the share capital of Baltic Power amounted to 51.44%.
In the financial result, the amount of PLN 156 million was recognised in other operating income as the difference between the net assets as at the date of loss of control of PLN 112 million and the fair value of the investment held in Baltic Power as at the date of loss of control in the amount of PLN 268 million. As at 31 March 2021, the individual assets and liabilities of the investment in the jointly controlled entity were not measured at fair value yet, and therefore a provisional settlement was applied to this measurement.

In subsequent reporting periods, additional capital increases are planned by Baltic Power, which will be fully covered by NP Baltic Wind B.V., leading to increase the share of NP Baltic Wind B.V to 49% (and at the same time decrease the share of PKN ORLEN to 51%).

4. Segment's data

The operations of the ORLEN Group are conducted in:
- the Refining segment, which includes refinery products processing and wholesale, oil production and sale as well as supporting production,
- the Petrochemical segment, which includes the production and wholesale of petrochemicals, production and sale of chemicals and supporting production,
- the Energy segment, which includes production, distribution and sale of electricity and heat and trading in electricity,
- the Retail segment, which includes mainly activity carried out at petrol stations and activity of RUCH Group and Polska Press Group
- the Upstream segment, which includes activity related to exploration and extraction of mineral resources conducted through the ORLEN Upstream Group,

and Corporate Functions, which include activities related to management, administration and remaining activities not allocated to separate operating segments i.e. reconciling items. Additionally, in this item the Group recognizes the effect of the valuation and settlement of CO_2 futures contracts as a part of "transaction" portfolio.
The allocation of the ORLEN Group's companies to operating segments and Corporate Functions was presented in note 3.3.

ORLEN ORLEN GROUP (in PLN million)

Revenues, costs, financial results, increases in non-current assets

for the 3-month period ended 31 March 2021

	NOTE	Refining Segment (unaudited)	Petrochemical Segment (unaudited)	Energy Segment (unaudited)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
External revenues	5.1	9 365	3 318	3 905	7 799	151	24	-	24 562
Inter-segment revenues		5 204	459	890	14	-	133	(6 700)	-
Sales revenues		14 569	3 777	4 795	7 813	151	157	(6 700)	24 562
Total operating expenses		(13 675)	(3 425)	(4 280)	(7 471)	(132)	(480)	6 700	(22 763)
Other operating income	5.4	1 126	68	215	18	-	569	-	1 996
Other operating expenses	5.4	(1 467)	(23)	(35)	(20)	(80)	(28)	-	(1 653)
(Loss)/reversal of loss due to impairment of financial instruments		(1)	-	16	-	-	3	-	18
Share in profit from investments accounted for using the equity method		-	81	-	-	-	-	-	81
Profit/(Loss) from operations		**552**	**478**	**711**	**340**	**(61)**	**221**	**-**	**2 241**
Net finance income and costs	5.5								(69)
Loss)/reversal of loss due to impairment of loans and interest on trade receivables									(1)
Profit before tax									**2 171**
Tax expense									(289)
Net profit									**1 882**
Depreciation and amortisation	5.2	**329**	**249**	**376**	**206**	**75**	**57**	**-**	**1 292**
EBITDA		**881**	**727**	**1 087**	**546**	**14**	**278**	**-**	**3 533**
Increases in non-current assets		**374**	**523**	**485**	**260**	**87**	**44**	**-**	**1 773**

for the 3-month period ended 31 March 2020

	NOTE	Refining Segment (restated data) (unaudited)	Petrochemical Segment (restated data) (unaudited)	Energy Segment (restated data) (unaudited)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (restated data) (unaudited)	Total (unaudited)
External revenues	5.1	9 709	3 102	493	8 609	145	19	-	22 077
Inter-segment revenues		5 342	685	879	24	-	116	(7 046)	-
Sales revenues		15 051	3 787	1 372	8 633	145	135	(7 046)	22 077
Total operating expenses		(18 755)	(3 440)	(1 002)	(8 085)	(165)	(432)	7 046	(24 833)
Other operating income	5.4	2 883	56	2	10	179	53	-	3 183
Other operating expenses	5.4	(1 764)	(2)	(2)	(23)	(530)	(30)	-	(2 351)
(Loss)/reversal of loss due to impairment of financial instruments		2	-	1	-	-	5	-	8
Share in profit from investments accounted for using the equity method		-	12	-	-	-	-	-	12
Profit/(Loss) from operations		**(2 583)**	**413**	**371**	**535**	**(371)**	**(269)**	**-**	**(1 904)**
Net finance income and costs	5.5								(656)
Loss)/reversal of loss due to impairment of loans and interest on trade receivables									(2)
(Loss) before tax									**(2 562)**
Tax expense									317
Net (loss)									**(2 245)**
Depreciation and amortisation	5.2	**280**	**227**	**117**	**167**	**94**	**50**	**-**	**935**
EBITDA		**(2 303)**	**640**	**488**	**702**	**(277)**	**(219)**	**-**	**(969)**
Increases in non-current asset		**479**	**240**	**46**	**265**	**176**	**38**	**-**	**1 244**

EBITDA *– profit/(loss) from operations increased by depreciation and amortisation*
Increase in non-current assets (CAPEX) *includes increase of property, plant and equipment, intangible assets, investment property and right-of-use asset together with the capitalisation of borrowing costs and a decrease in received/due penalties for the improper execution of a contract.*

ORLEN ORLEN GROUP (in PLN million)

Assets by operating segments

	31/03/2021 (unaudited)	31/12/2020 (restated data)
Refining Segment	28 883	25 908
Petrochemical Segment	14 060	13 872
Energy Segment	27 654	24 845
Retail Segment	11 481	10 968
Upstream Segment	3 218	3 070
Segment assets	**85 296**	**78 663**
Corporate Functions	6 870	5 592
Adjustments	(127)	(219)
	92 039	**84 036**

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

5. Other notes

5.1. Sales revenues

PROFESSIONAL JUDGMENT

Based on analyses of contractual clauses in sales contracts, the Group identified the agency model mainly in the area of natural gas and LPG sales and non-fuel merchandise sales by ORLEN Deutschland to customers network. The loyalty program VITAY liability, arises at the time of sales of goods and services at own and franchise petrol stations for each single sale transaction and in case of purchase by the Group's customers in partner's e-Shops and consists of calculating points entitling to discounts on future purchases. A ratio of 68.5% is adopted to recognise liability taking into account the probability of its on realisation, based on empirical data of points used compared to those issued to the customer in the last 36 months.
The Group assessed, that marketing services provided to suppliers are inseparably linked to the purchase of these merchandise, hence revenues from marketing services reduce costs related to their purchase and release for sale.

	3 MONTHS ENDED 31/03/2021 (unaudited)	3 MONTHS ENDED 31/03/2020 (unaudited)
Revenues from sales of finished goods and services	18 570	17 922
revenues from contracts with customers	*18 505*	*17 865*
excluded from scope of IFRS 15	*65*	*57*
Revenues from sales of merchandise and raw materials	5 992	4 155
revenues from contracts with customers	*5 992*	*4 154*
excluded from scope of IFRS 15	*-*	*1*
Sales revenues, incl.:	**24 562**	**22 077**
revenues from contracts with customers	*24 497*	*22 019*

Revenues excluded from the scope of IFRS 15 refer to operating lease contracts and compensation for energy prices

The impact of new subsidiaries in the 1st quarter of 2021 on the items of revenues from sales of finished goods and services and merchandise and raw materials amounted to PLN 1,644 million and PLN 2,097 million, respectively.

Performance obligations

As part of the contractual obligations, the Group commits to deliver to its customers mostly refining, petrochemical products and goods, electricity and heat, crude oil, natural gas, energy distribution services and press supply and subscription, printing and advertising services as well as courier distribution services. Under these agreements, the Group acts as a principal.
Transaction prices in existing contracts with customers are not regulated restrictions, except for prices for customers of G tariff groups and electricity and heat distribution approved by the President of Energy Regulatory Office (Urząd Regulacji Energetyki, URE in Polish) in the Energy segment.
There are no contracts in force providing for significant obligations for returns and other similar obligations. Press revenues for most points/networks are recognized based on the difference accounting between delivered and returned press. The invoice is issued for the completed press sales to end customers. The Group does not identify revenues for which the receipt of payment is conditional and therefore does not present the item Assets under contracts with customers.
The warranties provided under the contracts are warranties that provide a customer with assurance that the related product complies with agreed-upon specification. They are not a distinct service.
There are mainly sales with deferred payment in the Group. Additionally in the Retail segment cash sales take place. In contracts with customers, in most cases payment terms not exceeding 30 days are used, while in the Upstream segment payment terms not exceeding 60 days are used. Usually payment is due after transferring good or service.

Within the Refining, Petrochemical, Retail and Upstream segments, in case of deliveries of goods, where control is transferred to the customer in terms of services satisfied at a point in time, settlements with customers and recognition of revenues take place after each delivery.
In the Group the revenues from deliveries of goods and provision of services, when the customer simultaneously receives and benefits from them, are being accounted and recognized over time. In the Refining and Petrochemical segment, in continuous sale, when goods are transferring using pipelines, the ownership right over the transferred good passes to the customer at an agreed point in the infrastructure of the plant. This moment is considered as the date of sale. Revenue is recognized based on the output method for the delivered units of goods.
In the Group in case of construction services, when an asset is created as a result of the performance, and control over this component is exercised by the customer, revenue is recognised over time using input-based method based on the costs incurred irrespective of the signed acceptance protocols.
Within the Retail segment, in Fleet Program settlements with customers take place mostly in two-week periods, the delivery of the press are accounted for on a weekly basis, and subscriptions on a monthly, quarterly, semi-annual and annual periods.

Within the Energy segment, revenue for energy delivered in the period and energy distribution, are recognised monthly and are determined on the basis of billed price and volumes as well as additional estimations. The estimates are made on the basis of reports from billing systems as well as forecasts of customers' energy needs and prices for the estimated days of energy consumption, as well as a result of reconciliations of the energy balance. Accounts with customers are settled on a one- and two-month basis. Revenues from services related to connection to the energy network are recognized at the point in time when the works are completed.

Revenues according to categories taking into account significant economic factors affecting their recognition
Except of revenues according to product type and geographical region presented in notes 5.1.1 and 5.1.2, the Group analyses revenues based on the type of contract, date of transfer, contract duration and sales channels.
In the case of contracts where the remuneration includes a variable amount, the Group recognises revenues in the amount of remuneration to which - in line with expectations - will be entitled and for which it is highly probable that it will not be reversed in the future.
Consequently, the Group does not recognise revenues, until the uncertainty of receipt the remuneration ceases, in particular in relation to discount rights held by customers, bonuses and penalties imposed.
The Group also classifies to the category of revenues based on a variable price, revenues resulting from contracts where the remuneration is a variable fee on turnover. Contracts accounted for on the basis of time and effort consumed include long-term contracts, among them construction and IT contracts.

As part of the Refining and Petrochemical segments, with respect to sales of petrochemical and refinery products, the Group recognises revenue from the fulfilment of the performance obligation, depending on the terms of delivery applied (Incoterms CFR, CIF, CPT).
In case of some deliveries, the Group as a seller is obliged to organize transport. When the control of good transferred to the customer before the transport service is completed, the delivery of goods and transport becomes separate performance obligations. The delivery of goods is an obligation satisfied at a point in time, while transport is a continuous obligation (satisfied over time). In case of transport, the customer simultaneously receives and consumes benefits from the service. Revenues are recognized on the basis of the output method with respect to the rendered services.
In the Retail segment, the moment of fulfilment of the performance obligation is the moment of transfer of good, except for sales of fuels in the Fleet Program using Fleet Cards.
Revenue recognised over time mainly relate to the sale of electricity and energy distribution services within the Energy segment, fuel sales in the Fleet Programme and subscription sale within Retail segment and the sale of gas and crude oil within the Upstream segment. These revenues are recognised using the output method for the delivered units of goods for the delivered units of goods.

The duration of most contracts within the Group is short-term. Revenues on services for which start and end dates fall in different reporting periods (long-term contracts) are recognised according to the degree of complete fulfilment of the performance obligation using the input-based method. Long-term contracts that remain unfulfilled in full as at the balance sheet date relate to i.a. construction and installation contracts.
As at 31 March 2021 the Group analysed the value of the transaction price allocated to unfulfilled performance obligations at the end of the year.
The unfulfilled or partially unfulfilled performance obligations at the end of the year mainly concerned contracts for the sale of electricity and power media and for the supply of newspapers, subscriptions, parcel delivery and collection services that will end within 2021 or are concluded for an indefinite period with a notice period of up to 12 months.
Due to the fact that the described performance obligations are part of the contracts, that can be considered short-term, or the revenues from fulfilled performance obligation under these contracts are recognised in the amount that the Group has the right to invoice, the Group applied a practical solution, according to which it does not disclose information about the total amount of the transaction price allocated to the performance obligation.

The Group mostly realizes revenue from direct sales to end customers based on its own, leased or based on the franchise agreement system sales channels. In the Retail segment, the Group manages the network of 2,856 fuel stations: 2,325 own

ORLEN ORLEN GROUP (in PLN million)

brand stations and 531 stations operated under franchise agreements and by 1,190 retail outlets/ kiosks managed by the RUCH Group. Additionally, the press is sold in third-party outlets, i.e. large organised networks, including franchised and private shops. As part of the publishing activity of the Polska Press Group, revenues are also generated through own websites.
The Group's direct sales to customers in the Refining Petrochemical and Upstream segment are carried out using a network of complementary infrastructure components: fuel terminals, land transhipment bases, pipeline networks, as well as rail transport and tanker trucks. Sales and distribution of energy to customers in the Energy segment are carried out mostly with the use of own distribution infrastructure.

5.1.1. Sales revenues of operating segments according to product type

	3 MONTHS ENDED 31/03/2021 (unaudited)	3 MONTHS ENDED 31/03/2020 (unaudited)
Refining Segment		
Revenue from contracts with customers IFRS 15	**9 361**	**9 705**
Light distillates	1 895	2 057
Medium distillates	5 706	6 375
Heavy fractions	911	917
Other*	849	356
Excluded from scope of IFRS 15	**4**	**4**
	9 365	**9 709**
Petrochemical Segment		
Revenue from contracts with customers IFRS 15	**3 316**	**3 100**
Monomers	813	820
Polymers	770	420
Aromas	263	295
Fertilizers	256	231
Plastics	347	363
PTA	351	402
Other	516	569
Excluded from scope of IFRS 15	**2**	**2**
	3 318	**3 102**
Energy Segment		
Revenue from contracts with customers IFRS 15	**3 904**	**491**
Excluded from scope of IFRS 15	**1**	**2**
	3 905	**493**
Retail Segment		
Revenue from contracts with customers IFRS 15	**7 746**	**8 565**
Light distillates	2 819	3 236
Medium distillates	3 884	4 491
Other **	1 043	838
Excluded from scope of IFRS 15	**53**	**44**
	7 799	**8 609**
Upstream Segment		
Revenue from contracts with customers IFRS 15	**151**	**145**
NGL ***	72	60
Crude oil	17	41
Natural Gas	60	42
Other	2	2
	151	**145**
Corporate Functions		
Revenue from contracts with customers IFRS 15	**19**	**13**
Excluded from scope of IFRS 15	**5**	**6**
	24	**19**
	24 562	**22 077**

* *Other includes mainly: brine, industrial salt, vacuum distillates, acetone, ammonia, butadiene, phenol, technical gases, caprolactam, soda lye and sulphur. In addition, it includes revenues from sale of services and materials*
** *Other mainly includes the sale of non-fuel merchandise*
*** *NGL (Natural Gas Liquids)*

During the 3-month period ended 31 March 2021 and 31 March 2020 revenues from none of Group customers individually exceeded 10% of the total sales revenues of the ORLEN Group.

ORLEN ORLEN GROUP (in PLN million)

5.1.2. Sales revenues according to geographical region – as per location of customer's headquarters

	3 MONTHS ENDED 31/03/2021 (unaudited)	3 MONTHS ENDED 31/03/2020 (unaudited)
Revenue from contracts with customers		
Poland	*14 051*	*11 280*
Germany	*3 334*	*3 579*
Czech Republic	*2 545*	*2 788*
Lithuania, Latvia, Estonia	*1 227*	*1 399*
Other countries	*3 340*	*2 973*
	24 497	**22 019**
excluded from scope of IFRS 15		
Poland	*12*	*14*
Germany	*23*	*18*
Czech Republic	*30*	*26*
	65	**58**
	24 562	**22 077**

Position other countries comprises mainly of sales to customers from Switzerland, Singapore, Ukraine, Slovakia, Ireland and the Netherlands.

5.2. Operating expenses

Cost by nature

	3 MONTHS ENDED 31/03/2021 (unaudited)	3 MONTHS ENDED 31/03/2020 (unaudited)
Materials and energy	(13 236)	(15 913)
Cost of merchandise and raw materials sold	(5 134)	(3 683)
External services	(1 375)	(1 103)
Employee benefits	(1 223)	(802)
Depreciation and amortisation	(1 292)	(935)
Taxes and charges	(1 558)	(769)
Other	(155)	(177)
	(23 973)	**(23 382)**
Change in inventories	1 131	(1 146)
Cost of products and services for own use	79	(305)
Operating expenses	**(22 763)**	**(24 833)**
Distribution expenses	1 920	1 620
Administrative expenses	671	507
Cost of sales	**(20 172)**	**(22 706)**

The increase in taxes and charges in the 1st quarter of 2021 by PLN (789) million resulted mainly from the update of the provision for estimated costs of CO_2 emissions of 2020 in connection with an increase in the weighted average method price of CO_2 allowances, resulting from the acquisition of 7 million CO_2 allowances as part of the implementation of forward contracts held by the Group in March 2021 which also influenced on the higher cost of creation of provision for the 1st quarter of 2021. The increase in other items of cost by nature resulted mainly from the recognition of new subsidiaries in the 1st quarter of 2021, as presented in the table below.

Impact of new entities on cost by nature

	3 MONTHS ENDED 31/03/2021 (unaudited)
Materials and energy	(293)
Cost of merchandise and raw materials sold	(1 685)
External services	(375)
Employee benefits	(324)
Depreciation and amortisation	(275)
Taxes and charges	(369)
Other	(18)
Operating expenses	**(3 339)**
Distribution expenses	320
Administrative expenses	86
Cost of sales	**(2 933)**

ORLEN GROUP (in PLN million)

5.3. Impairment allowances of inventories to net realizable value

	3 MONTHS ENDED 31/03/2021 (unaudited)	3 MONTHS ENDED 31/03/2020 (unaudited)
Increase	(18)	(2 145)
Decrease	22	128

5.4. Other operating income and expenses

Other operating income

	3 MONTHS ENDED 31/03/2021 (unaudited)	3 MONTHS ENDED 31/03/2020 (unaudited)
Profit on change in the ownership structure of Baltic Power	156	-
Profit on sale of non-current non-financial assets	8	3
Reversal of provisions	13	54
Reversal of impairment allowances of property, plant and equipment and intangible assets, right-of-use asset, other non-current assets and classified as held for sale	2	34
Penalties and compensations	24	28
Grants	19	-
Settlement and valuation of derivative financial instruments related to operating exposure, incl.:	1 672	2 955
CO_2 futures contracts settlement and valuation	*568*	-
Ineffective part related to valuation and settlement of operating exposure	6	14
Settlement of hedging costs	66	46
Other	30	49
	1 996	**3 183**

Other operating expenses

	3 MONTHS ENDED 31/03/2021 (unaudited)	3 MONTHS ENDED 31/03/2020 (unaudited)
Loss on sale of non-current non-financial assets	(11)	(8)
Recognition of provisions	(45)	(6)
Recognition of impairment allowances of property, plant and equipment and intangible assets, right-of-use asset, other non-current assets and classified as held for sale	(6)	(538)
Penalties, damages and compensations	(12)	(4)
Settlement and valuation of derivative financial instruments related to operating exposure	(1 507)	(1 717)
Ineffective part related to valuation and settlement of operating exposure	(5)	(27)
Settlement of hedging costs	(1)	(1)
Other, incl.:	(66)	(50)
donations	*(21)*	*(27)*
	(1 653)	**(2 351)**

In the 3-month period ended 31 March 2021 and 31 March 2020 the net positions of valuation and settlement of derivative financial instruments related to operating exposure (non-designated instruments for hedge accounting purposes) amounted to PLN 165 million and PLN 1 238 million, respectively, and mainly related to commodity swaps hedging time mismatch on crude oil purchases and bitumen hedging. The change in the valuation of transaction as at 31 March 2021 in comparison to 31 March 2020 results from the increase in crude oil prices and the strengthen of PLN against USD as well as the recognition as at 31 March 2021 of the valuation of derivative instruments on CO_2 emission allowances as a part of "transaction" portfolio.

As at 31 March 2021, the ORLEN Group has not identified indicators for impairment tests in accordance with IAS 36 Impairment of Assets. The assumptions and valuations made as at 31 December 2020 and disclosed in the Consolidated Financial Statements of the ORLEN Group for the year ended 31 December 2020, remain valid.

(in PLN million)

5.5. Finance income and costs

Finance income

	3 MONTHS ENDED 31/03/2021 (unaudited)	3 MONTHS ENDED 31/03/2020 (unaudited)
Interest calculated using the effective interest rate method	9	12
Settlement and valuation of derivative financial instruments	253	353
Other	289	22
	551	**387**

Finance costs

	3 MONTHS ENDED 31/03/2021 (unaudited)	3 MONTHS ENDED 31/03/2020 (unaudited)
Interest calculated using the effective interest rate method	(77)	(65)
Interest on lease	(39)	(26)
Interest on tax liabilities	-	(1)
Net foreign exchange loss	(82)	(450)
Settlement and valuation of derivative financial instruments	(132)	(481)
Other	(290)	(20)
	(620)	**(1 043)**

Borrowing costs capitalized in the 3-month period ended 31 March 2021 and 31 March 2020 amounted to PLN (12) million, PLN (9) million, respectively.

During the 3-month period ended 31 March 2021 and 31 March 2020 the net positions of valuation and settlement of derivative financial instruments (non-designated instruments for hedge accounting purposes) amounted to PLN 121 million and PLN (128) million, respectively and related mainly to hedging the risk of changes in exchange rates with regard to payments of invoices in foreign currency, the currency hedge for liquidity transactions, and to hedging interest rates and payment of bonds interests.
The main impact on the valuation and settlement of derivative financial instruments in the 3-month period ended 31 March 2021 was fluctuations EUR and USD exchange rates against PLN.
The line other in the 3-month period ended 31 March 2021 and 31 March 2020 related mainly to transaction differences on the ICE stock exchange in the amount of PLN 18 million and PLN 3 million, which are related to the settlement pattern of transactions concluded with the exchange and their early closure - as a result of which differences arise between the exchange rates and the quotations of the index that is the basis for the settlement of both transactions. Early closure on the ICE stock exchange results in the simultaneous generation of income and costs due to transaction differences. The amount of recognised income and costs depends on the moment of early closure in relation to the original contractual maturity of a given transaction and the number of closings performed. As a result, the value of these differences can fluctuate widely between reporting periods.

5.6. Loans, borrowings and bonds

	Non-current		Current		Total	
	31/03/2021 (unaudited)	31/12/2020	31/03/2021 (unaudited)	31/12/2020	31/03/2021 (unaudited)	31/12/2020
Loans	1 498	1 584	2 374	2 282	3 872	3 866
Borrowings	131	115	21	15	152	130
Bonds	8 786	7 731	2 689	2 633	11 475	10 364
	10 415	**9 430**	**5 084**	**4 930**	**15 499**	**14 360**

In the 1st quarter of 2021, as a part of cash flows from financing activities, the Group has made proceeds and repayments of loans from available credit lines in the total amount of PLN 4,304 million and PLN (4,407) million.

As at 31 March 2021, the debt of the ORLEN Group amounted to PLN 15,499 million and was higher by PLN 1,139 million in comparison with the 31 December of 2020 mainly due to the issue of D series of PKN ORLEN's corporate bonds of 25 March 2021 in the amount of PLN 1 billion. Additional information in note 5.12.

As at 31 March 2021 and as at 31 December 2020 the maximum possible indebtedness due to loans amounted to PLN 16,321 million and PLN 16,356 million, respectively. As at 31 March 2021 and as at 31 December 2020 PLN 12,262 million and PLN 12,318 million, respectively, remained unused.

In the period covered by this interim condensed consolidated financial statements, as well as after the reporting date, there were no instances of violation of principal or interest repayment nor breach of loan covenants.

ORLEN ORLEN GROUP (in PLN million)

5.7. Derivatives and other assets and liabilities

Derivatives and other assets

	Non-current		Current		Total	
	31/03/2021 (unaudited)	31/12/2020	31/03/2021 (unaudited)	31/12/2020	31/03/2021 (unaudited)	31/12/2020
Cash flow hedging instruments	76	109	68	60	144	169
currency forwards	76	109	67	54	143	163
commodity swaps	-	-	1	6	1	6
Derivatives not designated as hedge accounting	145	70	795	374	940	444
currency forwards	-	-	21	24	21	24
commodity swaps	-	-	70	33	70	33
currency interest rate swaps	114	53	-	-	114	53
commodity forwards (CO2 futures)	7	2	702	316	709	318
other	24	15	2	1	26	16
Fair value hedging instruments	5	-	17	6	22	6
commodity swaps	5	-	17	6	22	6
Derivatives	**226**	**179**	**880**	**440**	**1 106**	**619**
Other financial assets	103	105	551	530	654	635
receivables on settled derivatives	-	-	4	46	4	46
financial assets measured at fair value through other comprehensive income	67	61	-	-	67	61
hedged item adjustment	-	-	-	2	-	2
security deposits	4	4	518	421	522	425
short-term deposits	-	-	28	60	28	60
loans granted	-	-	1	1	1	1
other	32	40	-	-	32	40
Other non-financial assets	325	308	-	-	325	308
investment property	268	261	-	-	268	261
other	57	47	-	-	57	47
Other assets	**428**	**413**	**551**	**530**	**979**	**943**

** As at 31 March 2021 and as at 31 December 2020, the line investment property includes right-of-use asset in the amount of PLN 50 million and PLN 42 million, respectively.*

Derivatives and other liabilities

	Non-current		Current		Total	
	31/03/2021 (unaudited)	31/12/2020 (restated data)	31/03/2021 (unaudited)	31/12/2020 (restated data)	31/03/2021 (unaudited)	31/12/2020 (restated data)
Cash flow hedging instruments	286	79	91	85	377	164
currency forwards	286	79	40	27	326	106
commodity swaps	-	-	51	58	51	58
Derivatives not designated as hedge accounting	66	59	190	184	256	243
currency forwards	-	-	5	17	5	17
commodity swaps	-	-	143	140	143	140
interest rate swaps	3	5	6	6	9	11
currency interest rate swaps	62	54	36	21	98	75
other	1	-	-	-	1	-
Fair value hedging instruments	-	-	-	1	-	1
commodity swaps	-	-	-	1	-	1
Derivatives	**352**	**138**	**281**	**270**	**633**	**408**
Other financial liabilities	181	175	567	173	748	348
liabilities on settled derivatives	-	-	139	156	139	156
investment liabilities	84	84	-	-	84	84
hedged item adjustment	5	-	17	7	22	7
refund liabilities	-	-	7	6	7	6
security deposits	-	-	400	-	400	-
*other **	92	91	4	4	96	95
Other non-financial liabilities	201	195	872	26	1 073	221
deferred income	201	195	872	26	1 073	221
Other liabilities	**382**	**370**	**1 439**	**199**	**1 821**	**569**

** As at 31 March 2021 and as at 31 December 2020, the line other in non-current other financial liabilities relates mainly to liabilities due to donations in the amount of PLN 26 million and PLN 31 million, and a guarantees in the amount of PLN 42 million and PLN 42 million, respectively.*

Description of changes of derivatives designated as hedge accounting is presented in note 5.4.

(in PLN million)

5.8. Provisions

	Non-current		Current		Total	
	31/03/2021 (unaudited)	31/12/2020	31/03/2021 (unaudited)	31/12/2020	31/03/2021 (unaudited)	31/12/2020
Environmental	1 102	1 101	55	59	1 157	1 160
Jubilee bonuses and post-employment benefits	1 034	1 003	100	97	1 134	1 100
CO_2 emissions, energy certificates	-	-	2 608	1 460	2 608	1 460
Other	163	160	711	684	874	844
	2 299	**2 264**	**3 474**	**2 300**	**5 773**	**4 564**

A detailed description of changes in provision is presented in note 3.2.

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

As compared to the previous reporting period the Group did not change the valuation methods concerning financial instruments. Methods applied in determining the fair value were described in the Consolidated Financial Statements for 2020 in note 16.3.
In the position financial assets measured at fair value through other comprehensive income, quoted/unquoted shares not held for trading are presented. With respect to shares unquoted on active market for which there are no observable inputs, fair value is determined on the basis of expected discounted cash flows.

Fair value hierarchy

	31/03/2021		Fair value hierarchy		
	Carrying amount (unaudited)	Fair value (unaudited)	Level 1	Level 2	Level 3
Financial assets					
Financial assets measured at fair value through other comprehensive income	67	67	27	-	40
Loans granted	1	1	-	1	-
Derivatives	1 106	1 106	-	1 106	-
	1 174	**1 174**	**27**	**1 107**	**40**
Financial liabilities					
Loans	3 872	3 861	-	3 861	-
Borrowings	152	152	-	152	-
Bonds	11 475	11 695	9 505	2 190	-
Derivatives	633	633	-	633	-
	16 132	**16 341**	**9 505**	**6 836**	**-**

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

ORLEN ORLEN GROUP (in PLN million)

5.10. Lease

5.10.1. Group as a lessee

Change in assets due to right-of-use

	Land	Buildings and constructions	Machinery and equipment	Vehicles and other	Total
Net carrying amount at 01/01/2021					
Gross carrying amount	2 732	2 153	138	1 426	**6 449**
Accumulated depreciation	(167)	(377)	(38)	(569)	**(1 151)**
Impairment allowances	(36)	(4)	(2)	(4)	**(46)**
	2 529	**1 772**	**98**	**853**	**5 252**
increases/(decreases), net	**47**	**74**	**3**	**(71)**	**53**
New lease agreements, increase in lease remuneration	74	104	6	80	264
Depreciation	(24)	(46)	(5)	(100)	(175)
Acquisition of subsidiaries	1	1	1	53	56
Sale of subsidiary	-	-	-	(107)	(107)
Other	(4)	15	1	3	15
	2 576	**1 846**	**101**	**782**	**5 305**
Net carrying amount at 31/03/2021 (unaudited)					
Gross carrying amount	2 801	2 273	146	1 415	6 635
Accumulated depreciation	(189)	(423)	(43)	(629)	(1 284)
Impairment allowances	(36)	(4)	(2)	(4)	(46)
	2 576	**1 846**	**101**	**782**	**5 305**
Net carrying amount at 01/01/2020					
Gross carrying amount	1 795	1 685	125	1 012	**4 617**
Accumulated depreciation	(81)	(205)	(24)	(322)	**(632)**
Impairment allowances	(24)	(5)	(2)	(2)	**(33)**
	1 690	**1 475**	**99**	**688**	**3 952**
increases/(decreases), net	**839**	**297**	**(1)**	**165**	**1 300**
New lease agreements, increase in lease remuneration	204	308	11	529	1 052
Depreciation	(86)	(165)	(20)	(359)	(630)
Net impairment allowances	(12)	1	-	(2)	(13)
Acquisition of subsidiaries	731	92	7	21	851
Other	2	61	1	(24)	40
Net carrying amount at 31/12/2020	**2 529**	**1 772**	**98**	**853**	**5 252**

The total value of expenses from lease agreements presented in financing and operating activities in the statement of cash flows in the 3-month period ended 31 March 2021 and 31 March 2020 amounted to PLN (346) million and PLN (276) million, respectively.

Amounts from lease contracts recognised in the statement of profit or loss and other comprehensive income

		3 MONTHS ENDED 31/03/2021 (unaudited)	3 MONTHS ENDED 31/03/2020 (unaudited)
Costs due to:		**(78)**	**(67)**
interest on lease	Finance costs	(39)	(26)
short-term lease	Cost by nature: External Services	(33)	(29)
lease of low-value assets that are not short-term lease	Cost by nature: External Services	(1)	(2)
variable lease payments not recognised in valuation of lease liabilities	Cost by nature: External Services	(5)	(10)

5.10.2. Group as a lessor

The Group classifies leases as finance or operating lease at the commencement date.
In order to make the above classification the Group assesses whether it transfers substantially all the risks and rewards incidental to ownership of an underlying asset to a lessee. If the entire risk and benefits were transferred to a lessee, the lease is classified as a finance lease, otherwise - as an operating lease.

Financial lease

The Group as a lessor in finance lease in accordance with IFRS 16 subleasing agreements in the ORLEN Unipetrol Group for which the value of lease payments due as at 31 March 2021 and as at 31 December 2020 amounted to PLN 11 million and PLN 22 million, respectively.

Operating lease

Assets transferred by the Group to other entities for use under an operating lease agreement are classified as the Group's assets. Lease payments under operating leases are recognised as revenues from the sale of products and services on a straight-line basis over the lease period.
Revenues from operating lease for the 3-month period ended 31 March 2021 and 31 March 2020 amounted to PLN 65 million and PLN 58 million, respectively.

5.11. Future commitments resulting from signed investment contracts

As at 31 March 2021 and as at 31 December 2020 the value of future commitments resulting from investment contracts signed until that day amounted to PLN 9,382 million and PLN 9,202 million, respectively.

5.12. Issue, redemption and repayment of debt securities

In the 1st quarter of 2021:
a) in PKN ORLEN under:
- the second public bond issue program, A-E Series remains open with a total nominal value of PLN 1 billion;
- the non-public bond issue on the domestic market (active since 2006) C Series with a nominal value of PLN 1 billion and series D with a nominal value of PLN 1 billion was issued.

b) in ORLEN Capital under:
- remains open Eurobond issue with a nominal value of EUR 500 million;
- remains open Eurobond issue with a nominal value of EUR 750 million

c) in ENERGA Group under:
- the bond issue, a series program remains open with a nominal value of EUR 300 million
- the subscription agreement and the project agreement concluded with the EIB, two series of subordinated bonds remain open with a total nominal value of EUR 250 million.

5.13. Proposal to cover Parent Company's net loss for 2020 and the dividend payment in 2021

The Management Board of PKN ORLEN recommends to cover the net loss in the amount of PLN 2,355,671,374.21 from the Parent Company reserve capital. Taking into account the implementation of a dividend policy, resulting from the adopted by PKN ORLEN Strategy for 2021-2030, the Management Board of PKN ORLEN recommends the amount of PLN 1,496,981,713.50 for dividend payment (PLN 3.50 per share) from the Company's reserve capital from the previous year's profit.
The Management Board of PKN ORLEN proposes 22 July 2021 as the dividend day and 5 August 2021 as the dividend payment date. The recommendation of the Management Board will be presented to the Ordinary General Shareholders' Meeting of PKN ORLEN, which will make a conclusive decision in this matter.

5.14. Contingent assets

In accordance with the information published in the Financial Statements of PKN ORLEN and ORLEN Group for 2019 and 2020, PERN S.A. informed PKN ORLEN about differences in the quantity of the operating stock of crude oil REBCO-type (Russian Export Blend Crude Oil) in connection with the inventory of crude oil stocks supplied by the tank farm in Adamów, carried out by PERN S.A. as a pipeline system operator. At the same time, PERN indicated another shortage in the amount of PKN ORLEN's crude oil supply delivered by sea through the PERN Manipulation Base in Gdańsk, made an unilateral adjustment of the REBCO crude oil inventory balance.

PERN S.A. maintains that the reason for the change in operating stocks is the difference in methodology of calculating the quantity of crude oil REBCO-type delivered by the tank storage in Adamów and crude oil delivered by sea. As at 31 March 2021, according to received confirmation from PERN S.A., PKN ORLEN's operating stock of crude oil REBCO-type amounted to 651.650 net metric tons. The difference in the quantity of stocks increased by 1.901 net metric tons in comparison to 2020 and amounted to 92.309 net metric tons.

PKN ORLEN does not agree with PERN S.A position, because in its opinion it remains unfounded, unproven and inconsistent with the agreements binding PKN ORLEN and PERN S.A., and the existing methodology used for calculating the quantity of crude oil REBCO-type and crude oil delivered by sea through the PERN Manipulation Base in Gdańsk and submitted by PERN S.A. to PKN ORLEN is correct and has never been questioned before. PKN ORLEN is currently analysing the possibilities of taking appropriate legal steps related to the information provided by PERN S.A. and reserves the right to take any actions aimed at protecting legitimate interests of PKN ORLEN, including pursuing claims related to the information provided by PERN S.A. about the quantity of PKN ORLEN's operating stock of crude oil REBCO-type.

In the opinion of PKN ORLEN the amount of adjustment of inventories recognised in 2019 and 2020 and in 3-month period of 2021 in the amount of PLN (159) million is also a contingent asset of PKN ORLEN.

5.15. Contingent liabilities

Information concerning significant proceedings in front of court, body appropriate for arbitration proceedings or in front of administration bodies in which the companies of the ORLEN Group act as the defendant:

I.P.-95 s.r.o. compensation claim against ORLEN Unipetrol RPA s.r.o.

On 23 May 2012, ORLEN Unipetrol RPA s.r.o. received from the District Court in Ostrava a claim brought by I.P.-95 s.r.o. for compensation related to the filing by ORLEN Unipetrol RPA s.r.o. a motion for bankruptcy of I.P.-95 s.r.o. in November 2009. The total amount of the claim is approximately PLN 319 million, translated using the exchange rate as at 31 March 2021 (representing CZK 1,789 million). ORLEN Unipetrol RPA s.r.o. is one of eight defendants which were jointly and severally claimed. At the request of the I.P.-95 s.r.o proceeding was pending concerning the accession to the claim as plaintiff NESTARMO TRADING LIMITED. The court refused the Company permission to enter to the case. In February 2018, the court dismissed in entirety claim ruling in favour of ORLEN Unipetrol RPA s.r.o. On 3 April 2018, I.P.-95 s.r.o. appealed against the decision of the court of first instance. On 22 May 2018, the District Court in Ostrava obliged I.P. - 95 s.r.o. to pay the appeal fee. On 11 December 2018, the court of second instance dismissed the appeal of I.P.-95 s.r.o. from the judgment of the District Court in Ostrava. The judgment is binding. On 20 March 2019 I.P. - 95 s.r.o. filed a cassation appeal against the judgment of the court of second instance. According to ORLEN Unipetrol RPA s.r.o. the claim is without merit.

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

On 5 September 2014, OBR S.A. (currently: Warter Fuels S.A.) filled an action against PKN ORLEN with the District Court in Łódź for a claim for payment in respect of an alleged breach by PKN ORLEN of patent rights. The amount of the claim in the lawsuit was estimated by Warter Fuels S.A. in the amount of approximately PLN 84 million. The claim covers the adjudged sum of money from PKN ORLEN for Warter Fuels S.A. in the amount corresponding to the value of the license fee for the use of the solution under the above patent and adjudge the obligation to repay the benefits derived from the use of this solution. On 16 October 2014 PKN ORLEN responded to the lawsuit. By the procedural document from 11 December 2014 the value of the dispute was referred to by the plaintiff in the amount of approximately PLN 247 million. So far, several hearings have been held (last on 28 September 2018), during which witnesses submitted by the parties were heard by the court. On 19 December 2018, a hearing took place, during which the Court heard the parties' position in the scope of the grounds for any repeal of the freezing order. By a decision of 2 January 2019 the Regional Court set aside the order granting security for claims. Warter Fuels S.A. submitted a complaint against this decision on 5 February 2019. PKN ORLEN submitted a response to the complaint. The matter of complaint consideration is at the stage of secondary proceedings, i.e. before the Court of Appeal in Łódź. The freezing order has been legally repealed.
The PKN ORLEN attorney submitted a request to suspend the proceedings due to parallel proceedings for determining the right to the disputed patent, the outcome of which will have significance for the resolution in the case of breach. The request has not been considered yet. The court is currently looking for an expert or institute to issue an opinion also among foreign entities, hence the translation of part of the case documentation into German was commissioned. A full assessment of the risk of an unsuccessful decision may be made at a later stage of the proceedings, taking into account the arguments of PKN ORLEN. In the opinion of PKN ORLEN the claims of Warter Fuels S.A. are without merit.

UAB Baltpool claim against ORLEN Lietuva

In May 2019, UAB Baltpool (an entity administering the funds and responsible for collecting fees for so-called Public Service Obligation in Lithuania) filed a claim against ORLEN Lietuva for payment of system fees (so–called PSO fees) related to electricity consumption for the period from February 2013 to March 2019 (excluding May 2017). The claim relates to unpaid by ORLEN Lietuva system fees on the amount of electricity generated and consumed by ORLEN Lietuva for own needs. ORLEN Lietuva believes, that such system fees (self-producer fees) are not due.

The case is connected with 8 administrative cases brought by ORLEN Lietuva (since 2013), in which ORLEN Lietuva challenges the legality of charging PSO on electricity generated and consumed for own needs. All these administrative cases are suspended in connection with proceedings pending before the Court of Justice of the EU. The outcome of the case brought by UAB Baltpool depends on a large extent on the outcome of these administrative proceedings and proceedings before the Court of Justice of the EU. The Court of Justice of the EU decided, that the Lithuanian PSO program constitutes the nature of state aid. In order to participate in the PSO fee reimbursement plan, which starts on 1 July 2020, the Supervisory Board of ORLEN Lietuva decided to settle the arrears. A reduction of overdue interest was negotiated. On 25 June 2020, ORLEN Lietuva settled the arrears in the amount of PLN 64 million, translated at the exchange rate as at 31 March 2021 (i.e EUR 13.7 million), which is equivalent to the total dispute value as at 31 December 2020. UAB Baltpool withdrew the lawsuit which was confirmed by the court decision of 3 November 2020. Therefore ORLEN Lietuva will participate in the PSO reimbursement plan, as one of the conditions of participation is lack of debt to UAB Baltpool. The case that concerns PSO for 2017 is in the appeal instance. The date of the appeal hearing is not yet determined. If ORLEN Lietuva wins the case, the PSO paid to date will be returned to ORLEN Lietuva by the State Treasury. In the opinion of the ORLEN Lietuva the claims are without merit.

POLWAX S.A. - ORLEN Projekt S.A. dispute

On 19 April 2019 ORLEN Projekt filed a claim against POLWAX with the District Court in Rzeszów for payment of the amount of PLN 6.7 million together with due statutory interest for delay in commercial transactions in respect of remuneration for performed and received by POLWAX construction works in connection with the Agreement concluded on 7 April 2017 for "Construction and start-up of the paraffin wax solvent deoiling installation together with auxiliary installations for POLWAX .S.A.". On 23 May 2019 the Court issued a warrant for payment to ORLEN Projekt in a writ of payment proceedings covering the entire amount claimed, thanks to which ORLEN Projekt obtained subsequently a bailiff's security for this amount on the POLWAX bank account. The motion submitted by POLWAX for overturning the warrant of payment was dismissed by the decision of the Court of First Instance. POLWAX appealed against the decision of the Court of First Instance, however on 16 March 2020 the Court of Appeal in Rzeszów issued a decision rejecting POLWAX's complaint. The lawsuit's files were transferred back to the District Court in order to carry on evidence proceeding. On 27 November 2020, the District Court issued a judgment in the case, according to which (i) upheld the payment order of 23 May 2019 for the most part, i.e. in full for the main claim in the amount of PLN 6.7 million and with regard to overdue interest for delay in commercial transactions from 1 October 2019 to the date of payment; (ii) revoked the order for payment issued dated on 23 May 2019 for the payment of overdue interest, i.e. in the amount of PLN 2.9 million from 11 January 2019 to 1 October 2019 and in the amount of PLN 3.7 million from 25 January 2019 to 1 October 2019; (iii) ordered POLWAX to pay to ORLEN Projekt additional litigation costs. On 22 February 2021 ORLEN Projekt filed an appeal against the judgment, objecting to it in the part in which the Court revoked the payment order as regards the payment of statutory interest for delay in commercial transactions from the amounts: (i) PLN 2.9 million from 11 January 2019 to 1 October 2019 and (ii) PLN 3.7 million from 25 January 2019 to 1 October 2019.

On 31 May 2019 ORLEN Projekt filed another claim against POLWAX with the District Court in Rzeszów for payment of further PLN 6.5 million together with due statutory interest for delay in commercial transactions in respect of further part of remuneration for performed and received by POLWAX construction works. This claim was then extended three times 1) the extension of the claim as at 20 September 2019 by the amount of PLN 13.9 million for groundless reimbursement of a performance guarantee and covering the costs of its execution, and 2) the extension of the claim as at 6 November 2019 by the amount of PLN 25 million for other claims related to withdrawal from the Agreement by ORLEN Projekt due to POLWAX's fault and (3) the extension of the claim as at 19 February 2021 for the amount of PLN 22.5 million for further claims related to termination of the Agreement by ORLEN Projekt due to fault of POLWAX, up to the total amount of PLN 67.9 million. Further hearings are scheduled for May and June 2021.

On 2 March 2020, POLWAX filed a lawsuit against ORLEN Projekt with the District Court in Rzeszów for payment of PLN 132 million plus accrued interest for delay. The total amount investigated by the defendant includes PLN 84 million for damage in the form of actual loss to be incurred by POLWAX and PLN 48 million for lost benefits resulting from improper performance and failure to perform the Agreement by ORLEN Projekt.

In the opinion of ORLEN Projekt, the POLWAX claims pursued by the lawsuit are unfounded, therefore in response to the lawsuit dated 3 September 2020 ORLEN Projekt requested to dismiss the claim in its entirety.

According to the information held by ORLEN Projekt, before filing the lawsuit, POLWAX filed a request to the District Court in Rzeszów for securing the claims it intended to pursue from ORLEN Projekt, however, the Court entirely dismissed the request by the order as at 6 February 2020. The Court dismissed the request in its entirely. Following POLWAX's filing of a letter entitled extension of claim together with a reply to the statement of defence, ORLEN Projekt requested that the extension of claim is declared inadmissible. On 25 February 2021 the District Court in Rzeszów supported ORLEN Projekt's motion and issued a decision declaring the extension of POLWAX's claim by PLN 2 million as inadmissible. The date of the preparatory hearing in the case was set for 19 May 2021.

On 11 March 2020, POLWAX filed a lawsuit against ORLEN Projekt with the District Court in Rzeszów for payment of PLN 9.7 million plus accrued interest for late payment: (i) reimbursement of costs of removal and disposal of waste in the form of contaminated land from the Project area, and (ii) non-contractual storage of land from the Project area on plot no. 3762/70 belonging to POLWAX. In the opinion of ORLEN Projekt, the POLWAX claims pursued by the above lawsuit are unfounded, hence in response to the lawsuit of 19 June 2020 ORLEN Projekt requested to dismiss the claim in its entirety. The case was suspended at the joint request of the parties. By letter dated 1 March 2021 POLWAX requested that the suspended proceedings be resumed. On 17 March 2021, the Court issued a decision to resume the suspended proceedings, setting the date of the preparatory hearing in the case for 14 June 2021.

On 22 June 2020 a copy of another suit filed by POLWAX with the District Court in Tychy was delivered to ORLEN Projekt. Within the framework of the filed lawsuit POLWAX demanded that the Court obliges ORLEN Projekt to restore the legal status by emptying warehouses transferred to ORLEN Projekt in order to store equipment and materials for the purposes of the conducted investment. On 3 July 2020 the Court extended the deadline for ORLEN Projekt to submit a response to the lawsuit to 24 July 2020. On 24 July 2020 ORLEN Projekt submitted a response to the statement of claim in this case, requesting that the claim be dismissed as unfounded in its entirety. By order of 16 August 2020 the court directed the case to mediation, which both parties agreed to. On 9 April 2021, the mediator prepared a protocol on the conclusion of the mediation, returning the files to the District Court in Tychy for further proceedings in the case.

As a result of the above, the company recognised in the contingent liabilities resulting from the debit notes issued by POLWAX, the amount of potential contractual penalties in the amount of PLN 20.7 million, costs related to the export and development of waste material in the amount of PLN 9.7 million and remuneration for non-contractual use of the property in the amount of PLN 0.2 million.

ORLEN Projekt challenges the legitimacy of the above-mentioned notes and the legal grounds for their issuance, emphasizing that they were issued after the company withdrew from the contract due to the Investor's fault and without any legal basis. In the opinion of ORLEN Projekt, the claim is without merit, therefore the company did not recognise the provision.

Technip Italy S.p.A. v ORLEN UNIPETROL RPA, s.r.o.

In connection with the delay in execution of the Agreement concluded between Technip Italy S.p.A. ("Technip") and ORLEN UNIPETROL for the construction of the Polyethylene Plant in Litvinov, Technip was obliged to pay contractual penalties for the delay in the amount of PLN 107 million, translated using the exchange rate as at 31 March 2021 (representing EUR 23 million). Technip did not pay the above mentioned contractual penalties to ORLEN UNIPETROL, therefore ORLEN UNIPETROL activated the bank guarantee in the amount of PLN 98 million, translated using the exchange rate as at 31 March 2021 (representing EUR 21 million).

On 17 August 2020, Technip called for arbitration. In November 2020, ORLEN UNIPETROL claimed an offset of the remaining contractual interest from the invoice issued by Technip for the remaining part of the contractual remuneration: the outstanding amount of contractual interest for delay is PLN 8.3 million translated using the exchange rate as at 31 March 2021 (corresponding to EUR 1.8 million).

On 30 November 2020, ORLEN UNIPETROL submitted a reply to the statement of claim and filed a counterclaim for the outstanding contractual interest for delay in the amount of PLN 8.3 million translated using the exchange rate as at 31 March 2021 (corresponding to EUR 1.8 million).

On 5 January 2021, Technip submitted an amendment to the demand for arbitration increasing the total amount of the claim to PLN 134 million translated using the exchange rate of 31 March 2021 (corresponding to EUR 28.8 million).

Technip, by filing for arbitration taking into account the submitted amendment, intends to obtain:

a. payment of the amount of PLN 99 million, translated using the exchange rate as at 31 March 2021 (corresponding to EUR 21.3 million), representing the amount of unjustified payment under the bank guarantee by ORLEN UNIPETROL;
b. payment of the amount of PLN 34 million, translated using the exchange rate as at 31 March 2021 (corresponding to EUR 7.3 million) representing additional claims of Technip based on various circumstances and legal grounds mainly concerning works, additional services provided by Technip in connection with the Polyethylene Plant construction project;
c. payment of the amount of PLN 0.9 million, translated using the exchange rate as at 31 March 2021 (corresponding to EUR 0.2 million) from the invoice issued by Technip, representing the remaining part of the contractual remuneration (which was offset by ORLEN UNIPETROL in November 2020);
d. payment of the amount of statutory interest for the entire due payment;
e. dismissal of ORLEN UNIPETROL's counterclaim.

The arbitration proceedings are pending before the Court of Arbitration at the International Chamber of Commerce in Vienna. In the opinion of ORLEN UNIPETROL RPA s.r.o., Technip's claim is without merit.

Contingent liabilities related to the ENERGA Group

As at 31 March 2021, the ENERGA Group recognised in this interim condensed consolidated financial statement of the ORLEN Group amounted to PLN 285 million.

The largest item of contingent liabilities of the ENERGA Group consists of legal claims relating to the power infrastructure of Energa-Operator SA located on private land. The Group recognises provisions for filed legal claims. If there is uncertainty as to the validity of the amount of the claim or legal title to land, the Group recognises contingent liabilities. As at 31 March 2021, the estimated value of those claims recognised as contingent liabilities amounts to PLN 248 million. Considering the legal opinions, the estimated amounts represent a risk of liability of less than 50%.

Another issue is the contract for co-finance the project entitled “Construction of a biomass-fired power unit by Energa Kogeneracja Sp. z o.o. in Elbląg” which sets out the performance ratios relating to the volume of electricity and heat produced in the years 2014-2018. In order to secure the performance of obligations under the co-financing agreement Energa Kogeneracja Sp. z o.o. issued a blank bill for up to PLN 40 million including interest.

Arbitration procedure brought by Elektrobudowa S.A. against PKN ORLEN

Elektrobudowa S.A. filed an action against PKN ORLEN with the Arbitration Tribunal of the Polish Consulting Engineers and Experts Association (SIDiR) of Warsaw (case No. P/SA/5/2019), seeking payment of a total of PLN 104 million and EUR 11.5 million. The case concerns performance of the EPC contract between PKN ORLEN S.A. and Elektrobudowa S.A. for the construction of a metathesis unit. The amount in dispute includes:

1) consideration of PLN 20.6 million and EUR 7.6 million plus statutory default interest, alleged to be payable under the EPC Contract to Elektrobudowa S.A. or, alternatively, to Citibank if the consideration is found to be payable to Citibank following assignment;
2) a fee of PLN 7.8 million and EUR 1.26 million plus statutory default interest accrued since 23 October 2018 for additional and substitute works, alleged to be payable to Elektrobudowa S.A. or Citibank (see above);
3) a claim of PLN 62.4 plus statutory default interest accrued since 27 December 2019, alleged to be payable to Elektrobudowa S.A. or Citibank (see above) on top of the lump-sum consideration payable thereto;
4) compensation of PLN 13.2 million and EUR 2.6 million plus statutory default interest accrued since 25 October 2019, alleged to be payable to Elektrobudowa S.A. for the harm it suffered as a result of wrongful drawdown of funds by PKN ORLEN under bank guarantees.

On 17 April 2020, PKN ORLEN submitted its defence. The Arbitration Tribunal has issued two rulings:

(I) The interim judgement of 7 January 2021, which concerns Electrobudowa S.A.'s claims for recovery of PLN 0.3 million for the development of the 'Post-overhaul Unit Commissioning and Start-up Manual' (the "Manual") and for recovery of a PLN 0.1 million surcharge for delivery of a stainless steel FA-2202 Nitrogen Treater adsorption unit in place of a carbon steel one (the "Adsorption Unit").
In the judgement, the Arbitration Panel found both these claims to be justified in principle. The judgement is not dispositive as to whether PKN ORLEN is liable to pay the plaintiff PLN 0.3 million in consideration for the development of the Manual and/or the PLN 0.1 million surcharge for delivery of the Adsorption Unit but establishes, in view of the Panel's findings, that Elektrobudowa S.A. may reasonably expect to be paid by PKN ORLEN for rendering the aforesaid additional and/or substitute performance.
The exact amounts of the payments due to Elektrobudowa S.A. from PKN ORLEN for that performance are to be determined at the next stage of the ongoing proceedings. Accordingly, on 18 January 2021 the Arbitration Panel decided to admit expert evidence in order to determine the value of the Manual as developed by Elektrobudowa S.A. and the amount of the surcharge due for delivery of the stainless steel Adsorption Unit in place of a carbon steel one.

(II) The partial judgement of 8 January 2021, which concerns PKN ORLEN's counterclaim for reduction of the consideration due to Elektrobudowa S.A. by a total of PLN 0.01 million and EUR 4.6 million on account of defects found in the K-2302A and K-2302B compressors and in the drinking and utility water pipelines. The Arbitration Tribunal dismissed the PKN ORLEN's counterclaim, made under the implied warranty statute, for reduction by a total of PLN 0.01 million and EUR 4.6 million of the lump-sum consideration due to the plaintiff for delivery of the K-2302A and K-2302B compressors with a shaft power of 11.4 kW and for the construction of the PEHD drinking and utility water pipelines under the 'Engineering, Procurement and Construction (Turnkey) Contract for a Metathesis Unit at Polski Koncern Naftowy ORLEN's Production Plant in Płock' of 1 August 2016, having found the counterclaim to be without merit. The partial judgement is not equivalent to an actual award of PLN 0.01 million and EUR 4.6 milllion to the plaintiff against PKN ORLEN as the Arbitration Tribunal did not rule on whether the plaintiff had standing to claim payment of those amounts as part of the consideration due under the Contract, nor is to equivalent to a ruling that PKN ORLEN's notice of reduction under the implied warranty statute of the contractual consideration by the same amounts on account of defects in contract deliverables should be deemed ineffective.

(III) The partial judgement (No. 2) of 3 February 2021, the Court awarded PKN ORLEN for Elektrobudowa the amount of PLN 4.3 million (17 invoices) and the amount of PLN 7 million (equivalent to EUR 1.62 million- 5 invoices) for VAT (in total: PLN 11.3 million), together with statutory interest for delay, and determined that the deductions made by the defendant were unjustified for the amount of EUR 0.7 million and the amount of PLN 3.5 million. As regards part of the invoices, the Court stated that they had not been paid without explaining the reasons for their payment. Moreover, the Court stated that the EPC Agreement allowed only deductions to be made to the net value. Therefore, it concluded that VAT, as a public law debt, cannot be set off against a civil law debt and such amounts cannot be retained.

(IV) The partial judgement (No. 3) of 3 February 2021 ordering PKN ORLEN to pay the bankruptcy trustee the total amount of PLN 1.2 million net for partial payment of contractual remuneration (6 invoices), including statutory interest for delay until the date of payment. The court ruled on 6 invoices which were already examined in the partial judgment (no. 2). The court stated that PKN ORLEN did not indicate why the amounts were not paid. It also stated that the lawsuit was limited and that it does not include the amounts retained as a substitute deposit related to the failure to submit the Performance Guarantee during the guarantee period. However, the Court awarded the trustee the amount of PLN 1.2 million.

(V) The partial judgement (No. 4) of 3 February 2021 ordering the defendant to pay the plaintiff in the total amount of PLN 2.1 million and the amount of EUR 1.4 million for partial payment of contractual remuneration, together with statutory interest for delay until the date of payment and establishing the unjustified deductions made by the defendant for contractual penalties in the amount of EUR 1.9 million. The judgment concerns the amounts deducted by PKN ORLEN in connection with the imposition of contractual penalties for the late performance of the EPC agreement with regard to intermediate deadlines. The court found that:

- contractual penalty for delay in providing the documentation was partially incorrectly charged, and therefore awarded the plaintiff the amounts deducted in connection with the incorrectly calculated penalty;
- contractual penalty for delay in delivery of the OCU reactor is justified and dismissed the claim for payment of remuneration to the extent that it was deducted to cover this contractual penalty;
- contractual penalty for delay in delivery of the Cold Station was calculated incorrectly and awarded Elektrobudowa claims for the remuneration deducted to satisfy this contractual penalty.

(VI) The partial judgement (No. 5) of 12 February 2021 ordering the defendant to pay the plaintiff in the total amount of PLN 1.3 million and the amount of EUR 2.5 million for partial payment of contractual remuneration (part of the net receivables resulting from 6 invoices, the VAT amounts of which were previously ordered in partial judgement No. 2), together with statutory interest for delay until the date.

PKN ORLEN is not entitled to any appeal against the abovementioned judgements in the proceedings before the Court of Arbitration. At the time of publication of this interim condensed consolidated financial statements, on the basis of the abovementioned judgements PKN ORLEN is obliged to pay to the bankruptcy trustee of Elektrobudowa S.A. approximately PLN 59 million with interest. As at 31 March 2021 for amounts not yet covered by the judgements, the ORLEN Group recognised provisions the amount of PLN 22 million.

ORLEN ORLEN GROUP (in PLN million)

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

5.16. Related parties transactions

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

As at 31 March 2021 and as at 31 December 2020 and in the 3-month period ended 31 March 2021 and 31 March 2020, on the basis of submitted declarations, there were no transactions of related parties of the ORLEN Group with the Members of the Management Board and the Supervisory Board of the Parent Company.

In the 3-month period ended 31 March 2021, on the basis of submitted declarations, there were mainly sales transactions of logistic services of the member of key executive personnel and their relatives with related parties of the ORLEN Group and the total value of sales in this period amounted to PLN 657 thousand, value of purchases in this period amounted to PLN 0.3 thousand.

In the 3-month period ended 31 March 2020 on the basis of submitted declarations there were no sales of the member of key executive personnel and their relatives with related parties of the ORLEN Group, and purchases amounted to PLN 4 thousand.

As at 31 March 2021 balances of the trade and other liabilities due to the above transactions amounted to PLN 29 thousand and as at 31 March 2020 the balance was not significant.

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

	3 MONTHS ENDED 31/03/2021 (unaudited)	3 MONTHS ENDED 31/03/2020 (unaudited)
Parent Company		
Short-term employee benefits	12.2	11.1
Termination benefits	-	1.3
Subsidiaries		
Short-term employee benefits	71.3	41.6
Post-employment benefits	0.2	0.1
Other long term employee benefits	0.2	0.1
Termination benefits	2.0	0.9
	85.9	**55.1**

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

The increase in the remuneration of key executive personnel in the 3-month period ended 31 March 2021 in comparison to the corresponding period of the previous year is related to new acquisitions in the ORLEN Group in the amount of PLN 25 million.

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

	Sales		Purchases	
	3 MONTHS ENDED 31/03/2021 (unaudited)	3 MONTHS ENDED 31/03/2020 (unaudited)	3 MONTHS ENDED 31/03/2021 (unaudited)	3 MONTHS ENDED 31/03/2020 (unaudited)
Jointly-controlled entities	**714**	**734**	**(75)**	**(35)**
joint ventures	*684*	*696*	*(58)*	*(12)*
joint operations	*30*	*38*	*(17)*	*(23)*
	714	**734**	**(75)**	**(35)**

	Trade and other receivables		Trade and other liabilities	
	31/03/2021 (unaudited)	31/12/2020	31/03/2021 (unaudited)	31/12/2020
Jointly-controlled entities	**379**	**394**	**43**	**91**
joint ventures	*362*	*383*	*19*	*70*
joint operations	*17*	*11*	*24*	*21*
	379	**394**	**43**	**91**

The above transactions with related parties include mainly sales and purchases of refinery and petrochemicals products and services. During the 3-month period ended 31 March 2021 and 31 March 2020 there were no related parties transactions within the Group concluded on other than an arm's length basis.

Additionally, during the 3-month period ended 31 March 2021, based on submitted declarations, there were transactions between entities, in which key positions were held by close relatives with the other key management personnel of the Parent Company and entities of the ORLEN Group.

In the 3-month period ended 31 March 2021 and as at 31 March 2021, the Group identified the following transactions:

ORLEN GROUP (in PLN million)

- sale and purchase amounted to PLN 0.2 million and PLN (0.1) million, respectively;
- balance of receivables amounted to PLN 0.08 million.

The above transactions concerned mainly the purchases and sales of fuels and diesel oil.

5.16.4. Transactions with entities related to the State Treasury

As at 31 March 2021 and as at 31 December 2020, the State Treasury owns 27.52% of the Parent Company's shares - PKN ORLEN and has ability to exert a significant influence on it.
The Group identified transactions with related parties with the State Treasury on the basis of "Companies with State Treasury share" from the website of the Prime Minister's Office.

During the 3-month period ended 31 March 2021 and 31 March 2020 and as at 31 March 2021 and as at 31 December 2020, the Group identified the following transactions:

	3 MONTHS ENDED 31/03/2021 (unaudited)	3 MONTHS ENDED 31/03/2020 (unaudited)
Sales	814	492
Purchases	(1 491)	(1 384)

	31/03/2021 (unaudited)	31/12/2020
Trade and other receivables	441	653
Trade and other liabilities	734	592

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

5.17. Guarantees

Excise tax guarantees and excise tax on goods and merchandise under the excise tax suspension procedure as at 31 March 2021 and as at 31 December 2020 amounted to PLN 2,646 million and PLN 2,483 million, respectively.

5.18. Events after the end of the reporting period

After the end of the reporting period there were no events required to be included in this interim condensed consolidated financial statements.

OTHER INFORMATION TO CONSOLIDATED QUARTERLY REPORT

FOR THE 3 MONTH PERIOD ENDED 31 MARCH 2021

B. OTHER INFORMATION TO CONSOLIDATED QUARTERLY REPORT

1. Major factors having impact on EBITDA and EBITDA LIFO

Profit or loss for the 3 months of 2021

Result from operations increased by depreciation and amortisation (so-called EBITDA) in the 1st quarter of 2021 amounted to PLN 3,533 million by PLN (969) million in comparison period of 2020.
In the 1st quarter of 2021 the net impairment allowances of property, plant and equipment and intangible assets was not significant and amounted to PLN (4) million. On the other hand, in the 1st quarter of 2020 the impact of the above-mentioned impairment allowances amounted to PLN (504) million and mainly related to the Upstream segment assets in Canada and Poland in connection with the update of hydrocarbon prices.
The presented EBITDA of the 1st quarter of 2020 includes additionally negative impact of PLN (2,017) million due to the revaluation of inventories to net realisable value in accordance with IAS 2 Inventories due to a sharp drop in oil prices and product quotations in March 2020.
The ORLEN Group in the financial statements measures the main groups of inventories using weighted average method or by purchase price. In the case of the of coal inventories the "first in first out" (FIFO) method for measurement of consumption is used.
In the case of the weighted average cost, an increase in crude oil prices in comparison to the valuation of crude oil according to LIFO method has a positive impact and the decrease has a negative impact on the reported results of EBITDA.

The impact of rising crude oil prices in the 1st quarter of 2021 on the valuation of inventories recognised in the EBITDA result amounted to PLN 1,142 million.
As a result, profit from operations increased by depreciation and amortisation before consideration of impact of changes in crude oil prices on inventory valuation (so-called EBITDA LIFO) and impairment allowances of assets amounted to PLN 2,395 million and was higher by PLN 788 million.

The negative impact of macroeconomic factors amounted to PLN (1,324) million (y/y) and mainly included settlement and valuation of derivative financial instruments. In the 1st quarter of 2020 there was significant decrease in the prices of crude oil and products, which had a positive impact on hedging transactions, while in the 1st quarter of 2021, with an increase in quotations, the effect of the above-mentioned transaction was negative.
In the current year, a positive effect of the valuation and settlement of CO_2 future contracts was also recognised as a part of separated transaction portfolio.
Additionally, the negative impact of a lower Ural / Brent differential by USD 0.9/bbl, lower margins on medium distillates and olefins and the effect of a stronger increase in gas prices compared to electricity prices in the Energy segment was also visible.
The negative impact of above macroeconomic factors was partially compensated by an increase in margins on light distillates, heavy refining fractions, polyolefins, fertilizers and PVC, and PLN depreciation mainly against EUR.

The prevailing market restriction in the 1st quarter of 2021 caused by the COVID-19 pandemic on all operating markets of the ORLEN Group affected on the reduction of sales volumes by (11)% (y/y), including refinery volumes by (11)% (y/y), petrochemical by (2)% (y/y), retail by (13)% (y/y) and upstream by (24)% (y/y). The above changes in sales trends resulted in a negative volume effect in the amount of PLN (828) million (y/y).

The positive impact of the other factors amounted to PLN 2,940 million (y/y) and included mainly:
- PLN 1,802 million – lack of negative impact of revaluation of inventories to net realisable value from the 1st quarter of 2020. Impact of revaluation of inventories in the 1st quarter of 2021 was positive and amounted to PLN 193 million and by PLN (1,609) million in comparison period of 2020,
- PLN 813 million (y/y) - positive impact of the use of historical inventory layers in connection with the maintenance shutdowns of installations,
- PLN 790 million (y/y) – including the results of the ENERGA Group in the consolidation,
- PLN (465) million (y/y) - other elements, including mainly lower trade margins in wholesale and retail, higher labour costs and updating provision for CO_2 emissions.

2. The most significant events in the period from 1 January 2021 up to the date of preparation of this report

JANUARY 2021

Signing a joint venture agreement with NP BALTIC WIND B.V. as a branch investor to the realization of off-shore wind power plants by Baltic Power sp. z o.o.

PKN ORLEN announced that on 29 January 2021 between PKN ORLEN, Baltic Power sp. z o.o. („Baltic Power") and NP BALTIC WIND B.V. headquartered in Amsterdam, the Netherlands ("NP BALTIC WIND B.V."), a company from the Northland Power Inc capital group, there has been signed a joint venture agreement to gain a branch investor to the realization of the common investment ("Agreement"). The subject matter of the Agreement is to prepare, build and operate by Baltic Power an offshore wind farm located in the Polish Exclusive Economic Zone on the Baltic Sea with a

maximum power up to 1200 MW. Start of construction of the offshore wind farm is planned for 2023 and commercial operations is planned for 2026. The Agreement has been signed for 35 years period, after that it is transformed into an agreement for indefinite period.
According to the Agreement's provisions NP BALTIC WIND B.V. will ultimately acquire 49% of shares in Baltic Power, the remaining 51% of shares in Baltic Power will stay in possession of PKN ORLEN. As a part of the contributions in cash to cover Baltic Power shares that are to be acquired by NP BALTIC WIND B.V., NP BALTIC WIND B.V. plans to invest approximately PLN 290 million in 2021 for Baltic Power development.
The Agreement has been approved by the Baltic Power Shareholders Meeting. The Agreement has been concluded under the condition that changes to the Baltic Power Act of Association will be registered in the Polish National Court Register and under the condition that the approvals of relevant antitrust authorities will be obtained.

FEBRUARY 2021

Share purchase agreement for 100% of shares in Nowotna Farma Wiatrowa Sp. z o.o.
PKN ORLEN announced that on 26 February 2021 ORLEN Wind 3 Sp. z o.o. („ORLEN Wind 3") has signed with investment funds: Taiga Inversiones Eolicas SCR SA and Santander Energias Renovables SCRA SA, headquartered in Madrid, Spain, a share purchase agreement for 100% of shares in Nowotna Farma Wiatrowa Sp. z o.o., owner of the onshore wind farms Kobylnica, Subkowy, Nowotna ("Agreement"). The total power of wind farms that are to be purchased amounts to 89.4 MW. The value of the Agreement amounts to approximately PLN 380 million. The Agreement has been signed under the condition that the approval of relevant antitrust authorities will be obtained.
PKN ORLEN holds 100% of the shares in ORLEN Wind 3, which has been set to realize the development of the PKN ORLEN activity in the area of renewable energy what comes from the current ORLEN Group strategy. The Company will inform in regulatory announcements about the next significant transactions within that activity.

MARCH 2021

Approval of terms and conditions of bearer bonds issue of series D
PKN ORLEN announced that the Company's Management Board on 17 March 2021 has decided to issue unsecured, bearer bonds of series D with the total nominal value not higher than PLN 1,000,000,000 ("Bonds") within the Bond Issue Programme with a limit of PLN 4,000,000,000 or other currencies equivalents of that amount on the base of Agreement for a Bond Issue Programme, signed in Warsaw on 27 November 2006 (with subsequent annexes).
The Bonds will be issued with the following terms and conditions:
- Maximum number of Bonds proposed to be acquired: 10,000;
- Nominal value of one Bond: PLN 100,000;
- Issue price of one Bond: PLN 99,432;
- Maximum total nominal value of Bonds: up to PLN 1,000,000,000;
- Bond issue date: 25 March 2021;
- Redemption date: 25 March 2031;
- Bonds are not secured;
- On the issue day the Bonds will be registered in the records kept by the issue agent within the meaning of Art. 7a par. 1 of Act on Trading in Financial Instruments dated 29 July 2005, whose function will be performed by the entity indicated in the Bonds issue terms and conditions, and then registered in the deposit conducted by the Central Securities Depository of Poland;
- Bonds may be introduced to the alternative trading system on the Warsaw Stock Exchange;
- Bonds will be offered for purchase according to art. 33 point 1 of the Polish Act on Bonds as of 15 January 2015 (unified text Journal of Laws 2020 No 1208), in the way that will not require to prepare a prospectus or information memorandum;
- Bonds will be of fixed interest rate, indicated in bonds issue terms and conditions. The level of interest rate will depend on rating of ESG agency, i.e. MSCI ESG Research (UK) Limited or another entity that will replace it, which measure the Company's resilience to material environmental, social and governance (ESG) risks and how well it manage those risks, or alternative ESG rating ("ESG Rating"). The interest rate for the first interest period will amount to 2.875% per annum and in the next interest periods will stay at the same level or it is possible to change it by 0.1% or 0.2% per annum, respectively, depending on the level of ESG rating admitted according to the Bond issue terms and conditions.

The Company plans to use the financial resources from the Bonds issue for the general corporate purposes, including realization of ESG target, i.e. maintaining by the Company of the ESG rating admitted by the MSCI ESG Research (UK) Limited at the level as of the day of the Bonds issue or achieving of higher rating.

Bearer bonds issue of series D
PKN ORLEN announced that on 25 March 2021 it has issued 10 000 unsecured, bearer bonds of series D with the total nominal value of PLN 1,000,000,000 ("Bonds") within the Bond Issue Programme on the base of Agreement for a Bond Issue Programme, signed in Warsaw on 27 November 2006 (with subsequent annexes).
The Bonds has been registered in the records kept by the issue agent within the meaning of Art. 7a par. 1 of Act on Trading in Financial Instruments dated 29 July 2005, whose function performs Bank Polska Kasa Opieki S.A. and according to the regulations will be registered in the deposit conducted by the Central Securities Depository of Poland. The Company may decide to introduce the Bonds to the alternative trading system on the Warsaw Stock Exchange.

APRIL 2021

The Polish Office of Competition and Consumer Protection consent to establish of CCGT Ostrołęka Sp. z o.o. together with PGNiG S.A. and ENERGA
PKN ORLEN announced that on 14 April 2021 it received decision regarding the consent given by the Chairman of the Polish Office of Competition and Consumer Protection to establish by PKN ORLEN, ENERGA and Polskie Górnictwo

ORLEN ORLEN GROUP (in PLN million)

Naftowe i Gazownictwo S.A. („PGNiG S.A.") joint company, i.e. CCGT Ostrołęka Sp. z o.o. headquartered in Ostrołęka. Consequently one of the conditions of investment agreement on directional principles of cooperation in construction of gas power plant in Ostrołęka C Power Plant signed on 22 December 2020 between PKN ORLEN, ENERGA and PGNiG S.A. has been fulfilled.

3. Other information

3.1. Composition of the Management Board and the Supervisory Board

As at the date of preparation of this interim condensed consolidated financial statements, the composition of the management and supervisory bodies of the Company is as follows:

Management Board

Daniel Obajtek – President of the Management Board, Chief Executive Officer
Adam Burak – Member of the Management Board, Communication and Marketing
Armen Konrad Artwich – Member of the Management Board, Corporate Affairs
Patrycja Klarecka – Member of the Management Board, Retail Sales
Zbigniew Leszczyński – Member of the Management Board, Development
Michał Róg – Member of the Management Board, Wholesale and International Trades
Jan Szewczak – Member of the Management Board, Chief Financial Officer
Józef Węgrecki – Member of the Management Board, Operations

Supervisory Board

Wojciech Jasiński – Chairman of the Supervisory Board
Andrzej Szumański – Vice-Chairman of the Supervisory Board, Independent Member of the Supervisory Board
Anna Wójcik – Secretary of the Supervisory Board
Barbara Jarzembowska – Independent Member of the Supervisory Board
Andrzej Kapała – Independent Member of the Supervisory Board
Michał Klimaszewski – Independent Member of the Supervisory Board
Roman Kusz – Independent Member of the Supervisory Board
Jadwiga Lesisz – Member of the Supervisory Board
Dominik Kaczmarski – Member of the Supervisory Board
Anna Sakowicz-Kacz – Independent Member of the Supervisory Board

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

Shareholder	Percentage share in total voting rights at Shareholder's Meeting as at submission date	Number of shares as at submission date
State Treasury	27.52%	117 710 196
Nationale-Nederlanden OFE*	7.34%	31 391 297
Aviva OFE*	6.29%	26 898 000
Other	58.85%	251 709 568
	100.00%	**427 709 061**

* *according to the information from the Extraordinary General Shareholders' Meeting of PKN ORLEN of 5 June 2020*

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

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

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

As part of the active Eurobond issue remain the irrevocable and unconditional guarantees issued in favour of the bondholders for the duration of the issue:

ORLEN GROUP (in PLN million)

- PKN ORLEN - two guarantees up to 30 June 2021 and 7 June 2023, respectively;
- ENERGA - guarantee up to 31 December 2033

	Nominal value						Value of guarantee issued	
	EUR	PLN	Subscription date	Expiration date	Interest rate	Rating	EUR	PLN
Eurobonds	750	3 318 **	7.06.2016	7.06.2023	2.5%	BBB-, Baa2	1 100	5 126
Eurobonds	500	2 131 *	30.06.2014	30.06.2021	2.5%	BBB-, Baa2	1 000	4 660
Eurobonds	300	1 251 ***	07.03.2017	07.03.2027	2.125%	BBB-, Baa2	1 250	5 825
	1 550	**6 700**					**3 350**	**15 611**

* translated using exchange rate as at 31 December 2014
** translated using exchange rate as at 31 December 2016
*** translated using exchange rate as at 29 December 2017
The value of guarantees granted was translated using the average exchange rate published by the National Bank of Poland as at 31 March 2021 – 4.6603 EUR/PLN

Moreover, as at 31 March 2021 and as at 31 December 2020, the Group granted sureties and guarantees to subsidiaries for third parties of PLN 1,353 million and PLN 1,374 million, respectively, and mainly related to the timely payment of liabilities by subsidiaries.

3.5. Statement of the Management Board regarding the possibility to realise previously published forecasts of current year results

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

QUARTERLY FINANCIAL INFORMATION
PKN ORLEN

FOR THE 1st QUARTER 2021

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

QUARTERLY FINANCIAL INFORMATION OF PKN ORLEN (in PLN million)

C. QUARTERLY FINANCIAL INFORMATION OF PKN ORLEN

Separate statement of profit or loss and other comprehensive income

	3 MONTHS ENDED 31/03/2021 (unaudited)	3 MONTHS ENDED 31/03/2020 (unaudited)
Sales revenues	15 853	17 238
Cost of sales	(13 643)	(16 771)
Gross profit on sales	**2 210**	**467**
Distribution expenses	(1 163)	(1 147)
Administrative expenses	(322)	(283)
Other operating income	932	1 220
Other operating expenses	(523)	(823)
(Loss)/reversal of loss due to impairment of trade receivables	1	11
Profit/(Loss) from operations	**1 135**	**(555)**
Finance income	481	372
Finance costs	(546)	(2 997)
recognition of impairment allowances of shares in subsidiaries	*(21)*	*(2 043)*
Net finance income and costs	**(65)**	**(2 625)**
(Loss)/reversal of loss due to impairment of loans and interest on trade receivables	(3)	(24)
Profit/(Loss) before tax	**1 067**	**(3 204)**
Tax expense	(103)	182
current tax	*(52)*	*(93)*
deferred tax	*(51)*	*275*
Net profit/(loss)	**964**	**(3 022)**
Other comprehensive income:		
which will not be reclassified subsequently into profit or loss	**3**	**(6)**
gains/(losses) on investments in equity instruments at fair value through other comprehensive income	*4*	*(7)*
deferred tax	*(1)*	*1*
which will be reclassified into profit or loss	**(143)**	**(168)**
hedging instruments	*(488)*	*(262)*
hedging costs	*311*	*54*
deferred tax	*34*	*40*
	(140)	**(174)**
Total net comprehensive income	**824**	**(3 196)**
Net profit/(loss) and diluted net profit/(loss) per share (in PLN per share)	2.25	(7.07)

QUARTERLY FINANCIAL INFORMATION OF PKN ORLEN (in PLN million)

Separate statement of financial position

	31/03/2021 (unaudited)	31/12/2020 (restated data)*
ASSETS		
Non-current assets		
Property, plant and equipment	16 645	16 500
Intangible assets	1 360	905
Right-of-use asset	2 405	2 343
Shares in subsidiaries and jointly controlled entities	17 456	17 064
Derivatives	148	116
Long-term lease receivables	21	21
Other assets	2 482	2 044
	40 517	**38 993**
Current assets		
Inventories	8 869	7 751
Trade and other receivables	6 408	4 886
Current tax assets	437	396
Cash	1 153	586
Derivatives	1 004	677
Short-term lease receivables	1	1
Other assets	1 724	1 243
Non-current assets classified as held for sale	535	19
	20 131	**15 559**
Total assets	**60 648**	**54 552**
EQUITY AND LIABILITIES		
EQUITY		
Share capital	1 058	1 058
Share premium	1 227	1 227
Hedging reserve	(217)	(74)
Revaluation reserve	(5)	(8)
Retained earnings	30 630	29 666
Total equity	**32 693**	**31 869**
LIABILITIES		
Non-current liabilities		
Borrowings and bonds	6 242	5 215
Provisions	669	671
Deferred tax liabilities	735	718
Derivatives	421	237
Lease liabilities	2 110	2 059
Other liabilities	193	193
	10 370	**9 093**
Current liabilities		
Trade and other liabilities	9 969	7 561
Lease liabilities	342	354
Liabilities from contracts with customers	240	223
Borrowings and bonds	2 702	2 576
Provisions	1 218	681
Derivatives	311	347
Other liabilities	2 803	1 848
	17 585	**13 590**
Total liabilities	**27 955**	**22 683**
Total equity and liabilities	**60 648**	**54 552**

* *As from 1 January 2021, PKN ORLEN decided to change the method of presenting grants to assets, which are currently recognised as deferred income and systematically accounted for in other operating income over the useful life of the assets. Retrospective application of this change in relation to data for 2020 resulted in an increase in PKN ORLEN's total assets and liabilities disclosed in the statement of financial position by PLN 95 million ((by increasing the item of property, plant and equipment and deferred income presented under other non-current liabilities by the value of unsettled grants as at 31 December 2020).*

QUARTERLY FINANCIAL INFORMATION OF PKN ORLEN (in PLN million)

Separate statement of changes in equity

	Share capital and share premium	Hedging reserve	Revaluation reserve	Retained earnings	Total equity
01/01/2021	2 285	(74)	(8)	29 666	31 869
Net profit	-	-	-	964	964
Items of other comprehensive income	-	(143)	3	-	(140)
Total net comprehensive income	**-**	**(143)**	**3**	**964**	**824**
31/03/2021	**2 285**	**(217)**	**(5)**	**30 630**	**32 693**
(unaudited)					
01/01/2020	2 285	186	(6)	32 459	34 924
Net (loss)	-	-	-	(3 022)	(3 022)
Items of other comprehensive income	-	(168)	(6)	-	(174)
Total net comprehensive income	**-**	**(168)**	**(6)**	**(3 022)**	**(3 196)**
31/03/2020	**2 285**	**18**	**(12)**	**29 437**	**31 728**
(unaudited)					

QUARTERLY FINANCIAL INFORMATION OF PKN ORLEN (in PLN million)

Separate statement of cash flows

	3 MONTHS ENDED 31/03/2021 (unaudited)	3 MONTHS ENDED 31/03/2020 (unaudited)
Cash flows from operating activities		
Profit/(Loss) before tax	**1 067**	**(3 204)**
Adjustments for:		
Depreciation and amortisation	501	467
Foreign exchange (profit)/loss	(9)	542
Net interest	42	25
(Profit)/Loss on investing activities	(384)	1 846
Change in provisions	546	205
Change in working capital	526	617
inventories	*(1 118)*	*1 525*
receivables	*(595)*	*1 865*
liabilities	*2 239*	*(2 773)*
Other adjustments, incl.:	184	536
settlement of grants for property rights	*(144)*	*(86)*
security deposits	*297*	*481*
Income tax (paid)	(93)	(153)
Net cash from operating activities	**2 380**	**881**
Cash flows from investing activities		
Acquisition of property, plant and equipment, intangible assets and right-of-use asset	(1 772)	(404)
Acquisition of shares	(310)	-
Outflows from additional payments to equity	(105)	-
Disposal of property, plant and equipment, intangible assets and right-of-use asset	6	6
Interest received	15	4
Expenses from non-current loans granted	(423)	(108)
Proceeds from non-current loans granted	1	2
Proceeds/(Outflows) from cash-pool facility	(261)	16
Settlement of derivatives not designated as hedge accounting	(7)	(29)
Other	-	(1)
Net cash (used) in investing activities	**(2 856)**	**(514)**
Cash flows from financing activities		
Proceeds from loans and borrowings received	3 956	-
Bonds issued	994	-
Repayments of loans	(3 917)	-
Interest paid from loans, bonds and cash pool	(13)	(17)
Interest paid on lease	(41)	(40)
Proceeds/(Outflows) from cash pool facility	160	(505)
Payments of liabilities under lease agreements	(96)	(100)
Other	-	37
Net cash from/(used in) financing activities	**1 043**	**(625)**
Net increase/(decrease) in cash	**567**	**(258)**
Effect of changes in exchange rates	-	42
Cash, beginning of the period	586	5 056
Cash, end of the period	**1 153**	**4 840**
including restricted cash	*83*	*1 018*

This consolidated quarterly report was approved by the Management Board of the Parent Company on 28 April 2021.

signed digitally on the Polish original
……………………..…………..
Daniel Obajtek
President of the Board

signed digitally on the Polish original
……………………..…………..
Armen Artwich
Member of the Board

signed digitally on the Polish original
……………………..…………..
Adam Burak
Member of the Board

signed digitally on the Polish original
……………………..…………..
Patrycja Klarecka
Member of the Board

signed digitally on the Polish original
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Zbigniew Leszczyński
Member of the Board

signed digitally on the Polish original
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Michał Róg
Member of the Board

signed digitally on the Polish original
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Jan Szewczak
Member of the Board

signed digitally on the Polish original
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Józef Węgrecki
Member of the Board