Polski Koncern Naftowy ORLEN Spółka Akcyjna

ORLEN GROUP

CONSOLIDATED QUARTERLY REPORT

FOR THE 4th QUARTER 2019

ORLEN GROUP - SELECTED DATA

	PLN million		EUR million	
	12 MONTHS ENDED 31/12/2019	12 MONTHS ENDED 31/12/2018	12 MONTHS ENDED 31/12/2019	12 MONTHS ENDED 31/12/2018
Sales revenues	111 203	109 706	25 850	25 711
Profit from operations increased by depreciation and amortisation (EBITDA)	9 068	9 888	2 108	2 317
EBITDA before net impairment allowances	9 283	9 184	2 158	2 152
Profit from operations (EBIT)	5 562	7 215	1 293	1 691
Profit before tax	5 549	7 110	1 290	1 666
Net profit	**4 487**	**5 604**	**1 043**	**1 313**
Total net comprehensive income	4 557	6 042	1 059	1 416
Net profit attributable to equity owners of the parent	4 489	5 556	1 044	1 302
Total net comprehensive income attributable to equity owners of the parent	4 559	5 937	1 060	1 391
Net cash from operating activities	9 319	4 980	2 166	1 167
Net cash (used) in investing activities	(3 994)	(3 798)	(928)	(890)
Net cash (used) in financing activities	(3 363)	(3 237)	(782)	(759)
Net increase/(decrease) in cash and cash equivalents	1 962	(2 055)	456	(482)
Net profit and diluted net profit per share attributable to equity owners of the parent (in PLN/EUR per share)	10.50	12.99	2.44	3.04

	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Non-current assets	39 199	33 932	9 205	7 891
Current assets	32 177	30 209	7 556	7 025
Total assets	**71 376**	**64 141**	**16 761**	**14 916**
Share capital	1 058	1 058	248	246
Equity attributable to equity owners of the parent	38 785	35 727	9 108	8 309
Total equity	**38 796**	**35 739**	**9 110**	**8 311**
Non-current liabilities	14 341	11 506	3 368	2 676
Current liabilities	18 239	16 896	4 283	3 929
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)	90.68	83.53	21.29	19.43

PKN ORLEN – SELECTED DATA

	PLN million		EUR million	
	12 MONTHS ENDED 31/12/2019	12 MONTHS ENDED 31/12/2018	12 MONTHS ENDED 31/12/2019	12 MONTHS ENDED 31/12/2018
Sales revenues	89 049	86 997	20 700	20 389
Profit from operations increased by depreciation and amortisation (EBITDA)	5 881	5 989	1 367	1 404
Profit from operations (EBIT)	4 122	4 624	958	1 084
Profit before tax	4 575	6 255	1 064	1 466
Net profit	**3 774**	**5 434**	**877**	**1 274**
Total net comprehensive income	3 748	5 376	871	1 260
Net cash from operating activities	6 086	2 695	1 415	632
Net cash (used) in investing activities	(1 421)	(4 755)	(330)	(1 115)
Net cash from/(used in) financing activities	(3 062)	16	(712)	4
Net increase/(decrease) in cash	1 603	(2 044)	373	(479)
Net profit and diluted net profit per share (in PLN/EUR per share)	8.82	12.70	2.05	2.98

	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Non-current assets	35 723	32 590	8 389	7 579
Current assets	23 493	22 207	5 517	5 164
Total assets	**59 216**	**54 797**	**13 905**	**12 743**
Share capital	1 058	1 058	248	246
Total equity	**33 885**	**31 634**	**7 957**	**7 357**
Non-current liabilities	11 751	10 236	2 759	2 380
Current liabilities	13 580	12 927	3 189	3 006
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)	79.22	73.96	18.60	17.20

The above data for the 12-month periods of 2019 and 2018 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 the month during the reporting period: from 1 January to 31 December 2019 – 4.3018 EUR/PLN and 1 January to 31 December 2018 – 4.2669 EUR/PLN;
– items of assets, equity and liabilities – by the average exchange rate published by the National Bank of Poland as at 31 December 2019 – 4.2585 EUR/PLN and as at 31 December 2018– 4.3000 EUR/PLN.

TABLE OF CONTENTS

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE 12 AND 3-MONTH PERIOD ENDED 31 DECEMBER 2019

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	12 MONTHS ENDED 31/12/2019 (unaudited)	3 MONTHS ENDED 31/12/2019 (unaudited)	12 MONTHS ENDED 31/12/2018	3 MONTHS ENDED 31/12/2018 (unaudited)
Sales revenues	5.1	111 203	27 500	109 706	29 420
revenues from sales of finished goods and services		*93 009*	*22 855*	*91 014*	*24 583*
revenues from sales of merchandise and raw materials		*18 194*	*4 645*	*18 692*	*4 837*
Cost of sales	5.2	(97 218)	(24 365)	(97 265)	(27 165)
cost of finished goods and services sold		*(81 183)*	*(20 260)*	*(80 781)*	*(23 000)*
cost of merchandise and raw materials sold		*(16 035)*	*(4 105)*	*(16 484)*	*(4 165)*
Gross profit on sales		**13 985**	**3 135**	**12 441**	**2 255**
Distribution expenses		(6 355)	(1 707)	(4 745)	(1 247)
Administrative expenses		(1 804)	(509)	(1 590)	(441)
Other operating income	5.5	1 119	479	2 150	1 375
Other operating expenses	5.5	(1 478)	(751)	(1 152)	(607)
(Loss)/reversal of loss due to impairment of financial instruments		(41)	7	(16)	(22)
Share in profit from investments accounted for using the equity method		136	19	127	13
Profit from operations		**5 562**	**673**	**7 215**	**1 326**
Finance income	5.6	890	446	1 413	244
Finance costs	5.6	(901)	(253)	(1 517)	(295)
Net finance income and costs		**(11)**	**193**	**(104)**	**(51)**
(Loss)/reversal of loss due to impairment of financial instruments		(2)	(1)	(1)	-
Profit before tax		**5 549**	**865**	**7 110**	**1 275**
Tax expense		(1 062)	(94)	(1 506)	(373)
current tax		*(1 002)*	*(125)*	*(1 181)*	*(160)*
deferred tax		*(60)*	*31*	*(325)*	*(213)*
Net profit		**4 487**	**771**	**5 604**	**902**
Other comprehensive income:					
which will not be reclassified subsequently into profit or loss		**(35)**	**(18)**	**(24)**	**(9)**
actuarial gains and losses		*(21)*	*(21)*	*(5)*	*(5)*
gains/(losses) on investments in equity instruments at fair value through other comprehensive income		*(20)*	*(2)*	*(23)*	*(5)*
deferred tax		*6*	*5*	*4*	*1*
which will be reclassified into profit or loss		**105**	**(185)**	**462**	**354**
hedging instruments		*(148)*	*149*	*12*	*354*
hedging costs		*115*	*58*	*38*	*(29)*
exchange differences on translating foreign operations		*138*	*(342)*	*415*	*84*
deferred tax		*-*	*(50)*	*(3)*	*(55)*
		70	**(203)**	**438**	**345**
Total net comprehensive income		**4 557**	**568**	**6 042**	**1 247**
Net profit/(loss) attributable to		**4 487**	**771**	**5 604**	**902**
equity owners of the parent		*4 489*	*772*	*5 556*	*897*
non-controlling interest		*(2)*	*(1)*	*48*	*5*
Total net comprehensive income attributable to		**4 557**	**568**	**6 042**	**1 247**
equity owners of the parent		*4 559*	*569*	*5 937*	*1 229*
non-controlling interest		*(2)*	*(1)*	*105*	*18*
Net profit and diluted net profit per share attributable to equity owners of the parent (in PLN per share)		10.50	1.80	12.99	2.10

The accompanying notes disclosed on pages 9 – 30 are an integral part of this the interim condensed consolidated financial statements.

ORLEN GROUP (in PLN million)

Consolidated statement of financial position

	NOTE	31/12/2019 (unaudited)	31/12/2018
ASSETS			
Non-current assets			
Property, plant and equipment		32 351	31 390
Intangible assets		1 600	1 323
Right-of-use asset	5.11.1	3 953	-
Investments accounted for using the equity method		678	650
Deferred tax assets		79	70
Derivatives	5.8	310	161
Long-term lease receivables		13	-
Other assets	5.8	215	338
		39 199	**33 932**
Current assets			
Inventories		15 324	14 362
Trade and other receivables		9 669	10 479
Current tax assets		264	114
Cash and cash equivalents		6 159	4 192
Non-current assets classified as held for sale		38	202
Derivatives	5.8	243	524
Short-term lease receivables		12	-
Other assets	5.8	468	336
		32 177	**30 209**
Total assets		**71 376**	**64 141**
EQUITY AND LIABILITIES			
EQUITY			
Share capital		1 058	1 058
Share premium		1 227	1 227
Hedging reserve		328	361
Revaluation reserve		(33)	(15)
Exchange differences on translating foreign operations		847	709
Retained earnings		35 358	32 387
Equity attributable to equity owners of the parent		**38 785**	**35 727**
Non-controlling interests		**11**	**12**
Total equity		**38 796**	**35 739**
LIABILITIES			
Non-current liabilities			
Loans and bonds	5.7	8 185	8 598
Provisions	5.9	1 114	1 055
Deferred tax liabilities		1 508	1 445
Derivatives	5.8	2	42
Lease liabilities		3 371	-
Other liabilities	5.8	161	366
		14 341	**11 506**
Current liabilities			
Trade and other liabilities		15 125	13 697
Lease liabilities		618	-
Liabilities from contracts with customers		246	231
Loans and bonds	5.7	422	1 193
Provisions	5.9	1 199	1 019
Current tax liabilities		127	473
Derivatives	5.8	266	193
Other liabilities	5.8	236	90
		18 239	**16 896**
Total liabilities		**32 580**	**28 402**
Total equity and liabilities		**71 376**	**64 141**

The accompanying notes disclosed on pages 9 – 30 are an integral part of this the 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
01/01/2019 (approved data)	2 285	361	(15)	709	32 387	35 727	12	35 739
Impact of IFRS 16 adoption	-	-	-	-	(4)	(4)	-	(4)
01/01/2019 (converted data)	2 285	361	(15)	709	32 383	35 723	12	35 735
Net profit/(loss)	-	-	-	-	4 489	4 489	(2)	4 487
Items of other comprehensive income	-	(33)	(18)	138	(17)	70	-	70
Total net comprehensive income	**-**	**(33)**	**(18)**	**138**	**4 472**	**4 559**	**(2)**	**4 557**
Issuance of shares attributable to non-controlling interest	-	-	-	-	-	-	1	1
Dividends	-	-	-	-	(1 497)	(1 497)	-	(1 497)
31/12/2019	**2 285**	**328**	**(33)**	**847**	**35 358**	**38 785**	**11**	**38 796**
(unaudited)								
01/01/2018 (approved data)	2 285	331	5	334	29 242	32 197	3 014	35 211
Impact of IFRS 9 adoption	-	-	-	-	(9)	(9)	-	(9)
01/01/2018 (converted data)	2 285	331	5	334	29 233	32 188	3 014	35 202
Net profit	-	-	-	-	5 556	5 556	48	5 604
Items of other comprehensive income	-	30	(20)	375	(4)	381	57	438
Total net comprehensive income	**-**	**30**	**(20)**	**375**	**5 552**	**5 937**	**105**	**6 042**
Issuance of shares attributable to non-controlling interest	-	-	-	-	(1 115)	(1 115)	(3 107)	(4 222)
Dividends	-	-	-	-	(1 283)	(1 283)	-	(1 283)
31/12/2018	**2 285**	**361**	**(15)**	**709**	**32 387**	**35 727**	**12**	**35 739**

The accompanying notes disclosed on pages 9 – 30 are an integral part of this the interim condensed consolidated financial statements.

ORLEN ORLEN GROUP (in PLN million)

Consolidated statement of cash flows

	12 MONTHS ENDED 31/12/2019 (unaudited)	3 MONTHS ENDED 31/12/2019 (unaudited)	12 MONTHS ENDED 31/12/2018	3 MONTHS ENDED 31/12/2018 (unaudited)
Cash flows from operating activities				
Profit before tax	**5 549**	**865**	**7 110**	**1 275**
Adjustments for:				
Share in profit from investments accounted for using the equity method	(136)	(19)	(127)	(13)
Depreciation and amortisation	3 506	934	2 673	697
Foreign exchange (gain)/loss	(72)	(226)	319	85
Net interest	272	80	203	54
Dividends	(5)	-	(4)	-
(Profit)/Loss on investing activities	404	222	(1 100)	(908)
recognition/(reversal) of impairment allowances of property, plant and equipment, intangible assets and other non-current assets	*215*	*115*	*(704)*	*(733)*
Change in provisions	999	315	736	285
Change in working capital	925	(453)	(3 059)	(1 582)
inventories	*(915)*	*(740)*	*(1 729)*	*1 101*
receivables	*942*	*1 567*	*(1 069)*	*1 425*
liabilities	*898*	*(1 280)*	*(261)*	*(4 108)*
Other adjustments	(625)	(280)	(732)	(468)
rights received free of charge	*(683)*	*(182)*	*(494)*	*(128)*
Income tax (paid)	(1 498)	(235)	(1 039)	(196)
Net cash from/(used in) operating activities	**9 319**	**1 203**	**4 980**	**(771)**
Cash flows from investing activities				
Acquisition of property, plant and equipment, intangible assets and right-of-use asset	(4 450)	(1 652)	(4 454)	(1 374)
Acquisition of shares	-	-	(25)	-
Disposal of property, plant and equipment, intangible assets and right-of-use asset	245	8	161	35
Dividends received	112	-	196	67
Settlement of derivatives not designated as hedge accounting	82	5	339	212
Other	17	18	(15)	(7)
Net cash (used) in investing activities	**(3 994)**	**(1 621)**	**(3 798)**	**(1 067)**
Cash flows from financing activities				
Change in cash related to purchase of non-controlling interest of UNIPETROL, a.s	190	(10)	(4 222)	-
Proceeds from loans received	381	12	2 232	44
Bonds issued	-	-	600	-
Repayment of loans	(492)	(15)	(97)	(6)
Redemption of bonds	(1 000)	-	(200)	-
Interest paid from loans and bonds	(218)	(22)	(222)	(22)
Interest paid on lease	(68)	(17)	(9)	(2)
Dividends paid	(1 497)	-	(1 284)	-
to equity owners of the parent	*(1 497)*	-	*(1 283)*	-
to non-controlling interest	-	-	*(1)*	-
Payments of liabilities under lease agreements	(656)	(233)	(32)	(8)
short-term and low-value lease payments	*(149)*	*(86)*	-	-
Other	(3)	(1)	(3)	1
Net cash from/(used in) financing activities	**(3 363)**	**(286)**	**(3 237)**	**7**
Net increase/(decrease) in cash and cash equivalents	**1 962**	**(704)**	**(2 055)**	**(1 831)**
Effect of changes in exchange rates	5	50	3	11
Cash and cash equivalents, beginning of the period	4 192	6 813	6 244	6 012
Cash and cash equivalents, end of the period	**6 159**	**6 159**	**4 192**	**4 192**
including restricted cash	*1 086*	*1 086*	*87*	*87*

The accompanying notes disclosed on pages 9 – 30 are an integral part of this the interim condensed consolidated financial statements.

(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. The ORLEN Group also conducts exploration, recognition and extraction of hydrocarbons, and generates, distributes and trades of electricity and heat.
The activity of the ORLEN Group companies is also service-related activity: storage of crude oil and fuels, transportation, maintenance and overhaul services, laboratory, security, design, administrative, insurance and financial services.

2. Information on principles adopted 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 under the Minister of Finance Regulation of 29 March 2018 on current and periodical information provided by issuers of securities and terms of deeming information required by the regulations of a non-member state equivalent (Official Journal 2018, item 757) ("Regulation") and present the Polski Koncern Naftowy ORLEN S.A. Capital Group's ("Group", "ORLEN Group") financial position as at 31 December 2019 and as at 31 December 2018, financial results and cash flows for the 12 and 3-month period ended 31 December 2019 and 31 December 2018.

This interim condensed consolidated financial statements were prepared assuming that the Group will continue to operate as a going concern in the foreseeable future. As at the date of approval of 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 duration of the Parent Company and the entities comprising the ORLEN Group is unlimited.

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 2018, except for the adopted new IFRS 16 – "Lease" described in note 2.2.2.

Selected accounting principles	Note	Page
Consolidation principles	7.1	14
Operating segments	9.1	18
Sales revenues	10.1.1	20
Costs	10.1.8	23
Income tax expenses (tax expense)	10.1.13	25
Property, plant and equipment	10.2.1	26-27
Exploration and extraction of mineral resources	10.2.1	26-27
Intangible assets	10.2.2	28-29
Investments accounted for using the equity method	10.2.4	30
Impairment of property, plant and equipment and intangible assets	10.2.5	32
Inventories	10.2.6.1	35
Trade and other receivables	10.2.6.2	36
Trade and other liabilities	10.2.6.4	37
Net debt	10.2.7	38
Equity	10.2.8	39-40
Provisions	10.2.10	43
Financial instruments and fair value measurement	10.3	45-46
Lease	10.4.2	56
Contingent assets and liabilities	10.4.4	57

2.2.2. Amendments to International Financial Reporting Standards (IFRS)

➢ **IFRS 16 Lease (IFRS 16)**

Selected accounting principles

IFRS 16 "Lease" issued on 13 January 2016 was adopted by the European Union on 31 October 2017.

Since 1 January 2019, the Group has applied the new Standard in the recognition, measurement, and presentation of lease agreements. The application of the new Standard was made in accordance with the transitional provisions contained in IFRS 16.

Implementation of IFRS 16 within the Group was carried out using the modified retrospective approach, and therefore, comparative data for the year 2018 was not converted and any cumulative effect of the first application of the new Standard was included as an adjustment to the opening balance of retained earnings on the first day of application.

As at 1 January 2019 the Group has recognised right-of-use asset in the amount of PLN 3,316 million and lease liability in the amount of PLN 3,352 million, what caused a difference in value to the position of retained earnings in the amount of PLN 4 million due to recognition of impairment losses as a result of impairment tests and the recognition of receivables from subleasing in the amount of PLN 32 million.

The Group as a lessee

Identifying a lease

The Group applies new guidelines for identifying a lease only for contracts that it has concluded (or amended) on the day of its first application, i.e. 1 January 2019 or after that date. Thereby, for all contracts concluded before 1 January 2019, the Group applied the practical exemption provided for in IFRS 16, according to which the entity is not required to reassess whether the contract is a lease or contains a lease on the date of first application. As at 1 January 2019 the Group applies IFRS 16 to contracts that were previously identified as leases in accordance with IAS 17 and IFRIC 4.

At the time of conducting a new contract, the Group assesses whether the contract is a lease or whether it contains a lease. An agreement is a lease or contains a lease if it transfers the right to control the use of an identified asset for a given period in exchange for remuneration. In order to assess if an agreement transfers the right to control the use of an identified asset for a given period, the Group shall determine whether throughout the entire period of use the customer enjoys the following rights:

a) the right to obtain substantially all economic benefits from the use of the identified asset and
b) the right to manage the use of the identified asset.

Should the Group have the right to control the use of an identified asset for part of the duration of an agreement only, the agreement contains a lease in respect of this part of the period.

Rights resulting from lease, rental, hire or other agreements which meet the definition of a lease as per IFRS 16 are recognised as right-of-use underlying assets within the framework of non-current assets with a corresponding lease liabilities.

Initial recognition and measurement

The Group recognises the right-of-use asset as well as the lease liability on the date of commencement of the lease.

On the date of commencement the Group measured the right-of-use asset at cost.

The cost of the right-of-use asset is inclusive of the following:

a) the amount of the initial measurement of the lease liability,
b) all lease payments made on or before the date of commencement, less any lease incentives received,
c) all initial costs directly incurred by the lessee, and
d) estimated costs to be incurred by the lessee in connection with the dismantling and removal of underlying assets, the refurbishment of premises within which they were located, or the refurbishment of underlying assets to the condition required by the terms and conditions of the lease, unless these costs are incurred with the aim of creating stocks.

Lease payments included in the evaluation of lease liability include:

- fixed lease payments;
- variable lease payments, which depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts that are expected to be paid by the lessee as part of the guaranteed residual value;
- the call exercise price, should it be assumed with reasonable certainty that the Group shall decide to exercise the call option;
- penalty payments for termination of a lease, unless it can be assumed with reasonable certainty that the Group shall not terminate the lease.

Variable payments, which do not depend on an index or a rate should not be taken into account when calculating lease liability. Such payments are recognised in the profit or loss in the period of the occurrence which renders them payable.

The lease liability on the commencement date shall be calculated on the basis of the current lease payments that are payable by that date and discounted by the marginal interest rates of the lessee.

The Group does not discount lease liabilities by the lease interest rate as the calculation of such rates requires information known only to the lessor (the non-guaranteed final value of the leased asset as well as the direct costs incurred by the lessor).

Determining the lessee's marginal interest rate

Marginal interest rates were specified as the sum of:

a) the risk free rate, based on the Interest Rate Swap (IRS) in accordance with the maturity of the discount rate, and the relevant basic rate for the given currency, as well as
b) the Group's credit risk premium based on the credit margin calculated inclusive of the credit risk segmentation of all companies which have entered into lease agreements.

Subsequent measurement

After the commencement date, the lessee measures the right-of-use asset applying the cost model.

In applying the cost model, the lessee shall measure the cost of the right-of-use asset:

a) less any accumulated depreciation and accumulated impairment losses; and
b) adjusted in respect of any updates to the measurement of lease liability not resulting in the necessity for recognition of a separate asset.

After the date of commencement the lessee shall measure the lease liability by:
a) increasing the carrying amount to reflect interest on the lease liability,
b) decreasing the carrying amount to reflect any lease payments made, and
c) remeasuring the carrying amount to reflect any reassessment or lease modifications or to revise in-substance fixed lease payments.

The Group shall remeasure the lease liability in cases where there is a change in future lease payments as a result of a change in the index or rate used to determine lease payments (e.g. a change in payment associated with the right of perpetual use), in cases where there is a change in the amount expected by the Group to be payable under the residual amount guarantee, or if the Group reassesses the likelihood of the exercise of the call option, or the extension or termination of the lease.

Updating the lease liability also adjusts the value of the right-of-use asset. In a situation where the carrying amount of the right-of-use asset has been reduced to zero, further reductions in the measurement of the lease liability shall be recognised by the Group as profit or loss.

Depreciation
The right-of-use asset is depreciated linearly over the shorter of the following two periods: the period of lease or the useful life of the underlying asset. However in cases where the Group can be reasonably sure that it will regain ownership of the asset prior to the end of the lease term, right-of-use shall be depreciated from the day of commencement of the lease until the end of the useful life of the asset.
The useful life of right-of-use asset is determined in the same manner as for property, plant and equipment.

The Group has leases agreements regarding mainly:
a) Land, including:
   - perpetual usufruct of land for a fixed period of up to 99 years,
   - land for petrol stations and motorway service areas concluded for a specified period up to 30 years and for an indefinite period.
b) Buildings and construction, including petrol stations, storage tank, office spaces for a fixed period up to 30 years.
c) Vehicles and other, including:
   - railway tank concluded for a specified period of 3 to 10 years,
   - cars for a fixed period up to 3 years,
   - locomotives for a fixed period up to 3 years.

Impairment
The Group applies IAS 36 Impairment of Assets to determine whether the right-of-use asset was impaired and to account for any impairment loss identified.

Exemptions, simplifications and practical solutions in the application of IFRS 16

Exemptions
Agreements not included within the scope of IFRS 16:
- lease for the exploration or use of natural resources,
- licences granted and recognised in accordance with IFRS 15 – "Revenue from Contracts with Customers", and
- lease of intangible assets in accordance with IAS 38 - Intangible Assets

Simplifications and practical solutions

Short-term lease

The Group applies a practical solution to short-term lease contracts, which are characterised by a maximum possible contract term of up to 12 months, including any options to extend.

Simplifications regarding these contracts involve the settlement of lease payments as costs:
- on a straight-line basis, for the duration of the lease agreement, or
- another systematic method, if it better reflects the way of spreading the benefits gained by the user in time.

Leases of low-value assets
The Group does not apply the rules concerning recognition, measurement and presentation outlined in IFRS 16 to lease agreements of low-value assets.

Low-value assets are considered to be those which have a value when new not higher than PLN 18,799 translated at the exchange rate of the first day of application, i.e. 1 January 2019 (representing USD 5,000) or the equivalent value in another currency as per the average closing rate of exchange of the central bank of the given country at the moment of initial recognition of a contract.
Simplifications in respect of such contracts are due to the settlement of costs on:
- a straight-line basis for the term of the lease contract; or
- another systematic method basis should it be more representative of the time pattern of the user's benefit.

An asset covered by a lease must not be counted as a low-value asset if the asset would typically not be of low value when new. As low-value items, the Group includes for example: gas cylinders, coffee machines, and small items of furniture.

The underlying asset may have a low-value only if:
a) the lessee may benefit from use of the underlying asset itself or in conjunction with other resources which are readily available to him, and
b) the underlying asset is not highly dependent on or related to other assets.

If the lessee transfers asset into subleasing or expects the asset to be transferred to subleasing, then the main lease does not qualify as lease of a low-value asset.

Determining the lease term: indefinite contracts

When establishing the term for indefinite leases contracts, the Group makes a professional judgment taking into account:

- expenditure incurred in connection with the contract or
- potential costs connected with the termination of the lease contract, including the costs involved in obtaining a new lease contracts, such as negotiation costs; reallocation costs, costs of identifying other underlying asset suitable for the lessee's needs; costs of integrating a new asset into the lessee's operations; or termination penalties and similar costs, including costs associated with returning the underlying asset in a contractually specified condition or to a contractually specified location.

In cases where the costs connected with the termination of the lease contract are substantial, the lease term adopted is equal to that adopted for the depreciation period of a similar fixed asset with parameters similar to the subject of the lease.

Although the costs connected with the termination of the lease agreement may be reliably measured, it is necessary to determine a lease term during which there are no justifiable grounds for termination.

In cases where expenditure incurred in connection with the contract is substantial, the lease term adopted is equal to that of the expected period of economic benefits derived from the incurred expenses.

The value of the incurred expenses represents a separate asset to the right-of-use asset.

In case of the lack of expenses incurred in connection with the contract in question, or the lack or insignificance of costs connected with its termination, the termination period of the lease is adopted as the lease term.

PROFESSIONAL JUDGEMENT

Separating non-lease components
The Group assesses whether the contract contains lease and non-lease components. Non-lease components are removed from contracts containing a lease component, for example service for assets covered by the contract.
However, in cases where a contract includes non-lease components considered by the Group to be immaterial within the context of the contract as a whole, the Group uses simplification which allows lease and non-lease components to be treated a single lease component.

Determining the lease term
In determining the lease term, the Group consider in all important facts and events behind the economic incentives to make use of the option to extend the lease or not to exercise the option of its termination. An assessment of a lease term is carried out on the date of commencement of the lease. A reassessment is made upon the occurrence of either a significant event or a significant change in circumstances, that the lessee controls, that impact such an assessment.

ESTIMATIONS

The useful life of right-of-use asset
The estimated useful life of right-of-use asset is determined in the same manner as for property, plant and equipment.

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 the Polish Zloty (PLN). 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 ("NBP") 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	
	12 MONTHS ENDED 31/12/2019	3 MONTHS ENDED 31/12/2019	12 MONTHS ENDED 31/12/2018	3 MONTHS ENDED 31/12/2018	31/12/2019	31/12/2018
EUR/PLN	4.2987	4.2879	4.2614	4.2992	4.2585	4.3000
USD/PLN	3.8399	3.8732	3.6113	3.7678	3.7977	3.7597
CZK/PLN	0.1675	0.1677	0.1662	0.1662	0.1676	0.1673
CAD/PLN	2.8939	2.9333	2.7861	2.8532	2.9139	2.7620

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

There is no significant seasonality or cyclicality to the ORLEN Group's operations.

3. Financial situation and the organization of the ORLEN Group

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

Profit or loss for the 12 months of 2019

Sales revenues of the ORLEN Group for the 12 months of 2019 amounted to PLN 111,203 million. The increase of sales revenues of the ORLEN Group by PLN 1,497million (y/y) reflects mainly increase in volume sales by 1% (y/y) in all operating segments and changes in the sales structure related to the reduction of sales of low-margin heavy refinery fractions. The increase in sales revenues was achieved in conditions of lower gasoline prices by (9)%, diesel oil by (7)%, heavy heating oil by (17)%, ethylene by (9)% and propylene by (8)%.

The operating expenses amounted to PLN (105,377) million and increased by PLN (1,777) million (y/y) mainly as a result of higher taxes and charges by PLN (1,119) million during the analysed period. The increase in this cost is the effect of the introduction of so-called emission fee in Poland since January 2019. The ORLEN Group as a producer and importer of motor fuels is obliged to pay emission fee as on the day of tax liability in excise tax. Additional information is included in note 5.2.

The largest item in this cost structure constitute the costs of materials and energy consumption related mainly to the crude oil and other chemicals used in technological processes. The costs of materials and energy consumption decreased by PLN 321 million resulted mainly from the decrease of crude oil quotation by (7) USD/bbl during the analysed period. The effect of lower costs of processed raw materials as a result of lower oil prices was partially limited by 1% (y/y) higher volume of crude oil processing and higher share of low-sulfur crude oil in the processing structure.

The negative result of other operating activities amounted to PLN (359) million and included mainly impact of net settlement and valuation of derivative financial instruments related to operating exposure (non-designated instruments for hedge accounting purposes) in the amount of PLN (226) million. The result of other operating activities in the 12-month period of 2019 was lower by PLN (1,357) million (y/y) due to lack of compensation received in 2018 related to the steam cracker unit accident in the Unipetrol Group and reversal of impairment allowances of non-current assets in downstream segment in the Unipetrol Group.

Share in profit from investments accounted for using the equity method was higher by PLN 9 million (y/y) and amounted to PLN 136 million.

As a result profit from operations amounted to PLN 5,562 million and was lower by PLN (1,653) 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 costs in the described period amounted to PLN (11) million and included net interest expenses in the amount of PLN (242) million and settlement and valuation of financial instruments in the amount of PLN 254 million.

After the deduction of tax charges in the amount of PLN (1,062) million, the net profit of the ORLEN Group for the 12 months of 2019 amounted to PLN 4,487 million and was lower by PLN (1,117) million (y/y).

Profit or loss for the 4th quarter of 2019

Sales revenues of the ORLEN Group in the 4th quarter of 2019 amounted to PLN 27,500 million and were lower by PLN (1,920) million (y/y). The decrease in sales revenues (y/y) is mainly due to lower volume sales by (3%) and reflects also decrease by (8%) in crude oil prices and as a result, also the quotation of major products: fuel by (1%), diesel oil by (8%), heavy heating oil by (44%), ethylene by (12%) and propylene by (17%).

Total operating expenses decreased by PLN 2,272 million (y/y) to PLN (26,581) million, mainly due to lower cost of consumed materials and energy by PLN 2,247 million. Decrease of this position is the result of the decrease in crude oil prices quotation by (6) USD/bbl (y/y) and reduction in crude oil processing by (4)% mainly in the ORLEN Lietuva Group due to the unfavourable macroeconomic situation in 4th quarter of 2019.

After consideration of result on other operating activities in the amount of PLN (272) million included mainly impact of net positions of settlement and valuation of derivative financial instruments related to operating exposure (non-designated instruments for hedge accounting purposes) in the amount of PLN (106) million and recognised in the 4th quarter of 2019 net impairment allowances of non-current assets in the amount of PLN (115) million, the operating profit amounted to PLN 673 million and was lower by PLN (653) 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 income in the described period amounted to PLN 193 million and included mainly net positive impact of settlement and valuation of financial instruments in the amount of PLN 46 million, net foreign exchange gain in the amount of PLN 228 million and net interest expenses in the amount of PLN (73) million.

After the deduction of tax charges in the amount of PLN (94) million, the net profit of the ORLEN Group amounted to PLN 771 million and was lower by PLN (131) million (y/y).

Statement of financial position

As at 31 December 2019, the total assets of the ORLEN Group amounted to PLN 71,376 million and was higher by PLN 7,235 million in comparison with 31 December 2018.

As at 31 December 2019, the value of non-current assets amounted to PLN 39,199 million and was higher by PLN 5,267 million in comparison with the end of the previous year, mainly due to the recognition of right-of-use asset in the amount of PLN 3,953 million in connection with the implementation from 1 January 2019 new IFRS 16 and increase in property, plant and equipment and intangible assets by PLN 1,238 million.

The change in balance of property, plant and equipment and intangible assets comprised mainly investment expenditures in the amount of PLN 4,385 million, including for the construction of a paraffin separation node from reforming raw material - MaxEne in PKN ORLEN, development of fertilizer production capacities in Anwil, construction of the Glikol installation in ORLEN Południe, construction of the Polyethylene 3 Installation, construction of the boiler house for the Steam Cracker Unit, composite modernization of the Oil Block and neutralization of acidic waters, revitalization of POX in the Unipetrol Group, expenditure on the renovation carried out in the downstream segment and projects in retail and upstream segment and depreciation and amortisation in the amount of PLN (2,981) million.

The value of current assets increased by PLN 1,968 million, mainly as a result of an increase balance of inventories by PLN 962 million, balance of cash and cash equivalents by PLN 1,967 million with a decrease in trade and other receivables by PLN (810) million and decrease in non-current assets classified as held for sale by PLN (164) million mainly due to the sale in the 1st quarter of 2019 of upstream assets in Canada located in the Pouce Coupe area.

As at 31 December 2019, total equity amounted to PLN 38,796 million and was higher by PLN 3,057 million in comparison with the end of 2018, mainly due to recognition of net profit for the 12-month period of 2019 in the amount of PLN 4,487 million, dividend payments from the previous year's profit in the amount of PLN (1,497) million, the impact of exchange differences on translating foreign operations in the amount of PLN 138 million and the negative impact of the change in balance of hedging reserve in the amount PLN (33) million.

The value of trade and other liabilities increased by PLN 1,428 million compared to the end of 2018 mainly due to increase of trade liabilities in the amount of PLN 622 million, investment liabilities in the amount of PLN 295 million, tax liabilities in the amount of PLN 136 million and the other liabilities related to redemption of non-controlling shareholders of Unipetrol in the amount of PLN 190 million.

As at 31 December 2019 the value of provisions amounted to PLN 2,313 million and was higher by PLN 239 million compared to the end of 2018, mainly due to net provision balance change of estimated CO_2 emissions and energy certificates in the total amount of PLN 177 million. The change results mainly from the net effect of recognition of provision in the amount of PLN 1,027 million based on weighted average method price of owned rights and certificates and their usage due to redemption of rights for 2018 in the amount of PLN (821) million.

As at 31 December 2019, net financial indebtedness of the ORLEN Group amounted to PLN 2,448 million and was lower by PLN (3,151) million in comparison with the end of 2018. The change in net financial indebtedness included mainly the net repayment of loans, borrowings and bonds in the amount of PLN (1,111) million, an increase in cash and cash equivalents balance by PLN (1,967) million and the net impact of positive exchange differences from revaluation of the valuation of debt and interest in the total amount of PLN (73) million.

Statement of cash flows for the 12 months of 2019

Proceeds of net cash from operating activities for the 12-month period of 2019 amounted to PLN 9,319 million and comprised mainly of profit from operations increased by depreciation and amortisation in the amount of PLN 9,068 million, the positive impact of the decrease in net working capital by PLN 925 million and income taxes paid in the amount of PLN (1,498) million and by share in financial result from investments accounted for under equity method in the amount of PLN (136) million, loss on investing activities in the amount of PLN 404 million related mainly to net impairment allowances of property, plant and equipment and intangible assets and other non-current assets, change in provisions in the amount of PLN 999 million and other adjustments in the amount of PLN (625) million related mainly to rights received free of charge.

Net cash used in investing activities for the 12 months of 2019 amounted to PLN (3,994) million and comprised mainly of net expenses for the acquisition and sales of property, plant and equipment, intangible assets and right-of-use asset in the amount of PLN (4,205) million, settlement of derivatives not designated as hedge accounting in the amount of PLN 82 million and proceeds from dividends received in the 2nd quarter of 2019 in the amount of PLN 112 million.

Net outflows of cash from financing activities for the 12 months of 2019 amounted to PLN (3,363) million and comprised mainly of net outflows of loans and borrowings in the amount PLN (111) million, redemption of retail bonds in the amount of PLN (1,000) million, dividends paid in the amount of PLN (1,497) million, interest paid in the amount of PLN (286) million, payments of liabilities under lease agreements in the amount of PLN (656) million and net cash related to redemption of non-controlling shareholders of Unipetrol in the amount of PLN 190 million. In accordance with the agreement, bank Ceska Sporitelna a.s. after the Basic Period of settlements with Unipetrol's former shareholders, transferred to PKN ORLEN 90% of unused amount due to former shareholders. The reimbursement of cash is temporary, as PKN ORLEN is obliged to systematically replenish the provisions for subsequent settlements with notifying shareholders, as to maintain safe level above 5% of outstanding amount due to squeeze-out of Unipetrol's shares.

Following inclusion of the revaluation of cash due to exchange differences, the cash balance in the 12-month period of 2019 increased by PLN 1,967 million and as at 31 December 2019 amounted to PLN 6,159 million.

In the 12-month period of 2019, restricted cash increased by PLN 999 million and amounted to PLN 1,086 million, mainly due to collateral established in 4th quarter for the tender offer announced by PKN ORLEN to subscribe for the sale of all shares of ENERGA S.A.in the amount of PLN 1 billion and the collateral of the above transaction with a bank guarantee for the amount of PLN 2 billion.

Statement of cash flows for the 4th quarter of 2019

In the 4th quarter of 2019 the net cash from operating activities amounted to PLN 1,203 million and comprised mainly of profit from operations increased by depreciation and amortisation in the amount of PLN 1,607 million and the negative impact of decrease in a net working capital by PLN (453) million.

In the 4th quarter of 2019 the net cash used in investing activities amounted to PLN (1,621) million and comprised mainly of net expenses for the acquisition and disposal of property, plant and equipment, intangible assets and perpetual usufruct of land in the amount of PLN (1,644) million.

In the 4th quarter of 2019 net expenses of cash used in financing activities amounted to PLN (286) million and comprised mainly payments of liabilities under lease agreements in the amount of PLN (233) million and interest paid in the amount of PLN (39) million.

Following inclusion of the revaluation of cash due to exchange differences, the cash balance in the 4th quarter of 2019 decreased by PLN (654) million and as at 31 December 2019 amounted to PLN 6,159 million.

Factors and events which may influence on future results

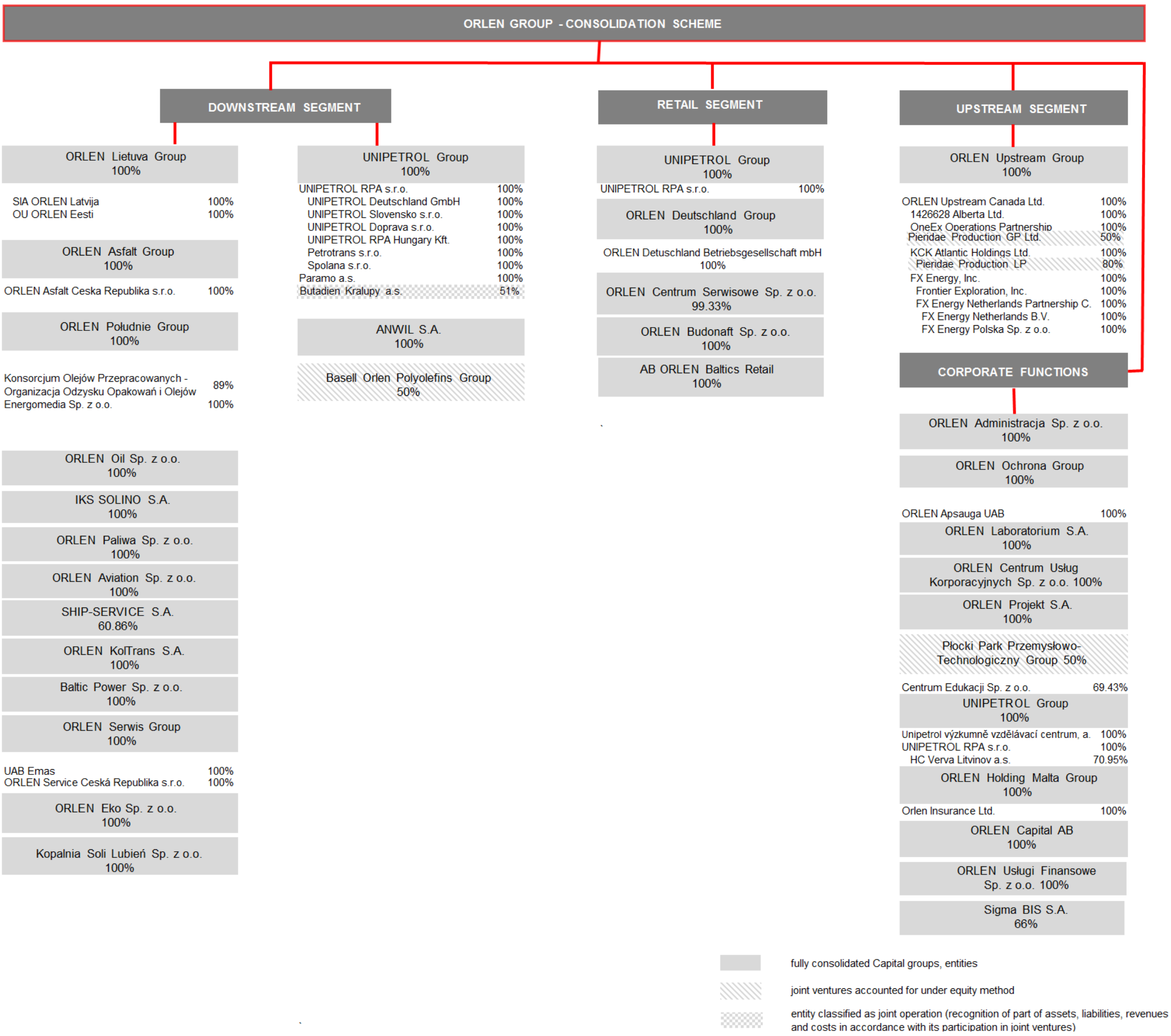
The factors that will affect on future financial results of the ORLEN Group include:

- 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 the tariff war between the US and China as well as the US conflict with Iran,
- economic situation - GDP level, fuel and other products of the Group consumption on the markets of its operations and the situation on the labour market,
- availability of production instances,
- applicable legal regulations.

3.2. 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 the USA and Canada.

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



3.3. Changes in the structure of the ORLEN Group from 1 January 2019 up to the date of preparation of this report

- On 15 January 2019, the transformation of Platinum Oil Wielkopolskie Centrum Dystrybucji Sp. z o.o. to Platinum Oil Wielkopolskie Centrum Dystrybucji S.A. took place. ORLEN OIL Sp. z o.o. held 100% of the share capital of Platinum Oil Wielkopolskie Centrum Dystrybucji S.A.;
- On 23 January 2019 the founding act of ORLEN Usługi Finansowe Sp. z o.o. was signed. On 9 May 2019 the company was registered.
- On 1 February 2019 an entry into the merger register of ORLEN Południe SA and Euronaft Trzebinia Sp. z o.o. was made, by transferring all assets of Euronaft Trzebinia Sp. z o.o. as the Acquired Company, to ORLEN Południe S.A. as the Acquiring Company.
- On 1 March 2019 the transformation of ORLEN KolTrans Sp. z o.o. from a limited liability company into a joint-stock company, i.e. into ORLEN KolTrans SA took place.

- On 9 May 2019 the transformation of UAB Mazeikiu naftos prekybos namai from a limited liability company into a joint-stock company took place, i.e. from UAB Mazeikiu naftos prekybos namai into AB Mazeikiu naftos prekybos namai.
- On 3 June 2019 the transfer of UAB EMAS ownership from the ORLEN Lietuva Group to the ORLEN Serwis Group took place as a result of the purchase of all of the company's shares by ORLEN Serwis SA. from AB ORLEN Lietuva. As a result of the transaction ORLEN Serwis S.A. is the sole owner of UAB EMAS (100% share in the share capital).
- On 13 June 2019 PKN ORLEN filed a surcharge to the capital of ORLEN Capital in the total amount of PLN 213 million (representing EUR 50 million).
- On 28 June 2019 the Extraordinary General Meeting of Shareholders of Baltic Power sp. o.o. adopted a resolution regarding the increase of the company's share capital. Share capital of Baltic Power sp. z o.o. increased by PLN 100,000 by creating 1,000 new and indivisible shares with a nominal value of PLN 100 each, which were fully subscribed by the existing sole shareholder of the company, ie. PKN ORLEN, in exchange for a cash contribution of PLN 52.4 million. Surplus of cash contribution over total nominal value of the newly issued shares will increase the company's reserve capital. The cash contribution was made on 1 July 2019. Share capital increase to the amount of PLN 600 000 will take place at the moment of entry into the Register.
- On 3 July 2019 the share of ORLEN Upstream Canada Ltd. in the capital of Pieridae Energy Limited (Federal) decreased from 4.38% to 4.25% as a result of issue of new shares.
- On 5 and 23 September 2019 PKN ORLEN filed a surcharge to the capital of ORLEN Upstream in the total amount of PLN 75 million.
- On 3 October 2019 PKN ORLEN purchased from Powszechny Zakład Ubezpieczeń S.A. 6,600 ordinary name shares of A series of Sigma BIS S.A. representing 66% of share capital of Sigma BIS S.A. and the Extraordinary General Meeting of Sigma BIS S.A. adopted a resolution regarding the increase of the company's share capital by PLN 3,000,000 by issuing 300,000 new registered shares with a nominal value of PLN 10. PKN ORLEN acquired 198,000 ordinary new issue shares of SIGMA BIS S.A. which together with the purchased shares constitute 66% of the increased share capital of the company. As part of its operations, the company provides comprehensive media planning and purchase, market research and sponsorship.
- On 23 October 2019 the National Court Register registered an increase in the share capital of Baltic Power sp.z o.o.
- On 16 October 2019 the name of Akcinė bendrovė "Ventus Nafta" from the ORLEN Group was changed to Akcinė bendrovė ORLEN Baltics Retail and the change of company name was registered.
- On 17 October 2019 Pieridae Energy Limited completed the acquisition of assets of Shell Canada Energy under the terms of the amended and recast agreement of purchases and sales of 7 October 2019 and issued new shares of Pieridae Energy Limited. The total amount of ordinary shares of the company amounts to 157,459,584, and the share of ORLEN Upstream Canada Ltd. in the company decreased from 4.25% to 2.34%.
- On 6 November 2019 ORLEN Deutschland GmbH completed the purchase of Waterside XXXVII Vermögensverwaltungsgesellschaft mbH with its headquarters in Hamburg. The purchase price was PLN 0.1 million (representing EUR 25 000).
  At the same time, ORLEN Deutschland decided to increase the share capital of ORLEN Detuschland Betriebsgesellschaft mbH from EUR 25,000 to EUR 150,000.
- On 2 December 2019 the Court registered the merger of ORLEN OIL Sp. z o.o. and Platinum Oil Wielkopolskie Centrum Dystrybucji S.A.
- On 5 December 2019 PKN ORLEN carried out a voluntary redemption of 325 shares of ORLEN KolTrans S.A. from minority shareholders and thus gained 100.00% control over ORLEN KolTrans S.A.
- On 9 December 2019 incorporation of Akcine Bendrove Mažeikių Nafta Trading House to ORLEN Lietuva took place.
- On 10 December 2019 ORLEN Serwis S.A. established in the Czech Republic- ORLEN Service Česká republika s.r.o. The newly created company will carry out service works in the automatic, electrical, mechanical and rotating machinery industries in the Czech Republic.

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.

4. Segment's data

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

and Corporate Functions, which include activities related to management, administration and remaining activities not allocated to separate operating segments i.e. reconciling items.
The allocation of the ORLEN Group's companies to operating segments and Corporate Functions was presented in note 3.2.

ORLEN ORLEN GROUP (in PLN million)

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

for the 12-month period ended 31 December 2019

	NOTE	Downstream Segment (unaudited)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
External revenues	5.1	71 604	38 910	608	81	-	111 203
Inter-segment revenues		19 099	179	-	444	(19 722)	-
Sales revenues		90 703	39 089	608	525	(19 722)	111 203
Operating expenses		(86 325)	(36 645)	(607)	(1 522)	19 722	(105 377)
Other operating income	5.5	861	122	95	41	-	1 119
Other operating expenses	5.5	(1 017)	(166)	(215)	(80)	-	(1 478)
(Loss)/reversal of loss due to impairment of financial instruments		(10)	(7)	-	(24)	-	(41)
Share in profit from investments accounted for using the equity method		136	-	-	-	-	136
Profit/(Loss) from operations		**4 348**	**2 393**	**(119)**	**(1 060)**	**-**	**5 562**
Net finance income and costs	5.6						(11)
(Loss)/reversal of loss due to impairment of financial instruments							(2)
Profit before tax							**5 549**
Tax expense							(1 062)
Net profit							**4 487**
Depreciation and amortisation	5.2	**2 380**	**630**	**328**	**168**	**-**	**3 506**
EBITDA		**6 728**	**3 023**	**209**	**(892)**	**-**	**9 068**
Increases in non-current assets, incl.:		**4 004**	**3 365**	**637**	**682**	**-**	**8 688**
impact of IFRS 16 adoption		1 047	1 974	3	292	-	**3 316**

for the 3-month period ended 31 December 2019

	NOTE	Downstream Segment (unaudited)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
External revenues	5.1	17 511	9 795	170	24	-	27 500
Inter-segment revenues		4 952	7	-	125	(5 084)	-
Sales revenues		22 463	9 802	170	149	(5 084)	27 500
Operating expenses		(21 674)	(9 370)	(168)	(453)	5 084	(26 581)
Other operating income	5.5	333	60	65	21	-	479
Other operating expenses	5.5	(501)	(87)	(148)	(15)	-	(751)
(Loss)/reversal of loss due to impairment of financial instruments		(1)	(1)	-	9	-	7
Share in profit from investments accounted for using the equity method		19	-	-	-	-	19
Profit/(Loss) from operations		**639**	**404**	**(81)**	**(289)**	**-**	**673**
Net finance income and costs	5.6						193
(Loss)/reversal of loss due to impairment of financial instruments							(1)
Profit before tax							**865**
Tax expense							(94)
Net profit							**771**
Depreciation and amortisation	5.2	**625**	**162**	**92**	**55**	**-**	**934**
EBITDA		**1 264**	**566**	**11**	**(234)**	**-**	**1 607**
Increases in non-current assets		**1 266**	**658**	**231**	**155**	**-**	**2 310**

ORLEN GROUP (in PLN million)

for the 12-month period ended 31 December 2018

	NOTE	Downstream Segment	Retail Segment	Upstream Segment	Corporate Functions	Adjustments	Total
External revenues	5.1	71 663	37 339	605	99	-	109 706
Inter-segment revenues		18 074	135	-	431	(18 640)	-
Sales revenues		89 737	37 474	605	530	(18 640)	109 706
Operating expenses		(85 204)	(35 139)	(570)	(1 327)	18 640	(103 600)
Other operating income	5.5	1 593	114	271	172	-	2 150
Other operating expenses	5.5	(456)	(141)	(327)	(228)	-	(1 152)
(Loss)/reversal of loss due to impairment of financial instruments		(5)	(2)	-	(9)	-	(16)
Share in profit from investments accounted for using the equity method		127	-	-	-	-	127
Profit/(Loss) from operations		**5 792**	**2 306**	**(21)**	**(862)**	**-**	**7 215**
Net finance income and costs	5.6						(104)
(Loss)/reversal of loss due to impairment of financial instruments							(1)
Profit before tax							**7 110**
Tax expense							(1 506)
Net profit							**5 604**
Depreciation and amortisation	5.2	**1 791**	**461**	**308**	**113**	**-**	**2 673**
EBITDA		**7 583**	**2 767**	**287**	**(749)**	**-**	**9 888**
Increases in non-current assets		**2 451**	**832**	**740**	**257**	**-**	**4 280**

for the 3-month period ended 31 December 2018

	NOTE	Downstream Segment (unaudited)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
External revenues	5.1	19 291	9 953	141	35	-	29 420
Inter-segment revenues		4 814	9	-	109	(4 932)	-
Sales revenues		24 105	9 962	141	144	(4 932)	29 420
Operating expenses		(24 097)	(9 156)	(152)	(380)	4 932	(28 853)
Other operating income	5.5	934	58	268	115	-	1 375
Other operating expenses	5.5	(147)	(75)	(265)	(120)	-	(607)
(Loss)/reversal of loss due to impairment of financial instruments		(17)	-	-	(5)	-	(22)
Share in profit from investments accounted for using the equity method		13	-	-	-	-	13
Profit/(Loss) from operations		**791**	**789**	**(8)**	**(246)**	**-**	**1 326**
Net finance income and costs	5.6						(51)
Profit before tax							**1 275**
Tax expense							(373)
Net profit							**902**
Depreciation and amortisation	5.2	**476**	**118**	**71**	**32**	**-**	**697**
EBITDA		**1 267**	**907**	**63**	**(214)**	**-**	**2 023**
Increases in non-current assets		**900**	**353**	**187**	**131**	**-**	**1 571**

EBITDA *– profit/(loss) from operations increased by depreciation and amortisation*
Increase in non-current assets *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.*

Assets by operating segments

	31/12/2019 (unaudited)	31/12/2018
Downstream Segment	47 416	46 129
Retail Segment	9 923	6 974
Upstream Segment	4 440	4 175
Segment assets	**61 779**	**57 278**
Corporate Functions	9 684	6 914
Adjustments	(87)	(51)
	71 376	**64 141**

ORLEN ORLEN GROUP (in PLN million)

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 LPG sales, natural gas sales and non-fuel merchandise sales by ORLEN Deutschland to customers network. In other transactions the Group acts as a principal.

The Group has a VITAY loyalty program for retail clients. 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 in calculating points entitling to discounts on future purchases. A ratio of 68.5% is adopted to recognise liability taking into account the possibility 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, which marketing services provided to suppliers are inseparably linked to the purchase of these merchandise, hence revenues from service reduce costs related to their purchase and release for sale.

	12 MONTHS ENDED 31/12/2019 (unaudited)	3 MONTHS ENDED 31/12/2019 (unaudited)	12 MONTHS ENDED 31/12/2018	3 MONTHS ENDED 31/12/2018 (unaudited)
Revenues from sales of finished goods and services, net	93 009	22 855	91 014	24 583
revenue from contracts with customers	*92 609*	*22 766*	*90 792*	*24 530*
excluded from scope of IFRS 15	*400*	*89*	*222*	*53*
Revenues from sales of merchandise and raw materials, net	18 194	4 645	18 692	4 837
revenue from contracts with customers	*18 161*	*4 639*	*18 692*	*4 837*
excluded from scope of IFRS 15	*33*	*6*	*-*	*-*
Sales revenues, incl.:	**111 203**	**27 500**	**109 706**	**29 420**
revenue from contracts with customers	*110 770*	*27 405*	*109 484*	*29 367*

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

Performance obligations
As part of the contractual obligations , the Group commits to supply mostly refining, petrochemical products and goods, energy, crude oil and gas to its customers. Under this agreements the Group acts as a principal. In existing contracts with customers transaction prices are not restricted.
There are no significant contracts in force in the Group, which allow for obligations to accept returns, pay reimbursements or other similar obligations. There is no significant financing component in contracts with customers. The Group does not identify revenues for which the payment of consideration is contingent.
The guarantees provided under the contracts provide assurance to the customer that the product meets the required specification. They do not rely on the performance of distinct service.
In the downstream segment deferred payment sales are the norm. In the retail segment there are both cash sales with the possibility of deferred payments through use of fuel cards entitling customers to the ongoing purchase of fuel in the petrol station network. The settlements with customer takes place in two-week periods (so-called Fleet Cards).
Payment usually becomes due after goods or services have been transferred. In contracts with downstream and retail segments' customers, payment dates not exceeding 30 days are used in most cases, whereas in the upstream segment not exceeding 60 days.

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.

Revenues based on a fixed price constitute the majority of revenues in the Group. The customer has the right to discounts, penalties, which in accordance with IFRS 15 constitute an element of variable consideration. The Group recognises revenues in the amount of consideration, to which – in line with expectations- it will be entitled and which will not be reversed in the future. Consequently, the Group adjusts revenues for highly probable discounts and penalties, which recognition are highly probable. The variability of consideration in contracts with customers is largely due to volume rebates. The Group also defers the part of revenue related to the VITAY loyalty program, according to which the customer is entitled to future benefits (i.e. VITAY points).

The transfer of control as the moment of revenue recognition under IFRS 15 is a broader concept than the transfer of risks and rewards. As part of the downstream segment, in the scope of sales of petrochemical and refinery products, the Group recognises revenue from satisfaction of performance obligation, depending on the terms of delivery (Incoterms) used. In the case of some deliveries the Group is obliged to organize transport and/or insurance. When the control of good passes to the customer before transport is performed, the delivery of goods and transport (and possibly insurance) become 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 the case of transport and insurance, the customer simultaneously receives benefits from the service.
In the retail segment, the moment of satisfied a performance obligation is the moment of transfer of good, excluding sales of fuels using Fleet Cards.
In the case of sales transferred over time the Group recognises revenues at least on a monthly basis, where settlements between parties to the contract take place periodically and reflect the amount of remuneration owing to the Group for the provision of products and services to the customer. Within the Downstream segment revenues mainly relate to the sale of energy and heat, the sale of fuels using Fleet cards within Retail segment and the sale of gas and crude oil within the Upstream segment.

ORLEN ORLEN GROUP (in PLN million)

The majority of contracts within the Group are short-term. Revenues on services for which start and end dates fall in different reporting periods (long-term contracts) are recognised according to the stage of their completion, if the result of the transaction can be reliably estimated. Long-term contracts that remain unfulfilled in full as at the balance sheet date relate to construction and assembly contracts and energy sales.

The Group sells directly to end customers in the Retail segment, managing a network of close to 2,834 fuel stations, including 2,292 own brand stations and a further 542 stations operated under franchise agreements.
The Group's sales to customers in the Downstream 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.

5.1.1. Sales revenues of operating segments according to product type

	12 MONTHS ENDED 31/12/2019 (unaudited)	3 MONTHS ENDED 31/12/2019 (unaudited)	12 MONTHS ENDED 31/12/2018	3 MONTHS ENDED 31/12/2018 (unaudited)
Downstream Segment				
Revenue from contracts with customers IFRS 15	**71 401**	**17 473**	**71 568**	**19 269**
Light distillates	12 098	3 114	12 925	3 391
Medium distillates	35 916	9 197	34 787	9 757
Heavy fractions	6 369	1 338	7 339	2 159
Monomers	3 585	797	3 260	628
Polymers	2 390	475	2 643	540
Aromas	1 080	232	1 096	201
Fertilizers	903	222	825	216
Plastics	1 218	162	1 409	263
PTA	1 893	424	1 528	339
Other*	5 949	1 512	5 756	1 775
Excluded from scope of IFRS 15	**203**	**38**	**95**	**22**
	71 604	**17 511**	**71 663**	**19 291**
Retail Segment				
Revenue from contracts with customers IFRS 15	**38 703**	**9 745**	**37 232**	**9 927**
Light distillates	14 659	3 616	14 266	3 753
Medium distillates	20 405	5 172	19 879	5 386
Other **	3 639	957	3 087	788
Excluded from scope of IFRS 15	**207**	**50**	**107**	**26**
	38 910	**9 795**	**37 339**	**9 953**
Upstream Segment				
Revenue from contracts with customers IFRS 15	**608**	**170**	**605**	**141**
NGL ***	314	74	337	76
Crude oil	126	46	95	18
Natural Gas	163	48	168	46
Other	5	2	5	1
	608	**170**	**605**	**141**
Corporate Functions				
Revenue from contracts with customers IFRS 15	**58**	**17**	**79**	**30**
Excluded from scope of IFRS 15	**23**	**7**	**20**	**5**
	81	**24**	**99**	**35**
	111 203	**27 500**	**109 706**	**29 420**

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

In the 12 and 3-month period ended 31 December 2019 and 31 December 2018 no leading Group customers for which revenue would individually exceed 10% of the total sales revenues of the ORLEN Group were identified.

ORLEN GROUP (in PLN million)

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

	12 MONTHS ENDED 31/12/2019 (unaudited)	3 MONTHS ENDED 31/12/2019 (unaudited)	12 MONTHS ENDED 31/12/2018	3 MONTHS ENDED 31/12/2018 (unaudited)
Revenue from contracts with customers				
Poland	*51 591*	*13 004*	*49 800*	*13 484*
Germany	*16 102*	*3 821*	*16 776*	*4 358*
Czech Republic	*14 802*	*3 577*	*14 460*	*4 236*
Lithuania, Latvia, Estonia	*11 972*	*3 058*	*10 996*	*2 633*
Other countries	*16 303*	*3 945*	*17 452*	*4 656*
	110 770	27 405	109 484	29 367
excluded from scope of IFRS 15				
Poland	*222*	*43*	*117*	*27*
Germany	*88*	*20*	*-*	*-*
Czech Republic	*123*	*32*	*105*	*26*
	433	95	222	53
	111 203	**27 500**	**109 706**	**29 420**

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

5.2. Operating expenses

Cost by nature

	12 MONTHS ENDED 31/12/2019 (unaudited)	3 MONTHS ENDED 31/12/2019 (unaudited)	12 MONTHS ENDED 31/12/2018	3 MONTHS ENDED 31/12/2018 (unaudited)
Materials and energy	(75 468)	(18 589)	(75 789)	(20 836)
Cost of merchandise and raw materials sold	(16 035)	(4 105)	(16 484)	(4 165)
External services	(4 521)	(1 265)	(4 593)	(1 244)
Employee benefits	(2 940)	(794)	(2 628)	(681)
Depreciation and amortisation	(3 506)	(934)	(2 673)	(697)
Taxes and charges	(2 659)	(660)	(1 540)	(447)
Other	(647)	(170)	(543)	(178)
	(105 776)	**(26 517)**	**(104 250)**	**(28 248)**
Change in inventories	258	(89)	479	(614)
Cost of products and services for own use	141	25	171	9
Operating expenses	**(105 377)**	**(26 581)**	**(103 600)**	**(28 853)**
Distribution expenses	6 355	1 707	4 745	1 247
Administrative expenses	1 804	509	1 590	441
Cost of sales	**(97 218)**	**(24 365)**	**(97 265)**	**(27 165)**

In the 12 and 3-month period ended 31 December 2019, the position of taxes and charges includes the value of the emission charge effective from 1 January 2019 in the amount of PLN (1,200) million and PLN (296) million, respectively.

5.3. Impairment allowances of inventories to net realizable value

	12 MONTHS ENDED 31/12/2019 (unaudited)	3 MONTHS ENDED 31/12/2019 (unaudited)	12 MONTHS ENDED 31/12/2018	3 MONTHS ENDED 31/12/2018 (unaudited)
Increase	(190)	(41)	(215)	(174)
Decrease	351	41	55	9

In the 12-month period ended 31 December 2019 the line decrease includes reversal and usage of inventory impairment allowances to net realizable value made mainly in the 4th quarter of 2018 due to a decrease in crude oil and petroleum product prices.

5.4. Impairment allowances of property, plant and equipment and intangible assets

As at 31 December 2019, an impairment indicators were identified in the ORLEN Group in accordance with IAS 36 "Impairment allowances of assets" related to the approval on 19 December 2019 The Financial Plan of PKN ORLEN and ORLEN Group for 2020 by the Management Board and the Supervisory Board of PKN ORLEN.
The macroeconomic assumptions of The Financial Plan of PKN ORLEN and ORLEN Group for 2020 were based on analyses and recommendations of renowned global advisors, including IHS Markit, Nexant, JBC Energy, PVM, EIA, Platts, Continuum Economics, Wood Mackenzie Chemicals, observations of main competitors and expert knowledge of the ORLEN Group.

Production assets of the Upstream segment located both in Poland and Canada have been assessed by independent companies using current knowledge and geological techniques, engineering and computer software.

For the assessment of production assets in ORLEN Upstream Canada, the Reserve Report was prepared (valuation of the concession assessing the production potential of the assets). For exploration rights for extraction were valued (valuation based on their production potential and the expected level of raw material prices, the so-called Assessment of Non-Reserve Lands). They are the basis for the assessment of fair value.
The actual reports revealed a slight decrease in the level of production potential relative to the last resource verification by 6%.

The assessment of the prospects of exploited deposits and discoveries of oil and gas in Poland was made on the basis of the Reserve Report prepared by a reputable European adviser. The actual report revealed a decrease in the level of exploration reserves compared to the last resource verification by 15%.

Decisions on impairment of expenditures incurred for individual exploration and recognition projects are made in case of a negative assessment of the perspectives of the area.

Due to the lack of a reliable estimate of the price, at which would have taken place potential transaction to sale the assets of the Group as the recoverable value of its individual assets is its value in use, according to IAS 36.20. The Upstream segment assets test was performed by reference to the fair value reduced by the costs of reclamation.
The fair value is based on the expected discounted cash flows generated by a single CGU (Cash Generating Unit) until the end of extraction. The valuation is based largerly on non-market input data (valuation level 3, as defined in IFRS13 - Fair value measurement) – mainly these are forecasts for future oil and gas prices, and evaluation of the production potential of the reserves.

The impairment tests were performed on the basis of assets of the ORLEN Group as at 31 December 2019 and net cash flows projected in the approved Financial Plan for 2020 and within Strategy the Mid-term Plan for years 2021-2022 or in the mentioned above Reserve Reports, discounted to their present value using the discount rates which reflect the current market value of money and the specific risks to the valued assets.
Discount rates were calculated as the weighted average cost of engaged equity and debt. Sources of macroeconomic indicators necessary to determine the discount rate were published by prof. Aswath Damodaran (source: http://pages.stern.nyu.edu) and government bonds quotation available as at 31 December 2019.

The discount rate structure used in the impairment tests of assets by cash-generating unit of ORLEN Group as at 31 December 2019

	Poland				Czech Republic			Lithuania		Canada	Germany
	Refining	Petrochemical	Retail	Upstream	Refining	Petrochemical	Retail	Refining	Retail	Upstream	Retail
Cost of equity	9.71%	9.52%	9.1%	10.56%	9.16%	8.98%	8.55%	11.13%	10.44%	9.45%	6.19%
Cost of debt after tax	2.38%	2.38%	2.38%	2.38%	1.98%	1.98%	1.98%	3.16%	3.16%	1.93%	0.43%
Capital structure	0.54	0.43	1.03	1.11	0.54	0.43	1.03	0.54	1.03	0.56	1.03
Nominal discount rate	**7.15%**	**7.39%**	**5.68%**	**6.26%**	**6.66%**	**6.88%**	**5.21%**	**8.35%**	**6.74%**	**6.74%**	**3.26%**
Long-term rate of inflation	2.48%	2.48%	2.48%	2.48%	2.16%	2.16%	2.16%	2.06%	2.06%	2.08%	1.50%

The Group identifies significant drops in discount rates relative to the verification of the value of the ORLEN Group assets that took place on 31 December 2018 and when the update of the ORLEN Group Strategy for 2019-2022 adopted by the Management Board and Supervisory Board of the ORLEN Group Strategy on 20 December 2018 was the indicator.

The discount rate structure used in the impairment tests of assets by cash-generating unit of ORLEN Group as at 31 December 2018

	Poland				Czech Republic			Lithuania		Canada	Germany
	Refining	Petrochemical	Retail	Upstream	Refining	Petrochemical	Retail	Refining	Retail	Upstream	Retail
Cost of equity	11.94%	10.56%	10.28%	12.49%	10.98%	9.61%	9.33%	14.08%	12.09%	10.56%	6.99%
Cost of debt after tax	3.00%	3.00%	3.00%	3.00%	2.27%	2.27%	2.27%	4.17%	4.17%	2.06%	0.78%
Capital structure	0.55	0.38	1.14	1.11	0.55	0.38	1.14	0.55	1.14	0.55	1.14
Nominal discount rate	**8.77%**	**8.46%**	**6.40%**	**7.51%**	**7.89%**	**7.57%**	**5.56%**	**10.56%**	**7.86%**	**7.54%**	**3.68%**
Long-term rate of inflation	2.50%	2.50%	2.50%	2.50%	2.10%	2.10%	2.10%	2.10%	2.10%	2,00%	1.80%

The Group observed that the reduction of the expected rates of return on investment is a consequence of structural changes taking place in the global economy and the fact that we are entering a group of developed markets. The sustainable business strategies characteristic for this group require extending the horizon of return on investment, which is consistent with the reduction of discount rates. The nominal risk free rate is reduced. The GDP indicator is in the same direction, which is the result of, among others structural changes in demography, the maturing of economies, the developing process of better use of existing assets, the so-called sharing economy, as well as the growing share of the services in the entire GDP basket.

As a result, in the 12 and 3-month period ended 31 December 2019, the ORLEN Group recognised the total net impairment effect on impairment losses on assets in the amount of PLN (215) million and PLN (115) million, respectively.

As at the 31 December 2019, the ORLEN Upstream Group assessed the prospects of concessions located in Poland and identified the premises for carrying out a test of the value of production assets in Poland based on the Reserve Report prepared by an independent company. As a result, in the 12 and 3-month period ended 31 December 2019, the ORLEN Group recognised an impairment of PLN (112) million and PLN (50) million, respectively (including PLN (106) million and PLN (44) million, respectively relating to upstream assets in the Płotki project, PLN (6) million due to assets from exploration under the Edge project).
In addition, the Group received a report prepared as at 31 December 2019 allowing the estimation of the fair value of assets for the development and extraction of mineral resources in Canada, which was prepared by an independent company. The ORLEN Upstream Group recognised impairments and reversals of impairments based on a reserve report and impairments of assets from exploration. The total value of recognised impairments in the 12 and 3-month period ended 31 December 2019, amounted to PLN (93) million and PLN (91) million, respectively (including cash-generating units: mainly Southern Alberta, Kaybob, Peace River Oil, Central Alberta Gas), and reversals of impairments 83 PLN million (including cash generating unit Ferrier). The value of non-current assets of the segment in Canada has been updated in the 12 and 3-month period ended 31 December 2019 with a net value of PLN (10) million and PLN (8) million, respectively.
Total impact of recognised impairments and reversal of impairments on non-current assets of the ORLEN Upstream Group in the 12 and 3-month period ended 31 December 2019 amounted to PLN (122) million and PLN (58) million, respectively.

ORLEN ORLEN GROUP (in PLN million)

Fair value of the upstream segment's assets in the Upstream Group:

ORLEN Upstream Canada	6 525
FX Energy Poland	360
ORLEN Upstream Poland	217
	7 102

Other allowances concerned mainly PKN ORLEN and the Unipetrol Group. In the 12 and 3-month period ended 31 December 2019, in PKN ORLEN they amounted to PLN (53) million and PLN (34) million respectively, and in the Unipetrol Group PLN (39) million and PLN (22) million respectively.

PKN ORLEN and the ORLEN Group are in the process of analysing the impairment of assets and their results will be presented in the Financial Statement of the ORLEN Group for 2019.

5.5. Other operating income and expenses

Other operating income

	12 MONTHS ENDED 31/12/2019 (unaudited)	3 MONTHS ENDED 31/12/2019 (unaudited)	12 MONTHS ENDED 31/12/2018	3 MONTHS ENDED 31/12/2018 (unaudited)
Profit on sale of non-current non-financial assets	21	6	17	3
Reversal of provisions	26	9	34	17
Reversal of impairment allowances of property, plant and equipment and intangible assets and other non-current assets	174	135	1 228	1 194
Penalties and compensations	54	17	327	21
Settlement and valuation of derivative financial instruments related to operating exposure	466	245	204	37
Ineffective part related to valuation and settlement of operating exposure	120	-	99	23
Settlement of hedging costs	165	50	24	11
Other, incl.:	93	17	217	69
received/due energy certificates	*29*	*7*	*147*	*43*
	1 119	**479**	**2 150**	**1 375**

In the 12 and 3-month period ended 31 December 2019 the line reversal of impairment allowances of property, plant and equipment and intangible assets and other non-current assets concerned mainly of impairment allowances on non-current assets in the upstream segment in the amount of PLN 83 million.

The line reversal of impairment allowances of property, plant and equipment and intangible assets and other non-current assets in the 12 and 3-month period ended 31 December 2018 concerned mainly the reversal of impairment allowances on non-current assets in the downstream segment in the Unipetrol Group in the amount of PLN 906 million and PLN 894 million, respectively. Additionally, in the 4th quarter of 2018, the Group reversed impairment allowances on non-current assets in the upstream segment in the amount of PLN 122 million.

On 13 August 2015 the steam cracker unit accident in the Unipetrol Group took place. As a result of arrangements with insurers, the final amount of compensation was determined to cover reconstruction costs of installations and lost business profits, therefore during the 12-month period ended 31 December 2018 the Group recognised in the line penalties and compensation the amount PLN 264 million.

Other operating expenses

	12 MONTHS ENDED 31/12/2019 (unaudited)	3 MONTHS ENDED 31/12/2019 (unaudited)	12 MONTHS ENDED 31/12/2018	3 MONTHS ENDED 31/12/2018 (unaudited)
Loss on sale of non-current non-financial assets	(55)	(13)	(47)	(21)
Recognition of provisions	(67)	(40)	(54)	(43)
Recognition of impairment allowances of property, plant and equipment and intangible assets and other non-current assets	(389)	(250)	(524)	(461)
Penalties, damages and compensations	(24)	(10)	(17)	(4)
Settlement and valuation of derivative financial instruments related to operating exposure	(692)	(351)	(215)	(17)
Ineffective part related to valuation and settlement of operating exposure	(92)	(28)	(106)	(3)
Other, incl.:	(159)	(59)	(189)	(58)
donations	*(54)*	*(1)*	*(71)*	*(35)*
	(1 478)	**(751)**	**(1 152)**	**(607)**

In the 12 and 3-month period ended 31 December 2018 the line recognition of impairment allowances of property, plant and equipment and intangible assets and other non-current assets concerned mainly recognition of impairment allowances on non-current assets in the upstream segment in the amount of PLN (205) million and PLN (141) million, respectively as a result of updating gas prices compared to the assumptions from the end of 2018 of the ORLEN Upstream Group in Poland.

ORLEN ORLEN GROUP (in PLN million)

In the 12 and 3-month period ended 31 December 2018 the line recognition of impairment allowances of property, plant and equipment and intangible assets and other non-current assets concerned mainly recognition of impairment allowances on non-current assets in the downstream segment in the Unipetrol Group in the amount of PLN (165) million and PLN (146) million, and in the upstream segment in the ORLEN Upstream Group in the amount of PLN (272) million and PLN (259) million, respectively.

For the 12 and 3-month period ended 31 December 2019 and 31 December 2018 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 (226) million, PLN (106) million and PLN (11) million, PLN 20 million respectively, and mainly related to commodity swaps hedging time mismatch on crude oil purchases and bitumen hedging.
The change in valuation and settlement of derivative financial instruments in the 12 and 3-month period ended 31 December 2019 was affected by the prices of crude oil and refinery products as well as exchange rates.

In the 12 and 3-month period ended 31 December 2019 and 31 December 2018 the net positions of ineffective part relating to operating exposure amounted to PLN 28 million, PLN (28) million and PLN (7) million, PLN 20 million, respectively and mainly related to commodity swaps hedging oversized operating stocks sales of products and foreign currency forwards hedging operating exposure.

5.6. Finance income and costs

Finance income

	12 MONTHS ENDED 31/12/2019 (unaudited)	3 MONTHS ENDED 31/12/2019 (unaudited)	12 MONTHS ENDED 31/12/2018	3 MONTHS ENDED 31/12/2018 (unaudited)
Interest calculated using the effective interest rate method	48	11	39	13
Net foreign exchange gain	-	228	-	-
Dividends	5	-	4	-
Settlement and valuation of derivative financial instruments	801	198	1 287	218
Other	36	9	83	13
	890	**446**	**1 413**	**244**

Finance costs

	12 MONTHS ENDED 31/12/2019 (unaudited)	3 MONTHS ENDED 31/12/2019 (unaudited)	12 MONTHS ENDED 31/12/2018	3 MONTHS ENDED 31/12/2018 (unaudited)
Interest calculated using the effective interest rate method	(186)	(38)	(195)	(53)
Interest on lease	(100)	(45)	(9)	(2)
Interest on tax liabilities	(4)	(1)	(3)	(1)
Net foreign exchange loss	-	-	(353)	(157)
Settlement and valuation of derivative financial instruments	(547)	(152)	(850)	(55)
Other	(64)	(17)	(107)	(27)
	(901)	**(253)**	**(1 517)**	**(295)**

Borrowing costs capitalized in the 12 and 3-month period ended 31 December 2019 and 31 December 2018 amounted to PLN (39) million and PLN (19) million, PLN (39) million and PLN (10) million, respectively.

In the 12 and 3-month period ended 31 December 2019 and 31 December 2018 the net positions of valuation and settlement of derivative financial instruments (non-designated instruments for hedge accounting purposes) amounted to PLN 254 million, PLN 46 million and PLN 437 million, PLN 163 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 change in valuation and settlement of derivative financial instruments in the 12 and 3-month period ended 31 December 2019 was affected by exchange rates (the difference between the exchange rate as at the transaction date and the exchange rate as at the transaction settlement date or transaction valuation) and interest rates on financial markets.

5.7. Loans and bonds

	Non-current		Current		Total	
	31/12/2019 (unaudited)	31/12/2018	31/12/2019 (unaudited)	31/12/2018	31/12/2019 (unaudited)	31/12/2018
Loans	1 884	2 151	252	112	2 136	2 263
Bonds	6 301	6 447	170	1 081	6 471	7 528
	8 185	**8 598**	**422**	**1 193**	**8 607**	**9 791**

ORLEN GROUP (in PLN million)

As at 31 December 2019 indebtedness is mainly due to loans relates to a loan reimbursed by PKN ORLEN from a consortium of banks under the Agreement for a multi-currency revolving loan of 25 April 2014 in the amount PLN 2,130 million translated using the exchange rate as at 31 December 2019 (which corresponds to EUR 500 million).
Detailed information on issue/redemption of bonds is presented in note 5.12.

As at 31 December 2019 and as at 31 December 2018 the maximum possible indebtedness due to loans amounted to PLN 9,160 million and PLN 10,025 million, respectively. As at 31 December 2019 and as at 31 December 2018 PLN 6,742 million and PLN 7,181 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 principal or interest non repayment or loan covenant violations.

5.8. Derivatives and other assets and liabilities

Derivatives and other assets

	Non-current		Current		Total	
	31/12/2019 (unaudited)	31/12/2018	31/12/2019 (unaudited)	31/12/2018	31/12/2019 (unaudited)	31/12/2018
Cash flow hedging instruments	291	143	174	483	465	626
currency forwards	*291*	*143*	*169*	*209*	*460*	*352*
commodity swaps	*-*	*-*	*5*	*274*	*5*	*274*
Derivatives not designated as hedge accounting	19	16	65	39	84	55
currency forwards	*-*	*-*	*27*	*5*	*27*	*5*
commodity swaps	*-*	*-*	*38*	*34*	*38*	*34*
currency interest rate swaps	*19*	*11*	*-*	*-*	*19*	*11*
interest rate swaps	*-*	*5*	*-*	*-*	*-*	*5*
Fair value hedging instruments	-	2	4	2	4	4
commodity swaps	*-*	*2*	*4*	*2*	*4*	*4*
Derivatives	**310**	**161**	**243**	**524**	**553**	**685**
Other financial assets	72	95	468	336	540	431
receivables on settled derivatives	*-*	*-*	*110*	*306*	*110*	*306*
financial assets measured at fair value through other comprehensive income	*66*	*86*	*-*	*-*	*66*	*86*
hedged item adjustment	*-*	*4*	*4*	*21*	*4*	*25*
security deposits	*-*	*-*	*354*	*-*	*354*	*-*
other	*6*	*5*	*-*	*9*	*6*	*14*
Other non-financial assets	143	243	-	-	143	243
*investment property **	*124*	*108*	*-*	*-*	*124*	*108*
perpetual usufruct of land	*-*	*115*	*-*	*-*	*-*	*115*
other	*19*	*20*	*-*	*-*	*19*	*20*
Other assets	**215**	**338**	**468**	**336**	**683**	**674**

** As at 31 December 2019, the line investment property includes right-of-use asset in the amount of PLN 11 million.*

Derivatives and other liabilities

	Non-current		Current		Total	
	31/12/2019 (unaudited)	31/12/2018	31/12/2019 (unaudited)	31/12/2018	31/12/2019 (unaudited)	31/12/2018
Cash flow hedging instruments	1	-	82	105	83	105
currency forwards	*1*	*-*	*-*	*-*	*1*	*-*
commodity swaps	*-*	*-*	*82*	*105*	*82*	*105*
Derivatives not designated as hedge accounting	1	38	180	66	181	104
currency forwards	*1*	*-*	*42*	*18*	*43*	*18*
commodity swaps	*-*	*-*	*119*	*21*	*119*	*21*
interest rate swaps	*-*	*38*	*19*	*-*	*19*	*38*
currency interest rate swaps	*-*	*-*	*-*	*27*	*-*	*27*
Fair value hedging instruments	-	4	4	22	4	26
commodity swaps	*-*	*4*	*4*	*22*	*4*	*26*
Derivatives	**2**	**42**	**266**	**193**	**268**	**235**
Other financial liabilities	152	357	223	79	375	436
liabilities on settled derivatives	*-*	*-*	*209*	*67*	*209*	*67*
investment liabilities	*94*	*102*	*-*	*-*	*94*	*102*
finance lease	*-*	*193*	*-*	*-*	*-*	*193*
hedged item adjustment	*-*	*3*	*4*	*1*	*4*	*4*
refund liabilities	*-*	*-*	*10*	*11*	*10*	*11*
other	*58*	*59*	*-*	*-*	*58*	*59*
Other non-financial liabilities	9	9	13	11	22	20
deferred income	*9*	*9*	*13*	*11*	*22*	*20*
Other liabilities	**161**	**366**	**236**	**90**	**397**	**456**

(in PLN million)

5.9. Provisions

	Non-current		Current		Total	
	31/12/2019 (unaudited)	31/12/2018	31/12/2019 (unaudited)	31/12/2018	31/12/2019 (unaudited)	31/12/2018
Environmental	819	782	42	64	861	846
Jubilee bonuses and post-employment benefits	256	233	49	56	305	289
CO_2 emissions, energy certificates	-	-	961	784	961	784
Other	39	40	147	115	186	155
	1 114	**1 055**	**1 199**	**1 019**	**2 313**	**2 074**

From 1 January 2019 the Group recognises outgoing of CO_2 emission allowances at weighted average method against FIFO method (First In, First Out) applied until 31 December 2018. The effect of changing the method of outgoing of CO_2 allowances as at 31 December 2018 was immaterial and was recognised in the financial result of the current year and as a change in value of provision for CO_2 emission in the statement of financial position. In the opinion of the Management Board of PKN ORLEN, the change in outgoing method better reflects commercial substance of legal situation and economic conditions in terms of volatility of market prices for CO_2 emission rights.

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

As compared to the previous reporting period the Group did not change the valuation methods concerning financial instruments.
Methods applied in determining the fair value were described in the Consolidated Financial Statements for 2018 in note 10.3.3.
In the item financial assets measured at fair value through other comprehensive income, quoted/unquoted shares not held for trading are included.

Fair value hierarchy

	Carrying amount (unaudited)	Fair value (unaudited)	Fair value hierarchy	
			Level 1	Level 2
Financial assets				
Financial assets measured at fair value through other comprehensive income	66	66	26	40
Derivatives	553	553	-	553
	619	**619**	**26**	**593**
Financial liabilities				
Loans	2 136	2 136	-	2 136
Bonds	6 471	6 745	6 745	-
Derivatives	268	268	-	268
	8 875	**9 149**	**6 745**	**2 404**

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

ORLEN ORLEN GROUP (in PLN million)

5.11. Lease

5.11.1. 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 01/01/2019 - Impact of IFRS 16 adoption (unaudited)					
Gross carrying amount	1 544	984	95	697	**3 320**
Impairment allowances	-	-	(2)	(2)	**(4)**
	1 544	**984**	**93**	**695**	**3 316**
increases/(decreases), net					
Depreciation	(54)	(135)	(15)	(321)	(525)
Impairment allowances	(49)	(5)	-	-	(54)
Reclassifications *	133	150	19	49	351
Other **	126	472	2	265	865
	1 700	**1 466**	**99**	**688**	**3 953**
Net carrying amount at 31/12/2019 (unaudited)					
Gross carrying amount	1 831	1 676	125	1 012	4 644
Accumulated depreciation	(82)	(205)	(24)	(322)	(633)
Impairment allowances	(49)	(5)	(2)	(2)	(58)
	1 700	**1 466**	**99**	**688**	**3 953**

* *The line reclassification includes gross values, depreciation of property, plant and equipment and perpetual usufruct of land which were recognised as at 31 December 2018 as finance lease under IFRS 17*
** *The line other includes mainly increases due to newly concluded contracts, contract modifications and other changes of scope or consideration in the amount of PLN 963 million*

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

		12 MONTHS ENDED 31/12/2019 (unaudited)	3 MONTHS ENDED 31/12/2019 (unaudited)
Costs due to:		**(251)**	**(115)**
interest on lease	Finance costs	(100)	(45)
short-term lease	Cost by nature: External Services	(112)	(58)
lease of low-value assets that are not short-term lease	Cost by nature: External Services	(6)	(4)
variable lease payments not recognised in valuation of lease liabilities	Cost by nature: External Services	(33)	(8)

Reconciliation of future minimum lease payments disclosed as at 31 December 2018 with lease liabilities recognised in the statement of financial position as at 1 January 2019

Value of future minimum lease payments under operating lease	5 675
Value of future minimum lease payments under finance lease	286
Contractual lease liabilities as at 31/12/2018	**5 961**
Discount	(2 380)
Present value of lease liabilities as at 01/01/2019	**3 581**
Present value of contractual finance lease liabilities as at 31/12/2018	(229)
Value of contractual lease liabilities – impact of IFRS 16 adoption as at 01/01/2019	**3 352**

* *The weighted average marginal interest rate of the Group as a lessee applied to the lease liabilities recognised in the statement of financial position as at 1 January 2019 amounted to 2.62%*

5.11.2. Group as a lessor

Financial lease

The Group as at the starting date, classifies leases as financial or operating lease.
In order to make the above classification the Group assesses whether the entire risk and benefits resulting from ownership of the underlying asset were transferred to a lessee. If the entire risk and benefits were transferred to a lessee, the lease is classified as a financial lease, in the opposite situation - as operating lease.

The Group as a lessor in finance lease, recognised as at 1 January 2019, in accordance with IFRS 16 subleasing agreements in the ORLEN Deutschland Group and the Unipetrol Group for which the value of revenues in 2019 amounted to PLN 20 million and lease payments due as at 31 December 2019 amounted to PLN 25 million.

Operating lease

Assets transferred by the Group to other entities for use under an operating lease agreement are classified in the Group's assets. Lease payments under operating leases are recognised on a straight-line basis over the lease period as revenues from the sale of products and services.
Revenues from operating lease for the 12 and 3-month period ended 31 December 2019 amounted to PLN 413 million and PLN 75 million.

5.12. Future commitments resulting from signed investment contracts

As at 31 December 2019 and as at 31 December 2018 the value of future commitments resulting from investment contracts signed until that day amounted to PLN 5,022 million and PLN 1,281 million, respectively.

5.13. Issue, redemption and repayment of debt securities

In the 12-month period ended 31 December 2019 as part of:
a) the first public bond issue program, F Series remains open with a nominal value of PLN 100 million;
b) the second public bond issue program, A-E Series with a total nominal value of PLN 1 billion;
c) the bond issue program established under the Bond Issue Program Agreement of 27 November 2006 (as amended), PKN ORLEN:
  - redeemed long-term bonds with a nominal value of PLN 1 billion issued in 2012;
  - issued/redeemed short term bonds in favour of the Group companies as a part of liquidity optimisation in the ORLEN Group. These transactions are eliminated at the ORLEN Group level.

5.14. Distribution of the profit for 2018

The Ordinary General Meeting of Shareholders of PKN ORLEN on 14 June 2019 distributed the net profit of PKN ORLEN for 2018 in the amount of PLN 5,434,149,842.17 as follows: the amount of PLN 1,496,981,713.50 was allocated as a dividend payment (PLN 3.5 per 1 share) and the remaining amount of net profit of PLN 3,937,168,128.67 as reserve capital. The dividend date was set at 22 July 2019 and the dividend payment date at 5 August 2019.

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 Unipetrol RPA s.r.o.
On 23 May 2012, Unipetrol RPA s.r.o. received from the District Court in Ostrava a claim brought by I.P.-95 s.r.o. for compensation related to the filing by Unipetrol RPA s.r.o. a motion for bankruptcy of I.P.-95 s.r.o. in November 2009. The total amount of the claim is approximately PLN 300 million, translated using the exchange rate as at 31 December 2019 (representing CZK 1,789 million). 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 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 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 . 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. In the opinion of PKN ORLEN the above claims are without merit.

Polocktransneft Druzhba claim against AB ORLEN Lietuva
On 21 September 2017, AB ORLEN Lietuva received from the court a claim brought by the Belarusian company Polocktransneft Druzhba (operator of the Belarus section of the Druzhba pipeline) for payment of compensation for crude oil (so-called 'technological oil') which from 1992 was located in Lithuanian section of the Druzhba pipeline and used by ORLEN Lietuva after operation of this section was stopped in 2006. Polocktransneft Druzhba believes that this oil was its property. The value of the claim is approximately PLN 319 million, translated using the exchange rate as at 31 December 2019 (representing USD 84 million). The claim also includes a request for procedural interest and litigation cost. ORLEN Lietuva responded to the claim. On 15 March 2018 a hearing took place. On 29 March 2018, the court dismissed the plaintiff's claim. Polocktransneft Druzhba appealed against the judgment dismissing the claim. ORLEN Lietuva responded to the appeal. The hearing took place on 6 May 2019. The witness, the former chief representative of the Druzhba Polocktransneft in Lithuania, was heard. On 4 September 2019, another hearing was held, at which the Court decided several procedural issues, including admitted evidence from expert opinions appointed by the parties, refused to attach to the case documents from other criminal cases requested by Polocktransneft Druzhba. The court appealed the plaintiff and the defendant to submit documents and information to the case file by 22 October 2019. On 6 November

ORLEN ORLEN GROUP (in PLN million)

2019 and on 22 January 2020 subsequent hearings were held at which documentary evidence was submitted and witness was questioned. Next hearing was scheduled for 7 February 2020. According to ORLEN Lietuva, the above claim is 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 value of the dispute together with interest was included in the books of ORLEN Lietuva and amounted to PLN 64.8 million, translated using the exchange rate as at 31 December 2019 (representing EUR 15.2 million).

The case is connected with 7 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 the opinion of the ORLEN Lietuva the claims are without merit.

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 December 2019 and as at 31 December 2018 and in the 12 and 3-month period ended 31 December 2019 and 31 December 2018, 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 12 and 3-month period ended 31 December 2019 on the basis of submitted declarations there were no transactions of close relatives with the other key executive personnel of the Parent Company and key executive personnel of the ORLEN Group companies with related parties.

In the 12 and 3-month period ended 31 December 2018 on the basis of submitted declarations, there were transactions of close relatives with the other key executive personnel of the Parent Company and key executive personnel of the ORLEN Group companies with related parties in the amount of PLN 0.3 million and PLN 0.05 million, respectively; included the main amounts regarded purchase of legal services and tax consultancy.

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

	12 MONTHS ENDED 31/12/2019 (unaudited)	3 MONTHS ENDED 31/12/2019 (unaudited)	12 MONTHS ENDED 31/12/2018	3 MONTHS ENDED 31/12/2018 (unaudited)
Parent Company				
Short-term employee benefits	42.9	11.2	40.3	10.4
Termination benefits	2.1	0.2	11.1	2.0
Subsidiaries				
Short-term employee benefits	145.7	35.2	130.8	28.6
Post-employment benefits	0.1	0.1	0.4	0.2
Other long term employee benefits	0.8	0.1	0.2	0.1
Termination benefits	8.5	2.0	7.6	1.3
	200.2	**48.9**	**190.4**	**41.0**

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.

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

	Sales				Purchases			
	12 MONTHS ENDED 31/12/2019 (unaudited)	3 MONTHS ENDED 31/12/2019 (unaudited)	12 MONTHS ENDED 31/12/2018	3 MONTHS ENDED 31/12/2018 (unaudited)	12 MONTHS ENDED 31/12/2019 (unaudited)	3 MONTHS ENDED 31/12/2019 (unaudited)	12 MONTHS ENDED 31/12/2018	3 MONTHS ENDED 31/12/2018 (unaudited)
Jointly-controlled entities	**3 119**	**732**	**2 956**	**586**	**(136)**	**(29)**	**(143)**	**(38)**
joint ventures	*2 982*	*704*	*2 794*	*544*	*(54)*	*(14)*	*(45)*	*(11)*
joint operations	*137*	*28*	*162*	*42*	*(82)*	*(15)*	*(98)*	*(27)*
	3 119	**732**	**2 956**	**586**	**(136)**	**(29)**	**(143)**	**(38)**

	Trade and other receivables		Trade and other liabilities	
	31/12/2019 (unaudited)	31/12/2018	31/12/2019 (unaudited)	31/12/2018
Jointly-controlled entities	**540**	**614**	**16**	**16**
joint ventures	*529*	*593*	*10*	*5*
joint operations	*11*	*21*	*6*	*11*
	540	**614**	**16**	**16**

ORLEN ORLEN GROUP (in PLN million)

The above transactions with related parties include mainly sales and purchases of refinery and petrochemicals products and services.
In the 12 and 3-month period ended 31 December 2019 and 31 December 2018 there were no related parties transactions within the Group concluded on other than an arm's length basis.

Additionally, in the 12 and 3-month period ended 31 December 2019, 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 12 and 3-month period ended 31 December 2019 and as at 31 December 2019, the Group identified the following transactions:
- sale and purchase amounted to PLN 0.9 million and PLN 0.2 million and PLN (2.3) million and PLN (0.3) million, respectively;
- balance of liabilities amounted to PLN 0.4 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 December 2019 and as at 31 December 2018, the State Treasury owns 27.52% of the Parent Company's shares - PKN ORLEN and has ability to exert a significant influence on it.
The Group identified transactions with related parties with the State Treasury on the basis of "The Council of Ministers Regulation of 27 March 2019 on the list of companies in which the rights of the State Treasury shares carry other than the President Council of Ministers members of the Council of Ministers', Government Plenipotentiaries or state legal entities including single-member companies of the State Treasury" with subsequent updates.

In the 12 and 3-month period ended 31 December 2019 and 31 December 2018 and as at 31 December 2019 and as at 31 December 2018, the Group identified the following transactions:

	12 MONTHS ENDED 31/12/2019 (unaudited)	3 MONTHS ENDED 31/12/2019 (unaudited)	12 MONTHS ENDED 31/12/2018	3 MONTHS ENDED 31/12/2018 (unaudited)
Sales	2 083	600	1 943	445
Purchases	(4 406)	(1 192)	(5 126)	(1 204)

	31/12/2019 (unaudited)	31/12/2018
Trade and other receivables	339	230
Trade and other liabilities	683	189

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, commission) with Bank PKO BP, Bank Pekao S.A. and Bank Gospodarstwa Krajowego (bank fees, commission).

5.17. Guarantees

Excise tax guarantees and excise tax on goods and merchandise under the excise tax suspension procedure as at 31 December 2019 and as at 31 December 2018 amounted to PLN 2,826 million and PLN 2,626 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 12 AND 3-MONTH PERIOD ENDED 31 DECEMBER 2019

B. OTHER INFORMATION TO CONSOLIDATED QUARTERLY REPORT

1. Major factors having impact on EBITDA and EBITDA LIFO

Profit or loss for the 12 months of 2019

Profit from operations increased by depreciation and amortisation (so-called EBITDA) amounted to PLN 9,068 million and was lower by PLN (820) million (y/y).

The above EBITDA also includes the net impact of impairment allowances of property, plant and equipment and intangible assets.
In 2019, the net impact of the above impairment allowances was negative and amounted to PLN (215) million and concerned mainly upstream assets of the ORLEN Upstream Group.
In 2018 there was a positive effect of reversal of impairment allowances of assets in the amount of PLN 704 million mainly carried out within the downstream segment of the Unipetrol Group.

EBITDA profit before consideration of net impact of the above impairment allowances amounted to PLN 9,283 million and was higher by PLN 99 million (y/y).

The ORLEN Group measures inventories in the financial statements in accordance with International Financial Reporting Standards using the weighted average cost or purchase price method. Therefore, an increase in crude oil prices (by weighted average cost 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.
The negative impact of changes in crude oil prices on inventory valuation recognised in EBITDA amounted to PLN (134) 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 the net impact of impairment allowances of assets amounted to PLN 9,417 million and was higher by PLN 1,093 million (y/y).

Changes in macroeconomic factors negatively affected result of the ORLEN Group in the amount of PLN (223) million mainly as a result of the observation of worsening in margins on refinery and petrochemical products from 4th quarter of 2019 in the amount of PLN (866) million (y/y)
The negative impact of lower differential Ural/Brent by (0.7) USD/bbl and decrease in margins on light distillates, heavy refinery fractions, olefins, PTA and PVC was partially compensated by improvement in margins on medium distillates, fertilizers as well as depreciation of the PLN exchange rate against the foreign currencies .
Increase in sales volumes of the ORLEN Group by more than 1% (y/y) and improvement in the sales structure related to the reduction of sales of heavy fractions contributed to the realization of a positive volume effect in the amount of PLN 1,171 million (y/y).

The positive impact of the other factors amounted to PLN 145 million (y/y) and related mainly to:
- PLN (438) million (y/y) – the negative impact of changes in the balance of other operating activities (after elimination of net impact of impairment allowances of assets), mainly due to lack of compensation received in 2018 related to the steam cracker unit accident in the Unipetrol Group in the amount of PLN (264) million and the recognition of settlement and valuation of net derivative financial instruments related to operating exposure and ineffective part related to valuation and settlement of operating exposure in the amount of PLN (180) million (y/y)
- PLN 271 million – the net impact of revaluation of impairment on inventories (so-called net realisable value) mainly due to negative impact of decreasing crude oil quotation within 2018.
- PLN 312 million (y/y) - other elements, including mainly positive effect of higher wholesale and retail trade margins with higher general and labour costs.

Profit or loss for the 4th quarter of 2019

Profit from operations increased by depreciation and amortisation (so-called EBITDA) in the 4th quarter 2019 amounted to PLN 1,607 million, while in the same period of 2018 amounted to PLN 2,023 million.

The above EBITDA results include the net impact of impairment allowances on property, plant and equipment and intangible assets.
In the 4th quarter of 2019, the impact of the above impairment was negative and amounted to PLN (115) million and related mainly to the assets of the upstream segment in Poland, while in the 4th quarter of 2018 there was a positive effect of reversal of impairment allowances on assets in the amount of PLN 733 million related mainly to assets of downstream segment from the Unipetrol Group.

EBITDA before tax net impact of impairment in the 4th quarter of 2019 amounted to PLN 1,722 million and was higher by PLN 432 million (y/y).
The ORLEN Group measures inventories in the financial statements in accordance with International Financial Reporting Standards using the weighted average cost or purchase price method. Therefore, an increase in crude oil prices (by weighted average cost in comparison to the valuation of crude oil according to LIFO method) has a positive effect, and a decrease has a negative impact on the reported EBITDA.
The impact of increase in crude oil prices on inventory valuation recognised in EBITDA amounted to PLN 218 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 the above mentioned net impairment allowances on assets value amounted to PLN 1,504 million and was lower by PLN (585) million (y/y).

Changes in macroeconomic parameters reduced the results of the ORLEN Group by PLN (865) million (y/y) and included mainly observed in November and December 2019 decreases in the model refining margin as a result of lower margins on medium distillates and heavy refinery fractions. In addition, the negative impact of macro factors in the refinery was aggravated by a decrease in the model petrochemical margin as a result of lower margins on olefins as well as reduced PTA and PVC margins.

The above negative effects was slightly limited by the impact of higher margins on light distillates, polyolefins and fertilizers, as well as the weakening of the PLN exchange rate against foreign currencies.
A positive volume effect in the amount of PLN 327 million (y/y) was achieved despite a decrease by (3)% (y/y) in total volume sales of the ORLEN Group to the level of PLN 10,873 thousand tones.
The impact of limiting the sale of refinery products on all operating markets as a result of the unfavourable macroeconomic situation was balanced by an improvement in the sales structure due to lower sales of heavy refinery fractions by over (200) thousand tons (y/y).
Sales of petrochemical products, meanwhile, were higher (y/y) due to higher availability of production installations in PKN ORLEN and the lack of impact of the cyclical shutdown of Olefin and PTA installations from the 4th quarter of 2018.
In the retail segment, an increase in fuel sales was achieved on the Polish and Czech markets, with stable volumes in Lithuania and a decrease in volumes on the German market.
In the upstream segment, volume sales of hydrocarbons decreased (y/y) in Canada, with higher production on the Polish market.

The negative impact of the other factors amounted to PLN (47) million (y/y) and related mainly to:

- PLN (193) million (y/y) - the impact of changes in the balance of other operating activities (after eliminating the impact of net impairment allowances of assets) mainly related to the recognition of settlement and valuation of net derivative financial instruments related to operating exposure and ineffective part related to valuation and settlement of operating exposure - more details of the impact of hedging instruments are described in note 5.4.
- PLN 282 million (y/y) - the net impact of revaluation of inventories to net realisable value, mainly due to negative impact of falling crude oil quotation in the 4th quarter of 2018.
- PLN (136) million (y/y) - other elements, including mainly effect of lower fuel margins in the retail segment partly offset by the increase in wholesale trade margins.

2. The most significant events in the period from 1 January 2019 up to the date of preparation of this report

FEBRUARY 2019

Changes in the composition of the Supervisory Board
Mr Mateusz Henryk Bochacik resigned with effect from 15 February 2019 from the position of PKN ORLEN Supervisory Board Member. Mr Bochacik justified his resignation by personal reasons that prevent him from continuing to effectively carry out the Company's Supervisory Board member mandate.

Information on Metathesis Unit building investment
On 20 February 2019 PKN ORLEN announced that the currently under-construction metathesis unit in the Płock Production Plant is in the final stage of the commissioning phase. Following the completion of all steps within the commissioning procedures, loading up of the unit and the stabilization of the process parameters, process adjustment and a guarantee measurements will be conducted and the investment process will be completed. PKN ORLEN will announce the completion of the investment process in a separate regulatory announcement.

APRIL 2019

PKN ORLEN submitted an offer to Ruch S.A.
PKN ORLEN announced that on 11 April of the current year it submitted an offer to provide financing in connection with the intention to acquire 100% of Ruch S.A. shares. The decision was preceded by a due diligence investigation of the company. The investor foresees the opportunity for restructuring and exploitation synergies between the Ruch's existing business model and the dynamically developing retail segment of PKN ORLEN. The finalization of the offer will depend, among others, on the decisions of Ruch's creditors and obtaining the consent of the Antitrust Authority to acquire the company's shares.

Agreement regarding building of "Research and Development Centre in Płock"
PKN ORLEN announced that on 24 April 2019 the Company's Management Board decided to invest in a "Research and Development Centre in Płock" ("RDC") and the Company's Supervisory Board gave consent for PKN ORLEN to assume liabilities under the agreement on the building of the RDC, which was followed by the conclusion of an agreement with Budimex S.A. for its construction. The maximum value of the agreement will amount to approximately PLN 167 million and the total cost of the investment will amount to approximately PLN 184 million. The finalization of the investment is planned by the end of 2020.
The RDC in Płock is a necessary part of the PKN ORLEN 2018 Program of the Petrochemical Segment Development ("Program") and completion of the research infrastructure of the ORLEN Group. It will function as a facility to carry out research and to support the other projects included in the Program as well as the further extension of the value chain of petrochemical production announced as part of the PKN ORLEN Strategy. It will also be a place to undertake research in the other areas of the ORLEN Group's activity.

Agreement for building a nitric acid and neutralization installation by ANWIL S.A.
PKN ORLEN announced that on 24 April 2019 ANWIL S.A. signed an agreement with Thyssenkrupp Industrial Solutions AG for the design, deliveries and building "in turn key" formula of a nitric acid and neutralization installation in ANWIL S.A. in Wloclawek.
The building of a nitric acid and neutralization installation is a key stage in the realization of investment into the extension of the fertilizer production capacities of ANWIL S.A. The agreement signed with Thyssenkrupp Industrial Solutions AG is the first of three most important contracts to be concluded in relation to the extension of the fertilizer production capacities of ANWIL S.A.

The project assumes an annual increase of fertilizers production capacities of 495 thousand tons, i.e. to the level of 1,461 thousand tons annually. The estimated total cost of the investment amounts to approximately PLN 1.3 billion. The finalization of the investment is planned by the close of the first half of 2022. After realization of the project it is estimated that the operating profit increased by depreciation and amortization (EBITDA) of ANWIL S.A. may increase by approximately EUR 57 million annually.

Temporary suspension of crude oil deliveries via the „Friendship" pipeline to the Production Unit in Płock
PKN ORLEN announced that on 24 April 2019 at 22:36 it received from PERN SA. information regarding the suspension of crude oil deliveries via the „Friendship" pipeline to the Production Unit in Płock. The reason of the suspension was the significant decline in the quality of crude oil supplied to the Adamowo Depot, where the crude oil is received from the East before being forwarded to Miszewko Strzałkowskie Depot, near Płock.
The above situation neither beared influence on the level of crude oil throughput in the refinery in Płock. PKN ORLEN is prepared to receive alternative crude oil supplies. For the last two years PKN ORLEN has consistently realized a policy of crude oil supply diversification, thanks to which currently almost 50% of crude oil supplied to the Production Unit in Płock comes from supply directions other than Russian, i.e. from Norway, Angola, Nigeria and Saudi Arabia. Additionally, PKN ORLEN has sufficient crude oil inventories to allow for production to

continue. As a result there is currently no risk of production limitation due to the suspension of feed stock supplies deliveries via the „Friendship" pipeline.

Temporary suspension of crude oil deliveries via the „Friendship" pipeline to the refinery in Litvinov
PKN ORLEN announced that on 26 April 2019 Unipetrol a.s. received from the local operator information regarding the suspension of crude oil deliveries via the „Friendship" pipeline to the refinery in Litvinov, belonging to the ORLEN Group. The reason of the suspension was the significant decline in the quality of crude oil supplied via the „Friendship" pipeline.
The above situation has not influence the level of crude oil throughput in the Unipetrol a.s. refineries. As a result there is currently no risk of production limitation due to suspension of the raw material deliveries via the „Friendship" pipeline. The crude oil throughput at ORLEN Lietuva is not currently affected.

Metathesis Unit building investment completed
PKN ORLEN announced that on 30 April 2019 it signed a certificate with Elektrobudowa S.A. on the basis of which the realisation of the investment process of the Metathesis Unit building at the production plan in Płock has been completed. The total investment expenditures spent by the Company for the project of the Metathesis Unit building amounted to approximately PLN 400 million.

MAY 2019

Resumption of crude oil deliveries via the „Friendship" pipeline to the refinery in Litvinov
PKN ORLEN announced that Unipetrol a.s. received from the local operator information regarding the resumption of good quality crude oil supplies via the „Friendship" pipeline to the refinery in Litvinov, belonging to the ORLEN Group.
The suspension of crude oil deliveries via the „Friendship" pipeline, which lasted from 26 April 2019, did not influence the level of crude oil throughput in the Unipetrol a.s. refineries.

JUNE 2019

Resumption of crude oil deliveries via the „Friendship" pipeline to the Production Unit in Płock
PKN ORLEN announced that on 9 June 2019 it received from PERN SA. an information about resumption of deliveries of crude oil with contractual quality, via the „Friendship" pipeline to the Production Unit in Płock. The suspension of crude oil deliveries via the „Friendship" pipeline, which lasted from 24 April 2019, did not influence the level of crude oil throughput in Płock refinery.

Changes in the composition of the Supervisory Board
PKN ORLEN announced that Mr Radosław Kwaśnicki resigned with the effect from 14 June 2019 from the position of the PKN ORLEN Supervisory Board Member (and at the same time from the position of the Deputy Chairman of the PKN ORLEN Supervisory Board). Mr Radosław Kwaśnicki indicated that reasons of his resignation are issues not connected with the Company. The Ordinary General Meeting of Shareholders on 14 June 2019 appointed Members of the PKN ORLEN Supervisory Board for a new term of office as follows:
- Izabela Felczak-Poturnicka – Chairwoman of the Company's Supervisory Board,
- Barbara Jarzembowska – Member of the Company's Supervisory Board,
- Andrzej Kapała – Member of the Company's Supervisory Board,
- Michał Klimaszewski – Member of the Company's Supervisory Board,
- Jadwiga Lesisz – Member of the Company's Supervisory Board,
- Małgorzata Niezgoda – Member of the Company's Supervisory Board,
- Anna Sakowicz-Kacz – Member of the Company's Supervisory Board,
- Andrzej Szumański – Member of the Company's Supervisory Board,
- Anna Wójcik – Member of the Company's Supervisory Board.

Agreement for building a granulation unit by ANWIL S.A.
PKN ORLEN announced that on 28 June 2019 ANWIL S.A. signed an agreement with Tecnimont S.p.A. for design, deliveries and building "in turn key" formula a granulation unit in ANWIL S.A. in Wloclawek ("Agreement").
The agreement signed today with Tecnimont S.p.A. is the second of the three most important contracts to be concluded within the frames of the extension of fertilizers production capacities in ANWIL S.A.
The project assumes increase of fertilizers production capacities by 495 thousand tons annually, ie. to the level of 1,461 thousand tons annually. Estimated total cost of the investment amounts to approximately PLN 1.3 billion. The finalization of the investment is planned by the half of 2022. After realization of the project it is estimated that the operating profit EBITDA of ANWIL S.A. may increase by approximately EUR 57 million annually. PKN ORLEN holds 100% of shares in the share capital in Anwil S.A.

JULY 2019

Submission to the European Commission a notification for concentration regarding the planned taking capital control directly or indirectly over Grupa LOTOS S.A. by PKN ORLEN S.A.
PKN ORLEN announced that on 3 July 2019 it submitted to the European Commission a notification for concentration ("Notification") regarding the planned taking capital control directly or indirectly over Grupa LOTOS S.A. with headquarters in Gdansk ("Transaction"). Notification submitted by the Company, initiates the formal proceedings regarding control of concentration.

Notification includes, apart from the description of the parties and Transaction assumptions, description of parties activity on the certain markets and presents arguments on the influence of the Transaction on the competition on that markets. There has been enclosed a set of internal documents of both companies, that should allow the European Commission to verify the accuracy of the presented arguments.

Dismissal of shareholder's appeal against the statement of claim for repealing of the resolutions of Ordinary General Meeting
PKN ORLEN announced that on 17 July 2019 the Appeal Court in Lodz I Civil Division has dismissed in whole a shareholder's appeal against verdict of court of first resort dismissing in whole the shareholder's statement of claim for repealing of the following resolutions of PKN ORLEN Ordinary General Meeting dated 26 June 2018:
1. to approve the Directors' Report on the activities of the ORLEN Group and PKN ORLEN S.A. for the year ended 31 December 2017,
2. to approve the financial statements of PKN ORLEN S.A. for the year ended 31 December 2017,
3. to grant discharge to the Management Board of PKN ORLEN S.A. members for performance of their duties for the year ended 31 December 2017,
4. to grant discharge to the Chairman of the Supervisory Board of PKN ORLEN S.A. for performance of her duties for the year ended 31 December 2017.

AUGUST 2019

Agreement between PKN ORLEN S.A., the State Treasury and Grupa LOTOS S.A. in relation to a transaction for the purchase of shares in Grupa LOTOS S.A. by PKN ORLEN S.A. from the State Treasury
PKN ORLEN announced that on 26 August 2019 an agreement was signed between the State Treasury, the Company and Grupa LOTOS S.A. headquartered in Gdansk ("Grupa LOTOS") in relation to a transaction for the purchase of shares in Grupa LOTOS S.A. by the Company from the State Treasury (the "Agreement"), ("Transaction"), where the Transaction is aimed at taking capital control directly or indirectly over Grupa

LOTOS by the Company.

The Agreement is non-binding and does not create any obligations for the State Treasury, the Company or Grupa LOTOS with respect to the execution of the Transaction, but only defines their common understanding of the anticipated shape of the Transaction and further cooperation in its execution. Parties to the Agreement may detail or differently regulate the shape of the Transaction as well as its additional elements in separate contracts or other agreements. The Agreement is not an offer or preliminary contract under Polish civil code and it does not form any other type of legal act obligating the State Treasury to realise the Transaction.

The Agreement confirms the Transaction structure specified in the letter of intent concluded on 27 February 2018 between the State Treasury and the Company, provided that the structure will be clarified at the further stage of cooperation, in particular on the basis of remedies resulting from the future decision of the European Commission regarding concentration approval. Additionally, it also indicates further direction of the consolidation project of the Company and Grupa LOTOS that is aimed at the full consolidation of the above mentioned companies and their enterprises in order to obtain the maximum effects of synergies.

Moreover, the Agreement includes in particular provisions regarding:
1) the method of determining the price of the sale of Grupa LOTOS shares – with particular emphasis on the need to use at least two commonly used and recognised methods for valuation (in the case of Grupa LOTOS shares sales by different way than a tender offer) and the need to determine the price according to the general applicable law (in the case of Grupa LOTOS shares sales by the way of a tender offer);
2) preliminary conditions for realization of the first stage of the consolidation project that includes not only the European Commission approval for concentration but also removing or modifying the voting cap regulations at the general meeting included in the Grupa LOTOS Articles of Association as well as obtaining necessary administrative and corporate approvals;
3) exercising the voting right relating to Grupa LOTOS shares by the Company and the State Treasury after the Transaction; in case the tender offer results in a proportional reduction of the State Treasury subscriptions for Grupa LOTOS shares sales, it is the intention of the Company and the State Treasury, subject to potential different written agreements, that the voting right at the Grupa LOTOS general meeting will be exercised independently and no written or verbal agreement on Grupa LOTOS shares purchase, on compatible exercising of voting right at the Grupa LOTOS general meeting, neither on conducting the permanent policy towards Grupa LOTOS will bind them.

Grupa LOTOS as a signatory of the Agreement confirmed its knowledge regarding the planned consolidation project as well as a declaration of will to duly cooperate with the State Treasury and the Company within the frames of general applicable law, including the cooperation in the process of obtaining the European Commission's approval for concentration and submission of the statement of the Grupa LOTOS Management Board on the planned tender offer for its shares.

The Agreement terminates on the day when the State Treasury subscribes on the disposal of all Grupa LOTOS shares owned by the State Treasury as a reply for the tender offer announced by the Company, or on 30 June 2020 – depending which date will fall earlier.

SEPTEMBER 2019

ANWIL S.A. concluded an agreement for building an OSBL infrastructure within the frames of the extension of fertilizers production capacities

PKN ORLEN announced that on 12 September 2019 ANWIL S.A. signed an agreement with PROCHEM S.A. for building an OSBL infrastructure (Outside Battery Limits – supporting infrastructure) in ANWIL S.A. in Wloclawek ("Agreement").
The Agreement signed with PROCHEM S.A. is the last of three most important contracts concluded within the frames of the extension of fertilizers production capacities in ANWIL S.A.
The project assumes increase of fertilizers production capacities by 495 thousand tons yearly, ie. to the level of 1,461 thousand tons yearly. Estimated total cost of the investment amounts to approximately PLN 1.3 billion. The finalization of the investment is planned by the half of 2022. After realization of the project it is estimated that the operating profit EBITDA of ANWIL S.A. may increase by approximately EUR 57 million yearly.

OCTOBER 2019

Changes in the composition of the Supervisory Board

On 29 October 2019 the Director of the State Treasury Department in the Prime Minister Chancellery acting on behalf of the shareholder the State Treasury, according to § 8 item 2 point 1 of the Company's Articles of Association appointed Mr Roman Kusz to the PKN ORLEN Supervisory Board.

NOVEMBER 2019

Changes in the composition of the Management Board

The Supervisory Board of PKN ORLEN, following its meeting on 28 November 2019, has dismissed Mr Wiesław Protasewicz from the Company's Management Board with the effect from 28 November 2019.

PKN ORLEN Supervisory Board consent for realization of project of building Visbreaking Installation at production plant in Plock

PKN ORLEN announced that on 28 November 2019 the Company's Supervisory Board gave consent for realization of the EPC phase of investment project called: "Visbreaking Installation at production plant in Plock". The project's implementation aims to improve crude oil production efficiency by increasing the yield of high-margin products as a result of in-depth conversion of vacuum residue from the Crude Distillation Unit. The cost of investment will amount to approximately PLN 1 billion.
Realization of the project was approved by the PKN ORLEN Management Board on 22 October 2019.

Announcement of a tender offer to subscribe for the sale of all shares of ENERGA S.A. with registered office in Gdansk

PKN ORLEN announced that on 5 December 2019 it has announced tender offer for all shares issued by ENERGA S.A. with its registered office in Gdansk ("ENERGA"), i.e. 414 067 114 shares ("Share" or "Shares" respectively), with par value of PLN 10.92 each, of which:
a) 269,139,114 ordinary bearer "AA" class shares where 1 "AA" class share has 1 vote at the General Meeting of ENERGA ("GM") attached to it, 269,139,114 votes at the GM in aggregate for all ordinary bearer "AA" class shares, admitted and introduced to trading in a regulated market operated by Giełda Papierów Wartościowych w Warszawie S.A. uncertificated (paperless) and labelled by Krajowy Depozyt Papierów Wartościowych S.A. with the code PLENERG00022;
b) 114,928,000 certificated registered "BB" class shares, where 1 "BB" class share has 2 votes at the GM attached to it, 289,856,000 votes at the GM in aggregate for all registered "BB" class shares, with 558,995,114 votes at the GM attached to them, corresponding to 100% of the aggregate number of votes at the GM and representing 100% of the share capital of the Company ("Tender Offer").

Tender Offer has been announced pursuant to Art. 74 item 1 of the Act of 29 July 2005 on public offering, on the conditions governing the introduction of financial instruments to organised trading and on public companies (OJ 2019.623, as amended) and the Regulation of the Minister of Development and Finance of 14 September 2017 on the forms of tender offers to subscribe for the sale or exchange of shares in a public company, detailed procedures of the announcement thereof and the conditions for acquiring shares pursuant to such tender offers (OJ 2017.1748).
The Company is a sole entity purchasing the Shares in the Tender Offer. The price at which shares are to be purchased under the Tender Offer amounts to 7 PLN per one Share.

ORLEN GROUP (in PLN million)

The Tender Offer has been announced under the following conditions:

a) the Company obtains an unconditional decision of the European Commission (or another competent anti-monopoly authority) approving the merger involving the takeover of control of the ENERGA,
b) the GM has adopted a resolution amending the Articles of Association of ENERGA to waive the voting restrictions referred to in § 27(1)-(7) of the Articles of Association,
c) the Supervisory Board of ENERGA has adopted a resolution adopting a consolidated text of the Articles of Association pursuant to § 17(1)(15) of the Articles of Association (inclusive of the amendments referred to above),
d) the number of Shares subscribed for sale under the Tender Offer corresponds at least to 66% of the aggregate number of votes at the GM,
e) the Company and ENERGA have entered into an agreement concerning a due diligence audit of ENERGA.

Unless the subscription period for the sale of Shares under the Tender Offer is extended the subscription period will start on 31 January 2020 and will end on 9 April 2020.

JANUARY 2020

Changes in the Supervisory Board

PKN ORLEN announced that Ms Izabela Felczak-Poturnicka resigned with the effect from 16 January 2020 from the position of Chairwoman of the PKN ORLEN Supervisory Board which was entrusted to her in the Resolution no. 35 of the Annual General Meeting of PKN ORLEN dated 14 June 2019.

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 PKN ORLEN is as follows:

Management Board

Daniel Obajtek – President of the Management Board, Chief Executive Officer
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
Józef Węgrecki – Member of the Management Board, Operations

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
Małgorzata Niezgoda – 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 to 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*	7.61%	32 544 000
Aviva OFE*	5.85%	25 000 000
Other	59.02%	252 454 865
	100.00%	**427 709 061**

* *according to the information from the Ordinary General Shareholders' Meeting of PKN ORLEN of 14 June 2019*

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.

ORLEN GROUP (in PLN million)

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

PKN ORLEN is the guarantor of the 2 tranches of Eurobonds issued by an irrevocable and unconditional guarantees issued to the bondholders. The guarantees were granted for the duration of the Eurobond issue as in the following table:

	Nominal value					Value of guarantee issued	
	EUR	PLN	Subscription date	Expiration date	Rating	EUR	PLN
Eurobonds	750	3 318 **	7.06.2016	7.06.2023	BBB-, Baa2	1 100	4 684
Eurobonds	500	2 131 *	30.06.2014	30.06.2021	BBB-, Baa2	1 000	4 259
	1 250	**5 449**				**2 100**	**8 943**

The bonds have a fixed interest rate of 2.5%.
* translated using exchange rate as at 31 December 2014
** translated using exchange rate as at 31 December 2016
The value of guarantees granted was translated using the exchange rate as at 31 December 2019

Moreover, as at 31 December 2019 and as at 31 December 2018, the Group granted sureties and guarantees to subsidiaries for third parties of PLN 1,003 million and PLN 1,540 million, respectively, and mainly related to the timely payment of liabilities by subsidiaries.

3.5. Statement of the Management Board regarding the possibility to realize 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 4th QUARTER 2019

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

(in PLN million)

C. QUARTERLY FINANCIAL INFORMATION OF PKN ORLEN

Separate statement of profit or loss and other comprehensive income

	12 MONTHS ENDED 31/12/2019 (unaudited)	3 MONTHS ENDED 31/12/2019 (unaudited)	12 MONTHS ENDED 31/12/2018	3 MONTHS ENDED 31/12/2018 (unaudited)
Sales revenues	89 049	22 383	86 997	23 296
revenues from sales of finished goods and services	*49 376*	*11 934*	*46 396*	*12 092*
revenues from sales of merchandise and raw materials	*39 673*	*10 449*	*40 601*	*11 204*
Cost of sales	(79 602)	(20 346)	(78 781)	(21 748)
cost of finished goods and services sold	*(41 337)*	*(10 258)*	*(39 482)*	*(10 877)*
cost of merchandise and raw materials sold	*(38 265)*	*(10 088)*	*(39 299)*	*(10 871)*
Gross profit on sales	**9 447**	**2 037**	**8 216**	**1 548**
Distribution expenses	(4 364)	(1 180)	(2 850)	(749)
Administrative expenses	(932)	(250)	(809)	(215)
Other operating income	675	278	431	(27)
Other operating expenses	(700)	(309)	(354)	(179)
(Loss)/reversal of loss due to impairment of financial instruments	(4)	27	(10)	(8)
Profit from operations	**4 122**	**603**	**4 624**	**370**
Finance income	1 447	453	3 275	1 215
Finance costs	(1 001)	(223)	(1 641)	(290)
Net finance income and costs	**446**	**230**	**1 634**	**925**
(Loss)/reversal of loss due to impairment of financial instruments	7	-	(3)	(11)
Profit before tax	**4 575**	**833**	**6 255**	**1 284**
Tax expense	(801)	(121)	(821)	(55)
current tax	*(733)*	*(83)*	*(853)*	*(100)*
deferred tax	*(68)*	*(38)*	*32*	*45*
Net profit	**3 774**	**712**	**5 434**	**1 229**
Other comprehensive income:				
which will not be reclassified subsequently into profit or loss	**(9)**	**(8)**	**(8)**	**(2)**
actuarial gains and losses	*(11)*	*(11)*	*(2)*	*(2)*
gains/(losses) on investments in equity instruments at fair value through other comprehensive income	*-*	*1*	*(7)*	*-*
deferred tax	*2*	*2*	*1*	*-*
which will be reclassified into profit or loss	**(17)**	**91**	**(50)**	**74**
hedging instruments	*(141)*	*81*	*(164)*	*65*
hedging costs	*120*	*31*	*102*	*26*
deferred tax	*4*	*(21)*	*12*	*(17)*
	(26)	**83**	**(58)**	**72**
Total net comprehensive income	**3 748**	**795**	**5 376**	**1 301**
Net profit and diluted net profit per share (in PLN per share)	8.82	1.66	12.70	2,87

QUARTERLY FINANCIAL INFORMATION OF PKN ORLEN (in PLN million)

Separate statement of financial position

	31/12/2019 (unaudited)	31/12/2018
ASSETS		
Non-current assets		
Property, plant and equipment	15 242	15 611
Intangible assets	1 074	755
Right-of-use asset	2 346	-
Shares in related parties	15 393	15 090
Derivatives	277	118
Long-term lease receivables	21	-
Other assets	1 370	1 016
	35 723	**32 590**
Current assets		
Inventories	9 991	9 889
Trade and other receivables	7 160	7 709
Current tax assets	10	8
Cash	5 056	3 461
Non-current assets classified as held for sale	59	149
Derivatives	299	450
Short-term lease receivables	1	-
Other assets	917	541
	23 493	**22 207**
Total assets	**59 216**	**54 797**
EQUITY AND LIABILITIES		
EQUITY		
Share capital	1 058	1 058
Share premium	1 227	1 227
Hedging reserve	186	203
Revaluation reserve	(6)	(6)
Retained earnings	31 420	29 152
Total equity	**33 885**	**31 634**
LIABILITIES		
Non-current liabilities		
Loans, borrowings and bonds	8 222	8 641
Provisions	553	520
Deferred tax liabilities	796	734
Derivatives	72	84
Lease liabilities	2 000	-
Other liabilities	108	257
	11 751	**10 236**
Current liabilities		
Trade and other liabilities	9 776	8 853
Lease liabilities	368	-
Liabilities from contracts with customers	206	213
Loans and bonds	346	1 122
Provisions	588	376
Current tax liabilities	8	376
Derivatives	306	324
Other liabilities	1 982	1 663
	13 580	**12 927**
Total liabilities	**25 331**	**23 163**
Total equity and liabilities	**59 216**	**54 797**

(in PLN million)

Separate statement of changes in equity

	Share capital and share premium	Hedging reserve	Revaluation reserve	Retained earnings	Total equity
01/01/2019	2 285	203	(6)	29 152	31 634
Net profit	-	-	-	3 774	3 774
Items of other comprehensive income	-	(17)	-	(9)	(26)
Total net comprehensive income	**-**	**(17)**	**-**	**3 765**	**3 748**
Dividends	-	-	-	(1 497)	(1 497)
31/12/2019	**2 285**	**186**	**(6)**	**31 420**	**33 885**
(unaudited)					
01/01/2018 (approved data)	2 285	253	-	25 027	27 565
Impact of IFRS 9 adoption	-	-	-	(24)	(24)
01/01/2018 (converted data)	2 285	253	-	25 003	27 541
Net profit	-	-	-	5 434	5 434
Items of other comprehensive income	-	(50)	(6)	(2)	(58)
Total net comprehensive income	**-**	**(50)**	**(6)**	**5 432**	**5 376**
Dividends	-	-	-	(1 283)	(1 283)
31/12/2018	**2 285**	**203**	**(6)**	**29 152**	**31 634**

(in PLN million)

Separate statement of cash flows

	12 MONTHS ENDED 31/12/2019 (unaudited)	3 MONTHS ENDED 31/12/2019 (unaudited)	12 MONTHS ENDED 31/12/2018	3 MONTHS ENDED 31/12/2018 (unaudited)
Cash flows from operating activities				
Profit before tax	**4 575**	**833**	**6 255**	**1 284**
Adjustments for:				
Depreciation and amortisation	1 759	471	1 365	358
Foreign exchange (gain)/loss	(79)	(212)	282	75
Net interest	254	68	241	59
Dividends	(470)	-	(870)	(30)
(Profit)/Loss on investing activities	10	(82)	(1 354)	(1 078)
Change in provisions	503	189	215	55
Change in working capital	1 142	448	(2 618)	(985)
inventories	*(56)*	*(434)*	*(1 648)*	*474*
receivables	*571*	*1 559*	*(394)*	*1 834*
liabilities	*627*	*(677)*	*(576)*	*(3 293)*
Other adjustments, incl.:	(505)	(301)	(273)	(127)
rights received free of charge	*(286)*	*(78)*	*(275)*	*(73)*
Income tax (paid)	(1 103)	(147)	(548)	(135)
Net cash from/(used in) operating activities	**6 086**	**1 267**	**2 695**	**(524)**
Cash flows from investing activities				
Acquisition of property, plant and equipment, intangible assets and right-of-use asset	(1 590)	(600)	(1 610)	(368)
Acquisition of shares	(56)	(2)	(4 502)	-
Outflows from additional payments to equity	(357)	(61)	(48)	-
Disposal of property, plant and equipment, intangible assets and right-of-use asset	194	17	207	39
Interest received	58	14	35	11
Dividends received	469	1	870	204
Expenses from non-current loans granted	(449)	(79)	(53)	(3)
Proceeds from non-current loans granted	6	2	6	2
Proceeds/(Expenses) from current loans granted	1	-	(60)	-
Change in cash related to purchase of non-controlling interest of UNIPETROL, a.s.	190	(10)	-	-
Proceeds/(Outflows) from cash pool facility	(50)	(184)	60	(162)
Settlement of derivatives not designated as hedge accounting	183	102	347	172
Other	(20)	(3)	(7)	(7)
Net cash (used) in investing activities	**(1 421)**	**(803)**	**(4 755)**	**(112)**
Cash flows from financing activities				
Proceeds from loans received	-	-	2 075	-
Bonds issued	509	-	1 376	105
Repayments of borrowings	-	-	(38)	(38)
Redemption of bonds	(1 619)	-	(1 180)	(370)
Interest paid from loans, borrowings, bonds and cash pool	(249)	(27)	(299)	(31)
Interest paid on lease	(48)	(11)	(6)	(1)
Dividends paid	(1 497)	-	(1 283)	-
Proceeds/(Outflows) from cash pool facility	158	(613)	(602)	(1 009)
Payments of liabilities under lease agreements	(316)	(83)	(25)	(7)
Other	-	-	(2)	-
Net cash from/(used in) financing activities	**(3 062)**	**(734)**	**16**	**(1 351)**
Net increase/(decrease) in cash	**1 603**	**(270)**	**(2 044)**	**(1 987)**
Effect of changes in exchange rates	(8)	(26)	28	25
Cash, beginning of the period	3 461	5 352	5 477	5 423
Cash, end of the period	**5 056**	**5 056**	**3 461**	**3 461**
including restricted cash	*1 038*	*1 038*	*58*	*58*

This quarterly report was approved by the Management Board of the Parent Company on 29 January 2020.

Signature Not Verified
Dokument podpisany przez Daniel Obajtek; PKN Orlen S.A.
Data: 2020.01.29 16:11:43 CET
……………………….…………..
Daniel Obajtek
President of the Board

Signature Not Verified
Dokument podpisany przez ARMEN KONRAD ARTWICH; POLSKI KONCERN NAFTOWY ORLEN S.A.
Data: 2020.01.29 15:59:53 CET
……………………….…………..
Armen Artwich
Member of the Board

Signature Not Verified
Dokument podpisany przez Patrycja Klarecka
Data: 2020.01.29 16:54:41 CET
……………………….…………..
Patrycja Klarecka
Member of the Board

Signature Not Verified
Dokument podpisany przez ZBIGNIEW MARIUSZ LESZCZYŃSKI; POLSKI KONCERN NAFTOWY ORLEN S.A.
Data: 2020.01.29 18:23:31 CET
……………………….…………..
Zbigniew Leszczyński
Member of the Board

Signature Not Verified
Dokument podpisany przez MICHAŁ MAREK RÓG; POLSKI KONCERN NAFTOWY ORLEN S.A.
Data: 2020.01.29 18:16:45 CET
……………………….…………..
Michał Róg
Member of the Board

Signature Not Verified
Dokument podpisany przez Józef Węgrecki
Data: 2020.01.29 16:46:42 CET
……………………….…………..
Józef Węgrecki
Member of the Board