



ORLEN GROUP

CONSOLIDATED QUARTERLY REPORT

FOR THE 4th QUARTER

2018

ORLEN GROUP - SELECTED DATA

| | PLN million | | EUR million | |
|--|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| | 12 MONTHS ENDED 31/12/2018 | 12 MONTHS ENDED 31/12/2017 | 12 MONTHS ENDED 31/12/2018 | 12 MONTHS ENDED 31/12/2017 |
| Sales revenues | 109 706 | 95 364 | 25 711 | 22 467 |
| Profit from operations increased by depreciation and amortisation (EBITDA) | 9 776 | 11 078 | 2 291 | 2 610 |
| EBITDA before net impairment allowances | 9 137 | 11 247 | 2 141 | 2 650 |
| Profit from operations (EBIT) | 7 103 | 8 657 | 1 665 | 2 039 |
| Profit before tax | 6 998 | 8 717 | 1 640 | 2 054 |
| Net profit | 5 511 | 7 173 | 1 292 | 1 690 |
| Total net comprehensive income | 5 949 | 7 296 | 1 394 | 1 719 |
| Net profit attributable to equity owners of the parent | 5 463 | 6 655 | 1 280 | 1 568 |
| Total net comprehensive income attributable to equity owners of the parent | 5 844 | 6 717 | 1 370 | 1 582 |
| Net cash from operating activities | 4 979 | 8 050 | 1 167 | 1 896 |
| Net cash (used) in investing activities | (3 797) | (3 925) | (890) | (924) |
| Net cash (used) in financing activities | (3 237) | (2 832) | (759) | (667) |
| Net increase/(decrease) in cash and cash equivalents | (2 055) | 1 293 | (482) | 305 |
| Net profit and diluted net profit per share attributable to equity owners of the parent (in PLN/EUR per share) | 12.77 | 15.56 | 2.99 | 3.67 |

| | 31/12/2018 | 31/12/2017 | 31/12/2018 | 31/12/2017 |
|--|---------------|---------------|---------------|---------------|
| Non-current assets | 33 867 | 31 740 | 7 876 | 7 610 |
| Current assets | 30 164 | 28 924 | 7 015 | 6 935 |
| Total assets | 64 031 | 60 664 | 14 891 | 14 545 |
| Share capital | 1 058 | 1 058 | 246 | 254 |
| Equity attributable to equity owners of the parent | 35 634 | 32 197 | 8 287 | 7 719 |
| Total equity | 35 646 | 35 211 | 8 290 | 8 441 |
| Non-current liabilities | 11 487 | 9 071 | 2 671 | 2 176 |
| Current liabilities | 16 898 | 16 382 | 3 930 | 3 928 |
| Number of shares | 427 709 061 | 427 709 061 | 427 709 061 | 427 709 061 |
| Carrying amount and diluted carrying amount per share attributable to equity owners of the parent (in PLN/EUR per share) | 83.31 | 75.28 | 19.37 | 18.05 |

PKN ORLEN - SELECTED DATA

| | PLN million | | EUR million | |
|--|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| | 12 MONTHS ENDED 31/12/2018 | 12 MONTHS ENDED 31/12/2017 | 12 MONTHS ENDED 31/12/2018 | 12 MONTHS ENDED 31/12/2017 |
| Sales revenues | 86 997 | 70 012 | 20 389 | 16 494 |
| Profit from operations increased by depreciation and amortisation (EBITDA) | 5 989 | 6 028 | 1 404 | 1 420 |
| Profit from operations (EBIT) | 4 624 | 4 787 | 1 084 | 1 128 |
| Profit before tax | 5 268 | 7 047 | 1 235 | 1 660 |
| Net profit | 4 447 | 6 102 | 1 042 | 1 438 |
| Total net comprehensive income | 4 389 | 6 680 | 1 029 | 1 574 |
| Net cash from operating activities | 2 695 | 4 445 | 632 | 1 047 |
| Net cash (used) in investing activities | (4 755) | (405) | (1 115) | (95) |
| Net cash from/(used in) financing activities | 16 | (1 092) | 4 | (257) |
| Net increase/(decrease) in cash | (2 044) | 2 948 | (479) | 695 |
| Net profit and diluted net profit per share (in PLN/EUR per share) | 10.40 | 14.27 | 2.44 | 3.36 |

| | 31/12/2018 | 31/12/2017 | 31/12/2018 | 31/12/2017 |
|--|---------------|---------------|---------------|---------------|
| Non-current assets | 31 603 | 26 407 | 7 350 | 6 331 |
| Current assets | 22 207 | 22 945 | 5 164 | 5 501 |
| Total assets | 53 810 | 49 352 | 12 514 | 11 832 |
| Share capital | 1 058 | 1 058 | 246 | 254 |
| Total equity | 30 647 | 27 565 | 7 128 | 6 609 |
| Non-current liabilities | 10 236 | 8 253 | 2 380 | 1 979 |
| Current liabilities | 12 927 | 13 534 | 3 006 | 3 244 |
| Number of shares | 427 709 061 | 427 709 061 | 427 709 061 | 427 709 061 |
| Carrying amount and diluted carrying amount per share (in PLN/EUR per share) | 71.65 | 64.45 | 16.66 | 15.45 |

The above data for the 12 month period of 2018 and 2017 was translated into EUR using the following exchange rates:

- items in the statement of profit or loss and other comprehensive income and the statement of cash flows - by the arithmetic average of average exchange rates published by the National Bank of Poland as of the last day of each month during the reporting period: from 1 January to 31 December 2018 – 4.2669 EUR/PLN and from 1 January to 31 December 2017 – 4.2447 EUR/PLN;
- items of assets, equity and liabilities – by the average exchange rate published by the National Bank of Poland as at 31 December 2018 – 4.3000 EUR/PLN and as at 31 December 2017 – 4.1709 EUR/PLN.

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INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE 12 AND 3 MONTH PERIOD ENDED 31 DECEMBER

2018

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

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 31/12/2018 (unaudited) | 3 MONTHS ENDED 31/12/2018 (unaudited) | 12 MONTHS ENDED 31/12/2017 | 3 MONTHS ENDED 31/12/2017 (unaudited) |
|--|------|---|--|----------------------------------|--|
| Sales revenues | 5.1 | 109 706 | 29 420 | 95 364 | 24 734 |
| revenues from sales of finished goods and services | | 91 014 | 24 583 | 72 915 | 20 142 |
| revenues from sales of merchandise and raw materials | | 18 692 | 4 837 | 22 449 | 4 592 |
| Cost of sales | 5.2 | (97 310) | (27 210) | (81 766) | (21 106) |
| cost of finished goods and services sold | | (80 826) | (23 045) | (61 266) | (16 914) |
| cost of merchandise and raw materials sold | | (16 484) | (4 165) | (20 500) | (4 192) |
| Gross profit on sales | | 12 396 | 2 210 | 13 598 | 3 628 |
| Distribution expenses | | (4 745) | (1 247) | (4 327) | (1 167) |
| Administrative expenses | | (1 592) | (443) | (1 537) | (442) |
| Other operating income | 5.4 | 2 018 | 1 243 | 1 243 | 236 |
| Other operating expenses | 5.4 | (1 085) | (540) | (568) | (330) |
| (Loss)/reversal of loss due to impairment of financial instruments | | (16) | (22) | - | - |
| Share in profit from investments accounted for under equity method | | 127 | 13 | 248 | 62 |
| Profit from operations | | 7 103 | 1 214 | 8 657 | 1 987 |
| Finance income | 5.5 | 1 413 | 244 | 1 760 | 733 |
| Finance costs | 5.5 | (1 517) | (295) | (1 700) | (725) |
| Net finance income and costs | | (104) | (51) | 60 | 8 |
| (Loss)/reversal of loss due to impairment of financial instruments | | (1) | - | - | - |
| Profit before tax | | 6 998 | 1 163 | 8 717 | 1 995 |
| Tax expense | | (1 487) | (354) | (1 544) | (361) |
| current tax | | (1 181) | (160) | (1 329) | (364) |
| deferred tax | | (306) | (194) | (215) | 3 |
| Net profit | | 5 511 | 809 | 7 173 | 1 634 |
| Other comprehensive income: | | | | | |
| which will not be reclassified subsequently into profit or loss | | (24) | (9) | (13) | (13) |
| actuarial gains and losses | | (5) | (5) | (15) | (15) |
| gains/(losses) on investments in equity instruments at fair value through other comprehensive income | | (23) | (5) | - | - |
| deferred tax | | 4 | 1 | 2 | 2 |
| which will be reclassified into profit or loss | | 462 | 354 | 136 | (235) |
| hedging instruments | | 12 | 354 | 929 | 142 |
| hedging costs | | 38 | (29) | - | - |
| exchange differences on translating foreign operations | | 415 | 84 | (618) | (351) |
| deferred tax | | (3) | (55) | (175) | (26) |
| | | 438 | 345 | 123 | (248) |
| Total net comprehensive income | | 5 949 | 1 154 | 7 296 | 1 386 |
| Net profit attributable to | | 5 511 | 809 | 7 173 | 1 634 |
| equity owners of the parent | | 5 463 | 804 | 6 655 | 1 591 |
| non-controlling interest | | 48 | 5 | 518 | 43 |
| Total net comprehensive income attributable to | | 5 949 | 1 154 | 7 296 | 1 386 |
| equity owners of the parent | | 5 844 | 1 136 | 6 717 | 1 370 |
| non-controlling interest | | 105 | 18 | 579 | 16 |
| Net profit and diluted net profit per share attributable to equity owners of the parent (in PLN per share) | | 12.77 | 1.88 | 15.56 | 3.72 |

The accompanying notes disclosed on pages 9 – 27 are an integral part of the foregoing interim condensed consolidated financial statements.

Consolidated statement of financial position

| | NOTE | 31/12/2018 (unaudited) | 31/12/2017 |
|---|------|---------------------------|---------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | | 31 325 | 29 071 |
| Intangible assets | | 1 323 | 1 272 |
| Investments accounted for under equity method | | 650 | 715 |
| Deferred tax assets | | 70 | 49 |
| Derivatives | 5.7 | 161 | 303 |
| Other assets | 5.7 | 338 | 330 |
| | | 33 867 | 31 740 |
| Current assets | | | |
| Inventories | | 14 317 | 12 440 |
| Trade and other receivables | | 10 479 | 9 518 |
| Current tax assets | | 114 | 80 |
| Cash and cash equivalents | | 4 192 | 6 244 |
| Non-current assets classified as held for sale | | 202 | 75 |
| Derivatives | 5.7 | 524 | 434 |
| Other assets | 5.7 | 336 | 133 |
| | | 30 164 | 28 924 |
| Total assets | | 64 031 | 60 664 |
| EQUITY AND LIABILITIES | | | |
| EQUITY | | | |
| Share capital | | 1 058 | 1 058 |
| Share premium | | 1 227 | 1 227 |
| Hedging reserve | | 361 | 331 |
| Revaluation reserve | | (15) | 5 |
| Exchange differences on translating foreign operations | | 709 | 334 |
| Retained earnings | | 32 294 | 29 242 |
| Equity attributable to equity owners of the parent | | 35 634 | 32 197 |
| Non-controlling interests | | 12 | 3 014 |
| Total equity | | 35 646 | 35 211 |
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Loans and bonds | 5.6 | 8 598 | 6 688 |
| Provisions | 5.8 | 1 055 | 902 |
| Deferred tax liabilities | | 1 426 | 1 095 |
| Derivatives | 5.7 | 42 | 75 |
| Other liabilities | 5.7 | 366 | 311 |
| | | 11 487 | 9 071 |
| Current liabilities | | | |
| Trade and other liabilities | | 13 699 | 14 469 |
| Liabilities from contracts with customers | | 231 | - |
| Loans and bonds | 5.6 | 1 193 | 317 |
| Provisions | 5.8 | 1 019 | 673 |
| Current tax liabilities | | 473 | 290 |
| Derivatives | 5.7 | 193 | 313 |
| Other liabilities | 5.7 | 90 | 320 |
| | | 16 898 | 16 382 |
| Total liabilities | | 28 385 | 25 453 |
| Total equity and liabilities | | 64 031 | 60 664 |

The accompanying notes disclosed on pages 9 – 27 are an integral part of the foregoing interim condensed consolidated financial statements.

Consolidated statement of changes in equity

| | Equity attributable to equity owners of the parent | | | | | | Non-controlling interests | Total equity |
|---------------------------------------|--|-----------------|---------------------|--|-------------------|---------------|---------------------------|---------------|
| | Share capital and share premium | Hedging reserve | Revaluation reserve | Exchange differences on translating foreign operations | Retained earnings | Total | | |
| 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 | - | - | - | - | 5 463 | 5 463 | 48 | 5 511 |
| Items of other comprehensive income | - | 30 | (20) | 375 | (4) | 381 | 57 | 438 |
| Total net comprehensive income | - | 30 | (20) | 375 | 5 459 | 5 844 | 105 | 5 949 |
| Change in structure | - | - | - | - | (1 115) | (1 115) | (3 107) | (4 222) |
| Dividends | - | - | - | - | (1 283) | (1 283) | - | (1 283) |
| 31/12/2018 | 2 285 | 361 | (15) | 709 | 32 294 | 35 634 | 12 | 35 646 |
| <i>(unaudited)</i> | | | | | | | | |
| 01/01/2017 | 2 285 | (355) | 5 | 946 | 23 882 | 26 763 | 2 522 | 29 285 |
| Net profit | - | - | - | - | 6 655 | 6 655 | 518 | 7 173 |
| Items of other comprehensive income | - | 686 | - | (612) | (12) | 62 | 61 | 123 |
| Total net comprehensive income | - | 686 | - | (612) | 6 643 | 6 717 | 579 | 7 296 |
| Change in structure | - | - | - | - | - | - | 2 | 2 |
| Dividends | - | - | - | - | (1 283) | (1 283) | (89) | (1 372) |
| 31/12/2017 | 2 285 | 331 | 5 | 334 | 29 242 | 32 197 | 3 014 | 35 211 |

The accompanying notes disclosed on pages 9 – 27 are an integral part of the foregoing interim condensed consolidated financial statements.

Consolidated statement of cash flows

| | 12 MONTHS ENDED 31/12/2018 (unaudited) | 3 MONTHS ENDED 31/12/2018 (unaudited) | 12 MONTHS ENDED 31/12/2017 | 3 MONTHS ENDED 31/12/2017 (unaudited) |
|--|---|--|----------------------------------|--|
| Cash flows from operating activities | | | | |
| Profit before tax | 6 998 | 1 163 | 8 717 | 1 995 |
| Adjustments for: | | | | |
| Share in profit from investments accounted for under equity method | (127) | (13) | (248) | (62) |
| Depreciation and amortisation | 2 673 | 697 | 2 421 | 662 |
| Foreign exchange (gain)/loss | 319 | 85 | (233) | (206) |
| Interest, net | 203 | 54 | 204 | 49 |
| Dividends | (4) | - | (4) | - |
| (Profit)/Loss on investing activities, incl.: recognition/(reversal) of impairment allowances of property, plant and equipment and intangible assets | (1 036) | (844) | 549 | 189 |
| Change in provisions | 736 | 285 | 345 | 126 |
| Change in working capital | (3 012) | (1 535) | (1 967) | (1 282) |
| inventories | (1 684) | 1 146 | (1 445) | (1 164) |
| receivables | (1 070) | 1 424 | (1 579) | (55) |
| liabilities | (258) | (4 105) | 1 057 | (63) |
| Other adjustments, incl.: rights received free of charge | (732) | (468) | (131) | (160) |
| Income tax (paid) | (1 039) | (196) | (1 603) | (430) |
| Net cash from/(used in) operating activities | 4 979 | (772) | 8 050 | 881 |
| Cash flows from investing activities | | | | |
| Acquisition of property, plant and equipment, intangible assets and perpetual usufruct of land | (4 453) | (1 373) | (4 039) | (1 159) |
| Acquisition of shares | (25) | - | (3) | (3) |
| Disposal of property, plant and equipment, intangible assets and perpetual usufruct of land | 161 | 35 | 105 | 20 |
| Dividends received | 196 | 67 | 252 | 75 |
| Settlement of derivatives not designated as hedge accounting | 339 | 212 | (234) | (67) |
| Other | (15) | (7) | (6) | (5) |
| Net cash (used) in investing activities | (3 797) | (1 066) | (3 925) | (1 139) |
| Cash flows from financing activities | | | | |
| Redemption of non-controlling shares Unipetrol a.s. | (4 222) | - | - | - |
| Proceeds from loans and borrowings received | 2 232 | 44 | 6 | 2 |
| Bonds issued | 600 | - | 400 | 400 |
| Repayments of loans and borrowings | (97) | (6) | (888) | (67) |
| Redemption of bonds | (200) | - | (700) | (300) |
| Interest paid | (231) | (24) | (234) | (20) |
| Dividends paid | (1 284) | - | (1 384) | (8) |
| to equity owners of the parent | (1 283) | - | (1 283) | - |
| to non-controlling interest | (1) | - | (101) | (8) |
| Payments of liabilities under finance lease agreements | (32) | (8) | (28) | (7) |
| Other | (3) | 1 | (4) | (1) |
| Net cash from/(used in) financing activities | (3 237) | 7 | (2 832) | (1) |
| Net increase/(decrease) in cash and cash equivalents | (2 055) | (1 831) | 1 293 | (259) |
| Effect of exchange rate changes | 3 | 11 | (121) | (30) |
| Cash and cash equivalents, beginning of the period | 6 244 | 6 012 | 5 072 | 6 533 |
| Cash and cash equivalents, end of the period | 4 192 | 4 192 | 6 244 | 6 244 |

The accompanying notes disclosed on pages 9 – 27 are an integral part of the foregoing interim condensed consolidated financial statements.

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") domiciled in Płock, 7 Chemików Street.

The core business of the ORLEN Group is crude oil processing and production of fuel, petrochemical and chemical goods, as well as, wholesale and retail of products. The ORLEN Group conducts also exploration, recognition and extraction of hydrocarbons, and generates, distributes and trades of electricity and heat.

The activity of the ORLEN Group companies is also service-related activity: storage of crude oil and fuels, transportation, maintenance and overhaul services, laboratory, security, design, administrative, insurance and financial services.

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

2.1. Statement of compliance and general principles for preparation

The foregoing interim condensed consolidated financial statements ("consolidated financial statements") were prepared in accordance with requirements of IAS 34 "Interim financial reporting" and in the scope required under the Minister of Finance Regulation of 29 March 2018 on current and periodic information provided by issuers of securities and conditions of recognition as equivalent information required by the law of a non member state (Official Journal 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 2018 and as at 31 December 2017, financial results and cash flows for the 12 and 3 month period ended 31 December 2018 and 31 December 2017.

The foregoing 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 the foregoing 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.

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

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

2.2.1. Accounting principles

In the foregoing 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 separate explanatory notes in the Consolidated Financial Statements for 2017, except for the adopted new IFRS 15 – Revenue from Contracts with Customers and IFRS 9 - Financial Instruments described in note 2.2.2.

| Selected accounting principles - Consolidated financial statements of ORLEN Group for the year ended 31 December 2017 | Note |
|---|---------|
| Investments in subsidiaries, jointly controlled entities and associates | 6.1 |
| Operating segments | 8.1 |
| Sales revenues | 9.1.1 |
| Costs | 9.1.3 |
| Income tax expenses (tax expense) | 9.1.7 |
| Property, plant and equipment | 9.2.1 |
| Exploration and extraction of mineral resources | 9.2.1 |
| Intangible assets | 9.2.2 |
| Investments accounted for under equity method | 9.2.4 |
| Impairment of property, plant and equipment and intangible assets | 9.2.5 |
| Inventories | 9.2.6.1 |
| Trade and other receivables | 9.2.6.2 |
| Trade and other liabilities | 9.2.6.3 |
| Net debt | 9.2.7 |
| Equity | 9.2.8 |
| Provisions | 9.2.10 |
| Financial instruments | 9.3 |
| Fair value measurement | 9.3 |
| Lease | 9.4.2 |
| Contingent assets and liabilities | 9.4.4 |

The Group adopted the requirements of IFRS 9 and IFRS 15 with a modified retrospective approach with effect from 1 January 2018. According to the option allowed by the standard, the Group resigned from converting comparable data. As at 31 December 2017 and for the 4th quarter of 2017 data were prepared based on IAS 39 regarding financial instruments and IAS 18 and IAS 11 regarding revenues from sales.

2.2.2. Amendments to International Financial Reporting Standards (IFRS)

➤ IFRS 9 Financial instruments

Selected accounting principles

Measurement of financial assets and liabilities

From 1 January 2018, the Group classifies financial assets into one of the following categories:

- measured at amortized cost,
- measured at fair value through other comprehensive income,
- measured at fair value through profit or loss,
- hedging financial instruments.

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

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

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

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

The Group classifies financial liabilities into one of the following categories:

- measured at amortized cost,
- measured at fair value through profit or loss,
- hedging financial instruments.

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

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

Measurement of financial assets at amortized cost

The Group applies the effective interest rate method to measure financial assets at amortized cost.

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

Measurement of financial assets at fair value through other comprehensive income

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

Measurement of financial assets at fair value through profit or loss

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

Measurement of hedging financial instruments

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

Impairment of financial assets

IFRS 9 introduces a new approach to estimating the impairment of financial assets measured at amortized cost or at fair value through other comprehensive income (with the exception of investments in capital assets and contract assets). The impairment model is based on the expected loss calculation as opposed to the applied model in years before 2018 resulting from IAS 39, which was based on the concept of incurred loss. The most significant item of financial assets in the Group's financial statements, which is subject to the new principles of calculating expected credit losses, are trade receivables.

The Group uses the following models for determining impairment allowances:

- general model (basic),
- simplified model.

The general model is used by the Group for financial assets measured at amortized cost - other than trade receivables and assets measured at fair value through other comprehensive income.

In the general model, the Group monitors the changes in the level of credit risk associated with a given financial asset and classifies financial assets to one of the three stages of impairment allowances based on the observation of the change in the credit risk level in relation to the initial recognition of the instrument.

Depending on the classification to particular stages, the impairment allowance is estimated in the 12-month horizon (stage 1) or in the life horizon of the instrument (stage 2 and stage 3).

On each day ending the reporting period, the Group considers the indications resulting in the classification of financial assets to particular stages of determining impairment allowances. Indications may include changes in the debtor's rating, serious financial problems of the debtor, a significant unfavourable change in its economic, legal or market environment.

For the purposes of estimating the expected credit loss, the Group uses default probability levels based on market credit quotes of derivatives for entities with a given rating and from a given sector.

The Group includes information on the future in the parameters of the expected loss estimation model by calculating the probability parameters of insolvency based on current market quotes.

The simplified model is used by the Group for trade receivables.

In the simplified model, the Group does not monitor changes in the credit risk level during the life of the instrument and estimates the expected credit loss in the horizon up to maturity of the instrument.

In particular, for the insolvency event, the Group recognizes when the contractor has not satisfied the obligation after 90 days from the due receivables date.

For the purpose of estimating the expected credit loss, the Group uses a provision matrix estimated on the basis of historical levels of repayment and recoveries from receivables from contractors.

The Group includes information about the future in the parameters used in the expected loss estimation model, through the management adjustment of the basic insolvency probability parameters. To calculate the expected credit loss, the Group determines the probability parameter of receivables defaults estimated on the basis of the analysis of the number of unpaid invoices in the last five years, and the liabilities default rate estimated on the basis of the value of unpaid invoices in the last five years.

The expected credit loss is calculated when the receivable is recognized in the statement of financial position and is updated on each subsequent day ending the reporting period, depending on the number of days for which the receivable is due.

(Loss)/reversal of loss due to impairment of financial instruments

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

Hedge accounting

Derivatives designated as hedging instruments from which it is expected that their fair value or resulting from them cash flows will offset changes in fair value or cash flows of hedged item are recognized in accordance with the principles of fair value hedge accounting or cash flows hedges.

The Group assesses the effectiveness of hedging both at the moment of establishing the hedging and in subsequent periods, at least at each end of the reporting period. Verification of satisfaction of the conditions for the effectiveness of linking is made on a prospective basis, based on a qualitative analysis. If necessary, the Group uses a quantitative analysis (linear regression method) to confirm an economic relation between the hedging instrument and the hedged item.

In the case of cash flows hedge accounting, the Group:

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

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

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

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

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

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

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

➤ IFRS 15 Revenue from Contracts with Customers

Selected accounting principles

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

Requirements to identify a contract with a customer

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

Identification of performance obligations

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

Determination of the transaction price

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

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

Allocating the transaction price to individual performance obligations

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

Recognition of revenue when performance obligations are satisfied

The Group recognises revenue when (or as) the Group satisfies performance obligations by transferring a promised good or service (i.e. an asset) to a customer (the customer obtains control of that asset). Revenues are recognised as amounts equal to the transaction price that has been allocated to a given performance obligation.

The Group transfers control of good or service over time and, therefore, satisfies a performance obligation and recognises revenues over time, if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits from performance as the Group performs,
- the asset is created or enhanced as a result of the performance, and the customer controls the asset as it is created or enhanced,
- as a result of the performance of the service, an alternative component for the Group is not created, and the Group has an enforceable right to payment for performance completed to date.

Impact of the implementation of IFRS 9 and IFRS 15 on the Group's consolidated financial statements as at 1 January 2018:

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

The change in trade and other receivables results from the change in the measurement of impairment allowances estimated in accordance with IFRS 9, considering the requirements of the expected credit losses model.

The impact of the application of IFRS 15 on the items of the consolidated financial statements of the Group in the 4th quarter of 2018 compared to IAS 11, IAS 18 and related interpretations was immaterial.

Additionally, the Group disclosed information on the estimated impact of applying IFRS 9 and IFRS 15 in the annual consolidated financial statements of the Group for 2017 in note 5.5.

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

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

➤ IFRS 16 Lease

The Council of International Accounting Standards issued International Financial Reporting Standard 16 Leases ("IFRS 16") in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted for entities that use IFRS 15 from or before the first application of IFRS 16. The Group has not decided to IFRS 16 early adoption.

The Group identified current finance lease agreements, operating lease agreements which can meet lease definition according to IFRS 16. The Group defined accounting principles and a detailed methodology for the implementation of the new standard. Currently, the Group estimates the potential impact of the first application of IFRS 16 on retained earnings as at 01 January 2019, ie on the day of the first application of the new standard, which will be disclosed in the annual consolidated financial statements for 2018.

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

2.3.1. Functional currency and presentation currency

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

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 recognized in equity in the line exchange differences on translating foreign operations.

| CURRENCY | Average exchange rate for the reporting period | | | | Exchange rate as at the end of the reporting period | |
|----------|---|-------------------|--------------------|-------------------|--|------------|
| | 12 MONTHS ENDED | 3 MONTHS ENDED | 12 MONTHS ENDED | 3 MONTHS ENDED | 31/12/2018 | 31/12/2017 |
| | 31/12/2018 | 31/12/2018 | 31/12/2017 | 31/12/2017 | | |
| EUR/PLN | 4.2614 | 4.2992 | 4.2576 | 4.2322 | 4.3000 | 4.1709 |
| USD/PLN | 3.6113 | 3.7678 | 3.7783 | 3.5936 | 3.7597 | 3.4813 |
| CZK/PLN | 0.1662 | 0.1662 | 0.1617 | 0.1650 | 0.1673 | 0.1632 |
| CAD/PLN | 2.7861 | 2.8532 | 2.9101 | 2.8284 | 2.7620 | 2.7765 |

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

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

3. Financial situation and description of ORLEN Group organization

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

Profit or loss for the 12 months of 2018

The increase of sales revenues of the ORLEN Group by PLN 14,342 million (y/y) to PLN 109,706 million reflects 32% (y/y) increase in crude oil prices and also as a result of the quotation of main products: fuel (by 21%), diesel oil (by 29%), light heating oil (by 30%), heavy heating oil (by 32%), ethylene (by 8%) and propylene (by 18%) and higher sales volumes by 1% (y/y) to 42.9 million tons.

The operating expenses increased by PLN (16,017) million (y/y) to PLN (103,647) million. The largest item in this cost structure constitute the costs of materials and energy consumption related mainly to the crude oil used in technological processes. The increase in the costs of materials and energy consumption by 32% (y/y) resulted mainly from higher by 17 USD/bbl (y/y) crude oil quotations on global market and higher by 152 thousand tons crude oil processing to 33.4 million tons.

Positive result of other operating activities amounted to PLN 933 million and was higher by PLN 258 million (y/y). It included mainly net effect of reversal of impairment allowances on non-current assets in the amount of PLN 639 million, which mainly concerned the downstream segment of Unipetrol Group and received net penalties and compensations in the amount of PLN 310 million including compensations due to damage related to the steam cracker unit accident from August 2015 in Unipetrol Group in the amount of PLN 264 million.

Share in profit from investments accounted for under equity method decreased by PLN (121) million (y/y) to the PLN 127 million.

As a result profit from operations amounted to PLN 7,103 million and was lower by PLN (1,554) million (y/y). 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 (104) million and included mainly net foreign exchange loss in the amount of PLN (353) million, net interest expenses in the amount of PLN (168) million and net positive impact of settlement and valuation of derivatives not designated as hedge accounting in the amount of PLN 437 million.

After consideration of tax charges in the amount of PLN (1,487) million, the net profit of the ORLEN Group amounted to PLN 5,511 million and was lower by PLN (1,662) million (y/y).

Profit or loss for the 4th quarter of 2018

Sales revenues of the ORLEN Group in the 4th quarter of 2018 amounted to PLN 29,420 million and were higher by PLN 4,686 million (y/y) mainly as a result of increasing in quotation of major products: fuel (by 1%), diesel oil (by 16%), light heating oil (by 17%), heavy heating oil (by 20%), ethylene (by 6%) and propylene (by 18%). An additional impact on the level of revenues had the increase in volume sales by 2% (y/y) to 11.2 million tons in all operating segments.

Total operating expenses increased by PLN (6,185) million (y/y) to PLN (28,900) million mainly due to higher by 8 USD/bbl quotation of crude oil prices on the global market which affected on increase in the cost of consumed materials and energy by PLN 4,889 million (y/y).

After consideration of positive result on other operating activities in the amount of PLN 703 million included mainly net impact of reversal of impairment allowances on non-current assets in the amount of PLN 668 million, and share in profit from investments accounted for under equity method in the amount of PLN 13 million, the operating profit amounted to PLN 1,214 million and was lower by PLN (773) million (y/y). 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 (51) million and included mainly net positive impact of settlement and valuation of derivatives not designated as hedge accounting in the amount of PLN 163 million, net foreign exchange loss in the amount of PLN (157) million and net interest expenses in the amount of PLN (43) million.

After consideration of tax charges in the amount of PLN (354) million, the net profit of the ORLEN Group amounted to PLN 809 million and was lower by PLN (825) million (y/y).

Statement of financial position

As at 31 December 2018, total assets of the ORLEN Group amounted to PLN 64,031 million and was higher by PLN 3,367 million in comparison with 31 December 2017.

As at 31 December 2018, the value of non-current assets amounted to PLN 33,867 million and was higher by PLN 2,127 million in comparison with the end of the previous year, mainly due to increasing the value of property, plant and equipment and intangible assets by PLN 2,305 million, decreasing valuation of derivatives by PLN (142) million and decrease of investments accounted for under equity method by PLN (65) million.

Balance change of property, plant and equipment and intangible assets comprised mainly investment expenditures in the amount of PLN 4,280 million, for the Construction of the Polyethylene 3 Installation in Unipetrol Group, Installation of propane-propylene fraction separation (PPF Splitter) in Lithuania, Metathesis Installation in Plock and projects in upstream segment, depreciation and amortisation in the amount of PLN (2,673) million and impact of reversal of impairment allowances on non-current assets regarding mainly Unipetrol Group and Upstream Group in the amount of PLN 639 million and decrease due to the reclassification of upstream assets to non-current assets as held for sale in the amount of PLN (108) million. On 3 January 2019, the transaction of sale of part of the upstream assets in Canada located in the Pouce Coupe area was finalized.

The value of current assets increased by PLN 1,240 million, mainly as result of an increase in trade and other receivables by PLN 961 million, increase in balance of inventories by PLN 1,877 million and valuations of derivatives by PLN 90 million, receivables due to settlement of derivatives in the amount of PLN 180 million by decrease of cash and cash equivalents by PLN (2,052) million. The increase in value of inventories is mainly the effect of an increase in quantity and average price of crude oil and an increase in the average fuel and diesel prices. The increase in trade receivables results mainly from higher goods prices and higher volume of sales.

As at 31 December 2018, equity amounted to PLN 35,646 million and was higher by PLN 435 million in comparison with the end of 2017, mainly due to decrease by PLN (4,222) million in the balance of equity attributable to non-controlling interests due to redemption by PKN ORLEN shares in Unipetrol a.s., dividend payments from the previous year's profit in the amount of PLN (1,283) million, impact of exchange differences on translating foreign operations in the amount of PLN 375 million and recognition of net profit for 12 months of 2018 in the amount of PLN 5,511 million.

As at 31 December 2018 the value of provisions amounted to PLN 2,074 million and were higher by PLN 499 million compared to the end of 2017, mainly due to provision balance change of estimated CO₂ emissions and energy certificates in the total amount of PLN 408 million. The change results mainly from the net effect of recognition of provision in the amount of PLN 800 million based on current market quotations or prices resulting from the status of owned rights on intangible assets and their usage of the provision due to redemption of rights from 2017 in the amount of PLN (388) million.

As at 31 December 2018, net financial indebtedness of the ORLEN Group amounted to PLN 5,599 million and was higher by PLN 4,838 million in comparison with the end of 2017. Change of indebtedness included net proceeds of loans, borrowings and bonds in the amount of PLN 2,535 million, decrease of cash and cash equivalents balance by PLN 2 052 million and the net impact of negative exchange differences from revaluation of indebtedness valuation and interests in total amount of PLN 251 million.

Statement of cash flows for the 12 months of 2018

Proceeds of net cash from operating activities for the 12 months of 2018 amounted to PLN 4,979 million and comprised mainly profit from operations increased by depreciation and amortisation in the amount of PLN 9,776 million, the negative impact of increase in a net working capital by PLN (3,012) million decreased by share in financial result from investments accounted for under equity method in the amount of PLN (127) million, paid income tax in the amount of PLN (1,039) million and reversal of net impairment allowances of property, plant and equipment and intangible assets and other non-current assets in the amount of PLN (639) million.

Net cash used in investing activities for the 12 months of 2018 amounted to PLN (3,797) million and comprised mainly net expenses for the acquisition and disposal of property, plant and equipment, intangible assets and perpetual usufruct of land in the amount of PLN (4,292) million and proceeds from dividends received in the amount of PLN 196 million and settlement of derivatives not designated as hedge accounting in the amount of PLN 339 million.

Net outflows of cash used in financing activities for the 12 months of 2018 amounted to PLN (3,237) million and comprised mainly the redemption of shares of Unipetrol a.s. in the amount PLN (4,222) million, the net proceeds of loans and borrowings in the amount of PLN 2,135 redemption of retail bonds in the amount of PLN (200) million, issue of retail bonds in the amount of PLN 600 million, paid dividends in the amount of PLN (1,284) million and interest paid in the amount of PLN (231) million.

After consideration the revaluation of cash due to exchange differences, the cash balance in the 12 month period of 2018 decreased by PLN (2,052) million and as at 31 December 2018 amounted to PLN 4,192 million.

Statement of cash flows for the 4th quarter of 2018

In the 4th quarter of 2018 the net cash used in operating activities amounted to PLN (772) million and comprised mainly profit from operations increased by depreciation and amortisation in the amount of PLN 1,911 million and the negative impact of increase in a net working capital by PLN (1,535) million, reversal of net impairment allowances of property, plant and equipment and intangible assets and other non-current assets in the amount of PLN (668) million and other adjustments includes mainly change in the balance due to settlements of derivatives not designated as hedge accounting in the amount of PLN (309) million.

In the 4th quarter of 2018 the net cash used in investing activities amounted to PLN (1,066) million and comprised mainly net expenses for the acquisition and disposal of property, plant and equipment, intangible assets and perpetual usufruct of land in the amount of PLN (1,338) million proceeds from dividends received in the amount of PLN 67 million and settlement of derivatives not designated as hedge accounting in the amount of PLN 212 million.

In the 4th quarter of 2018 the net proceeds of cash used in financing activities amounted to PLN 7 million and comprised mainly the net proceeds of loans and borrowings in the amount of PLN 38 million and interest paid in the amount of PLN (24) million.

Taking into account the revaluation of cash due to exchange differences, the cash balance in the 4th quarter of 2018 decreased by PLN (1,820) million and as at 31 December 2018 amounted to PLN 4,192 million.

Factors and events which may influence on future results

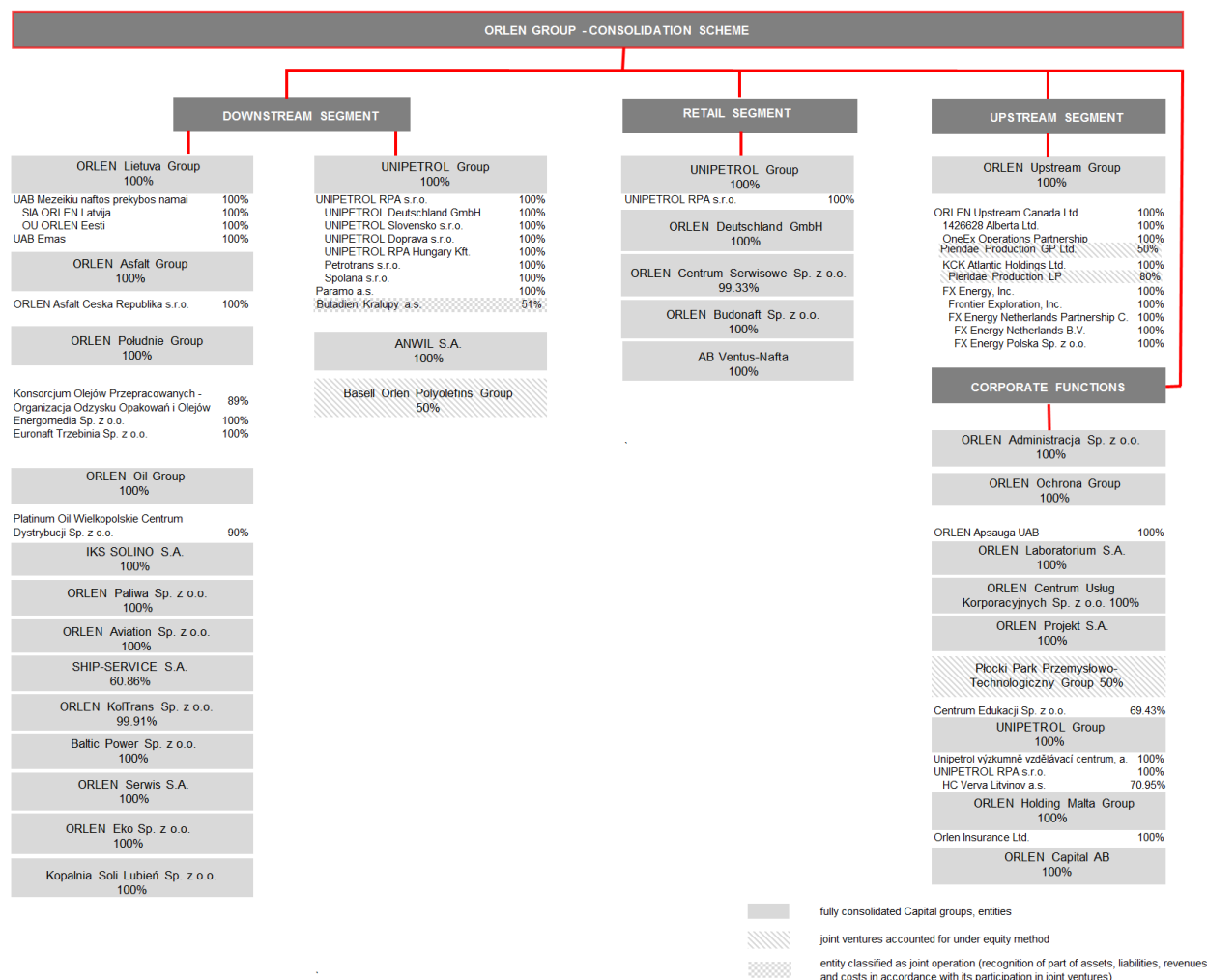
The factors affecting on future financial results of the ORLEN Group include:

- macroeconomic environment - crude oil and other energy resources prices, quotations on refinery and petrochemical products and foreign exchange rates (mainly PLN/USD and PLN/EUR),
- economic situation - GDP level, fuel and other products of the Group consumption on the markets of its operations and the situation on the labor 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, Czech Republic, Lithuania, Malta, Sweden, the Netherlands, Slovakia, Hungary, Estonia, Latvia and the USA and Canada.

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



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

- On 2 February 2018, PKN ORLEN SA acquired 17 shares from minority shareholders of ORLEN KolTrans Sp. z o.o. Currently, in the share capital of ORLEN KolTrans Sp. z o.o., PKN ORLEN owns 99.91% of shares, and non-controlling shareholders 0.09% of shares.
- On 23 February 2018 PKN ORLEN purchased 56,280,592 of Unipetrol, a.s. shares for PLN 3,531 million, which were subscribed for the sale in response to the announcement of a voluntary tender offer. Shares purchased represent 31.04% of the Unipetrol share capital. The above transaction was result in a decrease in equity of the non-controlling interests in the amount of PLN (2,564) million and decrease retained earnings by PLN (967) million. As at 30 September 2018 PKN ORLEN owns 94.03% of shares in the share capital of Unipetrol a.s.
- On 1 October 2018 PKN ORLEN acquired all shares which were subject to squeeze out of shares of Unipetrol a.s. owned by the minority shareholders, representing approximately 5.97% of Unipetrol share capital.
- As a result, PKN ORLEN has become the sole shareholder of Unipetrol, controlling 100% of shares representing 100% of votes at the General Meeting of Shareholders of Unipetrol. Additional information are presented in note B2.
- On 17 April 2018, the name of the company ORLEN Finance AB to Polish Sky Finance AB was changed.
- On 9 May 2018 deletion from the Czech trade registry Paramo Oil s.r.o. in liquidation (Unipetrol Group) took place.
- On 18 June 2018, PKN ORLEN sold 100% shares in the special purpose company Polish Sky Finance AB (formerly ORLEN Finance AB) to S-bolag Börsen AB.
- On 27 July 2018, the Extraordinary General Meeting of Baltic Power Sp. z o.o. was held, at which was adopted a resolution regarding the increase of the company's share capital from PLN 408,700 to PLN 500,000, i.e. by PLN 91,300, by recognition of 913 new and indivisible shares in the share capital of the company, with a nominal value of PLN 100 each, which will be in whole covered by the current sole shareholder of the company, i.e. PKN ORLEN, in exchange for a cash contribution of PLN 54,200,000.
- The surplus of the cash contribution, referred to above, over the total nominal value of newly recognized shares in the amount of PLN 54,108,700, will be allocated to the company's reserve capital.
- On 9 August 2018, the process of redemption of shares of ORLEN Projekt S.A. shares from minority shareholders was completed and settled. 35 shares representing 0.23% of the share capital of the company were transferred to PKN ORLEN.
- Currently PKN ORLEN holds 100% share in the share capital of ORLEN Projekt S.A.
- From 1 December 2018, the legal form of SPOLANA a.s. from joint-stock to limited liability company that from SPOLANA a.s. to SPOLANA s.r.o., took place.

- On 15 January 2019, transformation of Platinum Oil Wielkopolskie Centrum Dystrybucji Sp. z o.o. to Platinum Oil Wielkopolskie Centrum Dystrybucji S.A. took place. Therefore, ORLEN OIL Sp. z o.o. holds 100% of the share capital of Platinum Oil Wielkopolskie Centrum Dystrybucji S.A.

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

4. Segment reporting

The operations of the ORLEN Group is conducted in:

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

and Corporate Functions i.e. reconciling items, which include activities related to management, administration and remaining activities not allocated to separate operating segments.

The allocation of the ORLEN Group's companies to operating segments and Corporate Functions was presented in note 3.2.

Revenues, costs, financial results, investments expenditures

for the 12 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 | 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 | | (85 249) | (35 139) | (572) | (1 327) | 18 640 | (103 647) |
| Other operating income | 5.4 | 1 593 | 114 | 139 | 172 | - | 2 018 |
| Other operating expenses | 5.4 | (456) | (141) | (260) | (228) | - | (1 085) |
| (Loss)/reversal of loss due to impairment of financial instruments | | (5) | (2) | - | (9) | - | (16) |
| Share in profit from investments accounted for under equity method | | 127 | - | - | - | - | 127 |
| Profit/(Loss) from operations | | 5 747 | 2 306 | (88) | (862) | - | 7 103 |
| Net finance income and costs | 5.5 | | | | | | (104) |
| (Loss)/reversal of loss due to impairment of financial instruments | | | | | | | (1) |
| Profit before tax | | | | | | | 6 998 |
| Tax expense | | | | | | | (1 487) |
| Net profit | | | | | | | 5 511 |
| Depreciation and amortisation | 5.2 | 1 791 | 461 | 308 | 113 | - | 2 673 |
| EBITDA | | 7 538 | 2 767 | 220 | (749) | - | 9 776 |
| CAPEX | | 2 451 | 832 | 740 | 257 | - | 4 280 |

for the 3 month period ended 31 December 2018

| | NOTE | Downstream Segment | Retail Segment | Upstream Segment | Corporate Functions | Adjustments | Total |
|--|------|--------------------|----------------|------------------|---------------------|-------------|--------------|
| | | (unaudited) | (unaudited) | (unaudited) | (unaudited) | (unaudited) | (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 | | (24 142) | (9 156) | (154) | (380) | 4 932 | (28 900) |
| Other operating income | 5.4 | 934 | 58 | 136 | 115 | - | 1 243 |
| Other operating expenses | 5.4 | (147) | (75) | (198) | (120) | - | (540) |
| (Loss)/reversal of loss due to impairment of financial instruments | | (17) | - | - | (5) | - | (22) |
| Share in profit from investments accounted for under equity method | | 13 | - | - | - | - | 13 |
| Profit/(Loss) from operations | | 746 | 789 | (75) | (246) | - | 1 214 |
| Net finance income and costs | 5.5 | | | | | | (51) |
| (Loss)/reversal of loss due to impairment of financial instruments | | | | | | | - |
| Profit before tax | | | | | | | 1 163 |
| Tax expense | | | | | | | (354) |
| Net profit | | | | | | | 809 |
| Depreciation and amortisation | 5.2 | 476 | 118 | 71 | 32 | - | 697 |
| EBITDA | | 1 222 | 907 | (4) | (214) | - | 1 911 |
| CAPEX | | 900 | 353 | 187 | 131 | - | 1 571 |

for the 12 month period ended 31 December 2017

| | NOTE | Downstream Segment | Retail Segment | Upstream Segment | Corporate Functions | Adjustments | Total |
|--|------|--------------------|----------------|------------------|---------------------|-------------|---------------|
| External revenues | 5.1 | 61 425 | 33 350 | 515 | 74 | - | 95 364 |
| Inter-segment revenues | | 13 816 | 280 | - | 342 | (14 438) | - |
| Sales revenues | | 75 241 | 33 630 | 515 | 416 | (14 438) | 95 364 |
| Operating expenses | | (68 410) | (31 986) | (540) | (1 132) | 14 438 | (87 630) |
| Other operating income | 5.4 | 1 048 | 105 | 4 | 86 | - | 1 243 |
| Other operating expenses | 5.4 | (194) | (133) | (145) | (96) | - | (568) |
| Share in profit from investments accounted for under equity method | | 247 | - | 1 | - | - | 248 |
| Profit/(Loss) from operations | | 7 932 | 1 616 | (165) | (726) | - | 8 657 |
| Net finance income and costs | 5.5 | | | | | | 60 |
| Profit before tax | | | | | | | 8 717 |
| Tax expense | | | | | | | (1 544) |
| Net profit | | | | | | | 7 173 |
| Depreciation and amortisation | 5.2 | 1 568 | 422 | 318 | 113 | - | 2 421 |
| EBITDA | | 9 500 | 2 038 | 153 | (613) | - | 11 078 |
| CAPEX | | 2 925 | 678 | 778 | 221 | - | 4 602 |

for the 3 month period ended 31 December 2017

| | NOTE | Downstream Segment (unaudited) | Retail Segment (unaudited) | Upstream Segment (unaudited) | Corporate Functions (unaudited) | Adjustments (unaudited) | Total (unaudited) |
|--|------|-----------------------------------|-------------------------------|---------------------------------|------------------------------------|----------------------------|----------------------|
| External revenues | 5.1 | 16 479 | 8 094 | 133 | 28 | - | 24 734 |
| Inter-segment revenues | | 3 675 | 127 | - | 102 | (3 904) | - |
| Sales revenues | | 20 154 | 8 221 | 133 | 130 | (3 904) | 24 734 |
| Operating expenses | | (18 307) | (7 835) | (132) | (345) | 3 904 | (22 715) |
| Other operating income | 5.4 | 127 | 55 | 3 | 51 | - | 236 |
| Other operating expenses | 5.4 | (122) | (60) | (101) | (47) | - | (330) |
| Share in profit from investments accounted for under equity method | | 60 | - | 2 | - | - | 62 |
| Profit/(Loss) from operations | | 1 912 | 381 | (95) | (211) | - | 1 987 |
| Net finance income and costs | 5.5 | | | | | | 8 |
| Profit before tax | | | | | | | 1 995 |
| Tax expense | | | | | | | (361) |
| Net profit | | | | | | | 1 634 |
| Depreciation and amortisation | 5.2 | 439 | 112 | 76 | 35 | - | 662 |
| EBITDA | | 2 351 | 493 | (19) | (176) | - | 2 649 |
| CAPEX | | 1 126 | 335 | 164 | 79 | - | 1 704 |

EBITDA – profit/(loss) from operations increased by depreciation and amortization
CAPEX - increase of property, plant and equipment, intangible assets, investment property and perpetual usufruct of land together with the capitalisation of borrowing costs and a decrease on received/due penalties for improper execution of the contract
Assets by operating segments

| | 31/12/2018 (unaudited) | 31/12/2017 |
|-----------------------|---------------------------|---------------|
| Downstream Segment | 46 084 | 42 159 |
| Retail Segment | 6 974 | 6 511 |
| Upstream Segment | 4 109 | 3 839 |
| Segment assets | 57 167 | 52 509 |
| Corporate Functions | 6 915 | 8 206 |
| Adjustments | (51) | (51) |
| | 64 031 | 60 664 |

5. Other notes
5.1. Sales revenues
Performance obligations

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

There are liabilities to accept and refund remunerations.

The guarantees provided within the contracts are guarantees assuring the customer that the product complies with the established specification. They do not involving the performance of a separate service.

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

Within the Retail segment, there are both cash sales as well as sales with deferred payment dates, performed based on fleet contracts. The moment of satisfaction of the performance obligation is the moment of release of the good.

In contracts with customers of the Downstream and Retail segments, in most cases are payment dates that do not exceed 30 days.

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

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

5.1.1. Sales revenues by assortments

| | 12 MONTHS ENDED 31/12/2018 (unaudited) | 3 MONTHS ENDED 30/09/2018 (unaudited) | 12 MONTHS ENDED 31/12/2017 | 3 MONTHS ENDED 31/12/2017 (unaudited) |
|---------------------------|---|--|----------------------------------|--|
| Downstream Segment | | | | |
| Medium distillates | 34 787 | 9 757 | 28 325 | 7 963 |
| Light distillates | 12 925 | 3 391 | 12 071 | 3 208 |
| Heavy fractions | 7 339 | 2 159 | 5 691 | 1 612 |
| Monomers | 3 260 | 628 | 2 994 | 728 |
| Polymers | 2 643 | 540 | 2 557 | 631 |
| PTA | 1 528 | 339 | 1 399 | 278 |
| Plastics | 1 409 | 263 | 1 466 | 308 |
| Fertilizers | 825 | 216 | 805 | 194 |
| Aromas | 1 096 | 201 | 1 100 | 314 |
| Other | 5 851 | 1 797 | 5 017 | 1 243 |
| | 71 663 | 19 291 | 61 425 | 16 479 |
| Retail Segment | | | | |
| Medium distillates | 19 879 | 5 386 | 16 471 | 3 981 |
| Light distillates | 14 266 | 3 753 | 13 086 | 3 199 |
| Other * | 3 194 | 814 | 3 793 | 914 |
| | 37 339 | 9 953 | 33 350 | 8 094 |
| Upstream Segment | | | | |
| NGL ** | 337 | 76 | 249 | 73 |
| Crude oil | 95 | 18 | 62 | 15 |
| Natural Gas | 168 | 46 | 196 | 44 |
| Other | 5 | 1 | 8 | 1 |
| | 605 | 141 | 515 | 133 |
| Corporate Functions | 99 | 35 | 74 | 28 |
| | 109 706 | 29 420 | 95 364 | 24 734 |

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

** NGL (Natural Gas Liquids)

In the 12 month period ended 31 December 2018 revenues from contracts with customers amounted to PLN 109 552 million, while other revenues related to rent and lease services amounted to PLN 151 million.

In the 12 and 3 month period ended 31 December 2018 and 31 December 2017 no leading customers were identified in the Group, for which turnover would individually exceeded 10% of total revenues from sale of the ORLEN Group.

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

| | 12 MONTHS ENDED 31/12/2018 (unaudited) | 3 MONTHS ENDED 31/12/2018 (unaudited) | 12 MONTHS ENDED 31/12/2017 | 3 MONTHS ENDED 31/12/2017 (unaudited) |
|----------------------------|---|--|----------------------------------|--|
| Poland | 49 917 | 13 511 | 41 831 | 10 077 |
| Germany | 16 776 | 4 358 | 16 964 | 4 195 |
| Czech Republic | 14 565 | 4 262 | 13 085 | 3 459 |
| Lithuania, Latvia, Estonia | 10 996 | 2 633 | 7 797 | 2 647 |
| Other countries | 17 452 | 4 656 | 15 687 | 4 356 |
| | 109 706 | 29 420 | 95 364 | 24 734 |

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

5.2. Operating expenses

Cost by nature

| | 12 MONTHS ENDED 31/12/2018 (unaudited) | 3 MONTHS ENDED 31/12/2018 (unaudited) | 12 MONTHS ENDED 31/12/2017 | 3 MONTHS ENDED 31/12/2017 (unaudited) |
|--|---|--|----------------------------------|--|
| Materials and energy | (75 789) | (20 836) | (57 277) | (15 947) |
| Cost of merchandise and raw materials sold | (16 484) | (4 165) | (20 500) | (4 192) |
| External services | (4 593) | (1 244) | (4 218) | (1 154) |
| Employee benefits | (2 630) | (683) | (2 391) | (642) |
| Depreciation and amortisation | (2 673) | (697) | (2 421) | (662) |
| Taxes and charges | (1 540) | (447) | (1 204) | (344) |
| Other | (543) | (178) | (524) | (162) |
| | (104 252) | (28 250) | (88 535) | (23 103) |
| Change in inventories | 434 | (659) | 688 | 325 |
| Cost of products and services for own use | 171 | 9 | 217 | 63 |
| Operating expenses | (103 647) | (28 900) | (87 630) | (22 715) |
| Distribution expenses | 4 745 | 1 247 | 4 327 | 1 167 |
| Administrative expenses | 1 592 | 443 | 1 537 | 442 |
| Cost of sales | (97 310) | (27 210) | (81 766) | (21 106) |

Impairment allowances of inventories to net realizable value

| | 12 MONTHS ENDED 31/12/2018 (unaudited) | 3 MONTHS ENDED 31/12/2018 (unaudited) | 12 MONTHS ENDED 31/12/2017 | 3 MONTHS ENDED 31/12/2017 (unaudited) |
|----------|---|--|----------------------------------|--|
| Increase | (258) | (217) | (119) | (16) |
| Decrease | 56 | 10 | 131 | 18 |

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

As at 31 December 2018, an impairment indicators were identified in the ORLEN Group in accordance with IAS 36 "Impairment allowances of assets" related to the approval on 20 December 2018 the ORLEN Group Strategy for 2019-2022 ("Strategy") by the Management Board and the Supervisory Board of PKN ORLEN.

The detailed information on key pillars and directions of development has been presented in document available on the PKN ORLEN website:

<https://www.orlen.pl/EN/InvestorRelations/Presentations/Pages/default.aspx>

Approved in the range of the ORLEN Group Strategy the Mid-Term Plan in the perspective of 2019-2022 years assumes the increase of the model downstream margin mainly in the area of the model refining margin especially in the case of refineries with a deep oil processing due to the tightened limits of sulfur content in bunker fuel, so-called IMO effect. In the long term perspective, the Group expects adjustment of the market and return of the margins to historical levels.

The Mid-Term Plan assumes a lowering of the model petrochemical margin from the record high levels recorded in 2017-2018, which is a consequence of the adopted increase in crude oil prices. The assumed margins are favourable and allow full use of production assets. They create favourable macroeconomic conditions for investment processes.

The assumed increase in the price of crude oil is a consequence of the growing demand with limited possibilities of supply growth.

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 impairment tests were performed on the basis of assets of the ORLEN Group as at 31 December 2018 and net cash flows projected in the approved within the Strategy the Mid-term Plan, 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 2018.

Recently, the Group identifies significant drops in discount rate levels as a consequence of structural changes taking place in the global economy and the fact that it enters the develop markets group.

As a result in the 4th quarter of 2018 the Group recognized total effects of reversal of impairment allowance in the amount of PLN 668 million. In the downstream segment recognized the reversal of impairment allowances of Unipetrol Group assets in the net amount of PLN 748 million.

The tests were performed with using the discount rates at 7.89% for refinery assets of Unipetrol Group and 7.57% for petrochemical assets of Unipetrol Group, which in line with general market trend are lower than the rates recognized as at 31 December 2017 by -0.97p.p. and -0.88 p.p. Reducing discount rates, improving the model refining margin, lowering the model petrochemical margin but in situation where a new PE3 installation is launched in 2019, significantly increase the production of polyolefins in the petrochemical segment, resulting in a positive impact on the valuation of the asset's value, allowing for the reversal of historical impairments made in Unipetrol Group.

In the 4th quarter of 2018, the ORLEN Upstream Group assessed the prospectiveness of the exploration projects on concessions located in Poland and identified impairment indications of other non-current assets. As a result, revalued non-current assets in the net amount of PLN (122) million. Additionally, the ORLEN Upstream Group reversed the impairment due to the sale of upstream assets in Canada and allowances of exploration assets in the total net amount of PLN 53 million.

The Group is expecting a report allowing the estimation of the fair value of assets for the exploration and extraction mineral resources in Canada, which is prepared, according to Canadian market standards, by an independent company. This report will be the basis for updating the value of the upstream assets within the Upstream segment. The company will present the results of these works in the separate and consolidated annual report of PKN ORLEN and the ORLEN Group for 2018, which will be published on 21 March 2019.

5.4. Other operating income and expenses

Other operating income

| | 12 MONTHS ENDED 31/12/2018 (unaudited) | 3 MONTHS ENDED 31/12/2018 (unaudited) | 12 MONTHS ENDED 31/12/2017 | 3 MONTHS ENDED 31/12/2017 (unaudited) |
|---|---|--|----------------------------------|--|
| Profit on sale of non-current non-financial assets | 17 | 3 | 40 | 11 |
| Reversal of provisions | 34 | 17 | 55 | 40 |
| Reversal of receivables impairment allowances | - | - | 42 | 32 |
| Reversal of impairment allowances of property, plant and equipment and intangible assets and other non-current assets | 1 096 | 1 062 | 77 | 47 |
| Penalties and compensations | 327 | 21 | 842 | 34 |
| Settlement and valuation of derivative financial instruments related to operational exposure | 204 | 37 | - | - |
| Ineffective part related to operational exposure | 99 | 23 | - | - |
| Settlement of hedging costs | 24 | 11 | - | - |
| Other | 217 | 69 | 187 | 72 |
| <i>received/due energy certificates</i> | 147 | 43 | 132 | 53 |
| | 2 018 | 1 243 | 1 243 | 236 |

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 Unipetrol Group in the amount of PLN 906 million and PLN 894 million, respectively. Additionally, in the 4th quarter of 2018, the Group reversed of impairment allowances on non-current assets in the upstream segment in the amount of PLN 122 million. Detailed information is presented in note 5.3.

On 13 August 2015 the steam cracker unit accident in 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 recognized in the line penalties and compensation the amount of PLN 264 million. The inflow of cash from this title occurred in the 3rd quarter of 2018.

In the 12 and 3 month period ended 31 December 2018, the Group adjusted in the line penalties and compensations penalties received for improper execution of the contract of the power plant CCGT in Plock in the amount of PLN 190 million, and adjusted the purchase price of non-current asset.

In the 12 month period ended 31 December 2017 the line penalties and compensations includes amounts of claims settlement in Unipetrol Group due to the accident on installation FCC of May 2016 in the amount of PLN 211 million and due to the steam cracker unit accident of August 2015 in the amount of PLN 442 million and includes penalties for improper execution of the contract of the CCGT Wloclawek installation of PLN 97 million.

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

Other operating expenses

| | 12 MONTHS ENDED 31/12/2018 (unaudited) | 3 MONTHS ENDED 31/12/2018 (unaudited) | 12 MONTHS ENDED 31/12/2017 | 3 MONTHS ENDED 31/12/2017 (unaudited) |
|--|---|--|----------------------------------|--|
| Loss on sale of non-current non-financial assets | (47) | (21) | (49) | (17) |
| Recognition of provisions | (54) | (43) | (46) | (26) |
| Recognition of receivables impairment allowances | - | - | (35) | (18) |
| Recognition of impairment allowances of property, plant and equipment and intangible assets and other non-current assets | (457) | (394) | (246) | (151) |
| Penalties, damages and compensations | (17) | (4) | (26) | (6) |
| Settlement and valuation of derivative financial instruments related to operational exposure | (215) | (17) | - | - |
| Ineffective part related to operational exposure | (106) | (3) | - | - |
| Other | (189) | (58) | (166) | (112) |
| | (1 085) | (540) | (568) | (330) |

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 Unipetrol Group in the amount of PLN (165) million and PLN (146) million, and in the upstream segment in the amount of PLN (204) million and PLN (191) million, respectively.

The line other includes mainly donations and update provision for CO₂ emissions.

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

For the 12 and 3 month period ended 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 (11) million and PLN 20 million respectively, mainly related to commodity swaps which hedge the risk of price changes in oversize inventories, future products sales, including those by fixed price.

In the 12 and 3 month period ended 31 December 2018 the net positions of ineffective part concern operating exposure amounted to PLN (7) million and PLN 20 million and concern mainly commodity swaps hedged risks mentioned above and risk connected with sea crude oil purchases.

5.5. Finance income and costs

Finance income

| | 12 MONTHS ENDED 31/12/2018 (unaudited) | 3 MONTHS ENDED 31/12/2018 (unaudited) | 12 MONTHS ENDED 31/12/2017 | 3 MONTHS ENDED 31/12/2017 (unaudited) |
|--|---|--|----------------------------------|--|
| Interest calculated using the effective interest rate method | 39 | 13 | 50 | 19 |
| Net foreign exchange gain | - | - | 645 | 256 |
| Dividends | 4 | - | 4 | - |
| Settlement and valuation of derivative financial instruments | 1 287 | 218 | 1 025 | 435 |
| Reversal of receivables impairment allowances | - | - | 2 | 2 |
| Other | 83 | 13 | 34 | 21 |
| | 1 413 | 244 | 1 760 | 733 |

Finance costs

| | 12 MONTHS ENDED 31/12/2018 (unaudited) | 3 MONTHS ENDED 31/12/2018 (unaudited) | 12 MONTHS ENDED 31/12/2017 | 3 MONTHS ENDED 31/12/2017 (unaudited) |
|--|---|--|----------------------------------|--|
| Interest calculated using the effective interest rate method | (198) | (54) | (316) | (175) |
| Other interest | (9) | (2) | (8) | (2) |
| Net foreign exchange loss | (353) | (157) | - | - |
| Settlement and valuation of derivative financial instruments | (850) | (55) | (1 330) | (523) |
| Recognition of receivables impairment allowances | - | - | (1) | (1) |
| Other | (107) | (27) | (45) | (24) |
| | (1 517) | (295) | (1 700) | (725) |

In the 12 and 3 month period ended 31 December 2018 the net positions of valuation and settlement of derivative financial instruments (non-designated instruments for hedge accounting purposes) amounted to PLN 437 million and PLN 163 million, respectively and concerned mainly hedging the risk of changes in exchange rates in accordance to deposits and payments in foreign currency and hedging of interest rates and payment of bonds interests.

Borrowing costs capitalized in the 12 and 3 month period ended 31 December 2018 and 31 December 2017 amounted to PLN (39) million, PLN (10) million and PLN (50) million, PLN (9) million, respectively.

5.6. Loans and bonds

| | Non-current | | Current | | Total | |
|-------|---------------------------|--------------|---------------------------|------------|---------------------------|--------------|
| | 31/12/2018 (unaudited) | 31/12/2017 | 31/12/2018 (unaudited) | 31/12/2017 | 31/12/2018 (unaudited) | 31/12/2017 |
| Loans | 2 151 | - | 112 | 48 | 2 263 | 48 |
| Bonds | 6 447 | 6 688 | 1 081 | 269 | 7 528 | 6 957 |
| | 8 598 | 6 688 | 1 193 | 317 | 9 791 | 7 005 |

As at 31 December 2018, indebtedness due to loans relates to a loan reimbursed by PKN ORLEN from a consortium of banks under the Agreement for a multi-currency revolving loan of 25 April 2014 in the amount of PLN 2,151 million translated using the exchange rate as at 31 December 2018 (which corresponds to EUR 500 million).

In the period covered by the foregoing interim condensed consolidated financial statements, as well as after the reporting date, there were no instances of principal or interest non repayment nor loan covenant violations.

5.7. Derivatives and other assets and liabilities
Derivatives and other assets

| | Non-current | | Current | | Total | |
|--|---------------------------|------------|---------------------------|------------|---------------------------|------------|
| | 31/12/2018 (unaudited) | 31/12/2017 | 31/12/2018 (unaudited) | 31/12/2017 | 31/12/2018 (unaudited) | 31/12/2017 |
| Cash flow hedging instruments | 143 | 303 | 483 | 311 | 626 | 614 |
| <i>currency forwards</i> | 143 | 303 | 209 | 225 | 352 | 528 |
| <i>commodity swaps</i> | - | - | 274 | 86 | 274 | 86 |
| Derivatives not designated as hedge accounting | 16 | - | 39 | 123 | 55 | 123 |
| <i>currency forwards</i> | - | - | 5 | 89 | 5 | 89 |
| <i>commodity swaps</i> | - | - | 34 | 33 | 34 | 33 |
| <i>currency interest rate swaps</i> | 11 | - | - | 1 | 11 | 1 |
| <i>interest rate swaps</i> | 5 | - | - | - | 5 | - |
| Fair value hedging instruments | 2 | - | 2 | - | 4 | - |
| <i>commodity swaps</i> | 2 | - | 2 | - | 4 | - |
| Derivatives | 161 | 303 | 524 | 434 | 685 | 737 |
| Other financial assets | 95 | 93 | 336 | 133 | 431 | 226 |
| <i>receivables on settled derivatives</i> | - | - | 306 | 126 | 306 | 126 |
| <i>financial assets at fair value through</i> | 86 | 84 | - | - | 86 | 84 |
| <i>other comprehensive income</i> | 4 | - | 21 | - | 25 | - |
| <i>hedged item adjustment</i> | 5 | 9 | 9 | 7 | 14 | 16 |
| <i>other</i> | 5 | 9 | 9 | 7 | 14 | 16 |
| Other non-financial assets | 243 | 237 | - | - | 243 | 237 |
| <i>investment property</i> | 108 | 104 | - | - | 108 | 104 |
| <i>perpetual usufruct of land</i> | 115 | 115 | - | - | 115 | 115 |
| <i>other</i> | 20 | 18 | - | - | 20 | 18 |
| Other assets | 338 | 330 | 336 | 133 | 674 | 463 |

Derivatives and other liabilities

| | Non-current | | Current | | Total | |
|--|---------------------------|------------|---------------------------|------------|---------------------------|------------|
| | 31/12/2018 (unaudited) | 31/12/2017 | 31/12/2018 (unaudited) | 31/12/2017 | 31/12/2018 (unaudited) | 31/12/2017 |
| Cash flow hedging instruments | - | - | 105 | 141 | 105 | 141 |
| <i>currency forwards</i> | - | - | - | 7 | - | 7 |
| <i>commodity swaps</i> | - | - | 105 | 134 | 105 | 134 |
| Derivatives not designated as hedge accounting | 38 | 75 | 66 | 172 | 104 | 247 |
| <i>currency forwards</i> | - | - | 18 | 100 | 18 | 100 |
| <i>commodity swaps</i> | - | - | 21 | 72 | 21 | 72 |
| <i>interest rate swaps</i> | 38 | 56 | - | - | 38 | 56 |
| <i>currency interest rate swaps</i> | - | 19 | 27 | - | 27 | 19 |
| Fair value hedging instruments | 4 | - | 22 | - | 26 | - |
| <i>commodity swaps</i> | 4 | - | 22 | - | 26 | - |
| Derivatives | 42 | 75 | 193 | 313 | 235 | 388 |
| Other financial liabilities | 357 | 302 | 79 | 125 | 436 | 427 |
| <i>liabilities on settled derivatives</i> | - | - | 67 | 125 | 67 | 125 |
| <i>investment liabilities</i> | 102 | 108 | - | - | 102 | 108 |
| <i>finance lease</i> | 193 | 166 | - | - | 193 | 166 |
| <i>hedged item adjustment</i> | 3 | - | 1 | - | 4 | - |
| <i>refund liabilities</i> | - | - | 11 | - | 11 | - |
| <i>other</i> | 59 | 28 | - | - | 59 | 28 |
| Other non-financial liabilities | 9 | 9 | 11 | 195 | 20 | 204 |
| <i>deferred income, incl.:</i> | 9 | 9 | 11 | 195 | 20 | 204 |
| <i>VITAY loyalty program, prepaid cards</i> | - | - | - | 164 | - | 164 |
| Other liabilities | 366 | 311 | 90 | 320 | 456 | 631 |

5.8. Provisions

| | Non-current | | Current | | Total | |
|--|---------------------------|------------|---------------------------|------------|---------------------------|--------------|
| | 31/12/2018 (unaudited) | 31/12/2017 | 31/12/2018 (unaudited) | 31/12/2017 | 31/12/2018 (unaudited) | 31/12/2017 |
| Environmental | 782 | 626 | 64 | 67 | 846 | 693 |
| Jubilee bonuses and post-employment benefits | 233 | 238 | 56 | 39 | 289 | 277 |
| CO ₂ emissions, energy certificates | - | - | 784 | 376 | 784 | 376 |
| Other | 40 | 38 | 115 | 191 | 155 | 229 |
| | 1 055 | 902 | 1 019 | 673 | 2 074 | 1 575 |

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

As compared to the previous reporting period the Group did not change the valuation methods concerning financial instruments. Methods applied in determining the fair value were described in the Consolidated Financial Statements for 2017 in note 9.3.3.

In the item financial assets measured at fair value through other comprehensive income, quoted/unquoted shares not held for trading are included. In 2017, in accordance with IAS 39, these assets were classified as available for sale and valued at purchase price less impairment allowances.

Fair value hierarchy

| | Carrying amount (unaudited) | Fair value (unaudited) | Fair value hierarchy | |
|--|--------------------------------|---------------------------|----------------------|--------------|
| | | | Level 1 | Level 2 |
| Financial assets | | | | |
| Financial assets measured at fair value through other comprehensive income | 86 | 86 | 46 | 40 |
| Derivatives | 685 | 685 | - | 685 |
| | 771 | 771 | 46 | 725 |
| Financial liabilities | | | | |
| Loans | 2 263 | 2 263 | - | 2 263 |
| Bonds | 7 528 | 7 788 | 7 788 | - |
| Finance lease | 229 | 236 | - | 236 |
| Derivatives | 235 | 235 | - | 235 |
| | 10 255 | 10 522 | 7 788 | 2 734 |

The fair value of financial assets and liabilities quoted on active markets is determined based on market quotations (so called Level 1). In other cases, the fair value is determined based on other data which are directly or indirectly observable (so called Level 2) or unobservable inputs (so called 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.

5.10. Finance lease payments

As at 31 December 2018 and as at 31 December 2017 the Group possessed as a lessee the finance lease agreements, concerning mainly buildings, technical equipment and machinery and means of transportation.

| | 31/12/2018 (unaudited) | 31/12/2017 |
|--|---------------------------|------------|
| Value of future minimum lease payments | 286 | 254 |
| Present value of future minimum lease payments | 229 | 198 |

5.11. Future commitments resulting from signed investment contracts

As at 31 December 2018 and as at 31 December 2017, the value of future commitments resulting from investment contracts signed until that day amounted to PLN 1,281 million and PLN 1,538 million, respectively.

5.12. Issue, redemption and repayment of debt securities

In the 4th quarter of 2018 PKN ORLEN issued/redeemed short term bonds in favour of the Group companies as a part of liquidity optimisation in the ORLEN Group, using the Bond Issue Program from 27 November 2006. These transactions are eliminated at the ORLEN Group level. Moreover, PKN ORLEN signed Annex 4 to the Bond Issue Program Agreement of 27 November 2006, increasing, among others, the maximum amount of the program up to PLN 4 billion.

Under the first public bond issue program, F Series remains open with a nominal value of PLN 100 million, and under the second public bond issue program, A-E Series with a total nominal value of PLN 1 billion.

5.13. Distribution of the profit for 2017

The Ordinary General Meeting of Shareholders of PKN ORLEN S.A. on 26 June 2018 distributed the net profit of PKN ORLEN for 2017 in the amount of PLN 6,101,792,575.09 as follows: the amount of PLN 1,283,127,183 was allocated as a dividend payment (PLN 3 per 1 share) and the remaining amount of PLN 4,818,665,392.09 as reserve capital. The dividend date was set at 20 July 2018 and the dividend payment date at 3 August 2018.

5.14. 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 299 million, translated using the exchange rate as at 31 December 2018 (representing CZK 1,789 million). Unipetrol RPA s.r.o. is one of eight defendants which the claim was brought against. At the request of the I.P.-95 s.r.o. proceeding is pending concerning the accession to the claim as plaintiff NESTARMO TRADING LIMITED. The court refused the Company 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. Currently I.P. - 95 s.r.o. has the option to file 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.) filed an action against PKN ORLEN with the District Court in Łódź for a claim for payment in respect of an alleged breach by PKN ORLEN of patent rights. The amount of the claim in the lawsuit was estimated by Warter Fuels S.A. in the amount of approximately PLN 83 million. The claim covers the adjudged sum of money from PKN ORLEN for Warter Fuels S.A. in the amount corresponding to the value of the license fee for the use of the solution under the above patent and adjudge the obligation to repay the benefits derived from the use of this solution. On 16 October 2014 PKN ORLEN responded to the lawsuit. By the procedural document from 11 December 2014 the value of the dispute was referred to by the plaintiff in the amount of approximately PLN 247 million. So far, several hearings took place (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 was not considered yet. 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 315 million, translated using the exchange rate as at 31 December 2018 (representing USD 84 million). The claim also includes a request for procedural interest and litigation cost. ORLEN Lietuva responded to the claim. On 15 March 2018 a hearing took place. On 29 March 2018, the court dismissed the plaintiff's claim. Polokotransneft Druzhba appealed against the judgment dismissing the claim. ORLEN Lietuva responded to the appeal. The appellate hearing date was not set. According to ORLEN Lietuva, the above claim is without merit.

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

5.15. Related parties transactions
5.15.1. Transactions of the key executive personnel and their relatives with related parties of the ORLEN Group

As at 31 December 2018 and as at 31 December 2017 and in the 12 and 3 month period ended 31 December 2018 and 31 December 2017, on the basis of submitted declarations, there were no transactions of related parties with members of the Management Board and the Supervisory Board of the Parent Company.

In the 12 and 3 month period ended 31 December 2018 and 31 December 2017 on the basis of submitted declarations, there were transactions of close relatives with the other key executive personnel of the Parent Company and key executive personnel of the ORLEN Group companies with related parties in the amount of PLN 0.3 million, PLN 0.05 million and PLN 0.5 million, PLN 0.1 million, respectively; included the main amounts regarded purchase of legal services and marketing services.

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

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

| | 12 MONTHS ENDED 31/12/2018 (unaudited) | 3 MONTHS ENDED 31/12/2018 (unaudited) | 12 MONTHS ENDED 31/12/2017 | 3 MONTHS ENDED 31/12/2017 (unaudited) |
|---|---|--|----------------------------------|--|
| Parent Company | | | | |
| Short-term employee benefits | 40.3 | 10.4 | 42.3 | 9.9 |
| Termination benefits (severance pay and other remuneration) | 11.1 | 2.0 | 2.5 | 1.3 |
| Subsidiaries | | | | |
| Short-term employee benefits | 139.0 | 30.2 | 128.9 | 24.5 |
| | 190.4 | 42.6 | 173.7 | 35.7 |

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.

Moreover, as at 31 December 2018 and 31 December 2017 PKN ORLEN has provisions for post-employment benefits in the amount of PLN 0.2 million and PLN 0.3 million, respectively and other long term employee benefits in the amount of PLN 0.5 million for both dates.

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

| | Sales | | | | Purchases | | | |
|-----------------------------|---|--|----------------------------------|--|---|--|----------------------------------|--|
| | 12 MONTHS ENDED 31/12/2018 (unaudited) | 3 MONTHS ENDED 31/12/2018 (unaudited) | 12 MONTHS ENDED 31/12/2017 | 3 MONTHS ENDED 31/12/2017 (unaudited) | 12 MONTHS ENDED 31/12/2018 (unaudited) | 3 MONTHS ENDED 31/12/2018 (unaudited) | 12 MONTHS ENDED 31/12/2017 | 3 MONTHS ENDED 31/12/2017 (unaudited) |
| Jointly-controlled entities | 2 956 | 586 | 2 718 | 660 | (143) | (38) | (142) | (36) |
| <i>joint ventures</i> | 2 794 | 544 | 2 577 | 622 | (45) | (11) | (42) | (12) |
| <i>joint operations</i> | 162 | 42 | 141 | 38 | (98) | (27) | (100) | (24) |
| Associates | - | - | 40 | 12 | - | - | (4) | (1) |
| | 2 956 | 586 | 2 758 | 672 | (143) | (38) | (146) | (37) |

| | Trade and other receivables | | Trade and other liabilities | |
|-----------------------------|-----------------------------|------------|-----------------------------|------------|
| | 31/12/2018 (unaudited) | 31/12/2017 | 31/12/2018 (unaudited) | 31/12/2017 |
| Jointly-controlled entities | 614 | 484 | 16 | 16 |
| <i>joint ventures</i> | 593 | 463 | 5 | 8 |
| <i>joint operations</i> | 21 | 21 | 11 | 8 |
| | 614 | 484 | 16 | 16 |

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 2018 and 31 December 2017 there were no related parties transactions within the Group concluded on other than an arm's length basis.

5.15.4. Transactions with entities related to the State Treasury

As at 31 December 2018 and as at 31 December 2017 the State Treasury owned 27.52% of the ORLEN Group Parent Company's shares - PKN ORLEN and has ability to exert a significant influence on it.

The Group identified transactions with related parties with the State Treasury on the basis of "The Council of Ministers Regulation of 3 January 2017 on the list of companies in which the rights of the State Treasury shares carry other than the President Council of Ministers members of the Council of Ministers', Government Plenipotentiaries or state legal entities" with subsequent updates.

In the 12 and 3 month period ended 31 December 2018 and 31 December 2017 and as at 31 December 2018 and as at 31 December 2017, the Group identified the following transactions:

| | 12 MONTHS ENDED 31/12/2018 (unaudited) | 3 MONTHS ENDED 31/12/2018 (unaudited) | 12 MONTHS ENDED 31/12/2017 | 3 MONTHS ENDED 31/12/2017 (unaudited) |
|-----------|---|--|----------------------------------|--|
| Sales | 1 943 | 445 | 1 548 | 442 |
| Purchases | (5 126) | (1 204) | (3 589) | (1 139) |

| | 31/12/2018 (unaudited) | 31/12/2017 |
|-----------------------------|---------------------------|------------|
| Trade and other receivables | 230 | 298 |
| Trade and other liabilities | 189 | 559 |

Above transactions concluded on an arm's length basis were related to the ORLEN Group current operating activities and concerned mainly fuel sales, purchase and sales of natural gas, energy, transport and storage services.

Additionally, there were also financial transactions (bank fees, commission) with Bank PKO BP, Bank Pekao S.A. and Bank Gospodarstwa Krajowego.

5.16. Guarantees

Excise tax guarantees and excise tax on goods and merchandise under the excise tax suspension procedure as at 31 December 2018 and as at 31 December 2017 amounted to PLN 2,626 million and PLN 2,577 million, respectively.

5.17. Events after the end of the reporting period

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

OTHER INFORMATION TO CONSOLIDATED QUARTERLY REPORT

FOR THE 12 AND 3 MONTH PERIOD ENDED 31 DECEMBER

2018



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 2018**

EBITDA profit (before consideration net effect of reversal of impairment allowances on non-current assets) amounted to PLN 9,137 million and was lower by PLN (2,110) million (y/y).

ORLEN Group's inventories are valued in the financial statements in accordance with International Financial Reporting Standards at weighted average cost method or purchase price method. Therefore, an upward trend in crude oil prices has a positive effect and the downtrend has a negative impact on the reported results. The estimated, positive impact of changes in crude oil prices on inventory valuation recognized in EBITDA result in the described period amounted to PLN 860 million and was higher by PLN 61 million (y/y).

Profit from operations increased by depreciation and amortisation before consideration of impact of changes of crude oil prices on inventory valuation (so-called EBITDA LIFO) and net effect of reversal of impairment allowances on non-current assets amounted to PLN 8,277 million and was lower by PLN (2,171) million (y/y).

Changes in macroeconomic factors lowered the ORLEN Group results by PLN (2,208) million (y/y) and included mainly the negative effect of higher costs of raw materials used for own energy needs as a result of increase in crude oil prices by 17 USD/bbl, decreasing of margins with reference to light distillates and heavy fractions, petrochemical products, fertilizers and PVC partly compensated by higher margins on medium distillates, PTA and PVC.

The favorable market situation, despite the periodic unavailability of production installations, enabled to achieve higher sales volume by over 1% (y/y) and as a result the positive volume effect in the amount of PLN 388 million (y/y).

The negative impact of the other factors amounted to PLN (351) million (y/y) and included mainly:

- PLN (550) million (y/y) - impact of change in the balance of other operating activities, after eliminating the effect of change of impairment allowances of assets, mainly related to the lower (y/y) compensation from insurers due to the steam cracker unit and FCC in Unipetrol Group in the amount of PLN (389) (y/y) and lack of received in 2017 compensation for improper execution of the contract of the power plant CCGT in Wloclawek in the amount of PLN (97) million
- PLN 199 million (y/y) - other elements, including mainly the negative impact of net impairment allowances of inventories to net realisable value (so-called net realisable value) in the amount of PLN (403) million (y/y) and positive effects of higher trading margins in retail and wholesale and as well as the use of cheaper stocks of crude oil and product during the period of maintenance shutdowns from the first half of 2018.

The net impact of reversal of impairment allowances of property, plant and equipment and intangible assets in 2018 amounted to PLN 639 million and mainly concerned assets of downstream segment in Unipetrol Group.

Net impairment allowances of property, plant and equipment and intangible assets in 2017 amounted to PLN (169) million and mainly concerned upstream assets of Upstream Group in Poland.

After consideration above impairment allowances the EBITDA LIFO profit of ORLEN Group in 2018 amounted to PLN 8,916 million and was lower by PLN (1,363) million (y/y)

Profit or loss for the 4th quarter of 2018

EBITDA profit (before consideration net effect of reversal of impairment allowances on non-current assets) amounted to PLN 1,243 million and was lower by PLN (1,510) million (y/y).

The negative impact of changes in crude oil prices on inventory valuation in EBITDA profit amounted to PLN (799) million and was lower by PLN (1,530) million (y/y).

As a result EBITDA LIFO profit (before consideration of changes of crude oil prices on inventory valuation and net effect of reversal of impairment allowances on non-current assets) amounted to PLN 2,042 million and was higher by PLN 20 million (y/y).

The change of macroeconomic factors increased the result of ORLEN Group by PLN 368 million (y/y) and including mainly the positive impact of higher Ural/Brent differential, improvement on margins medium distillates and refinery heavy fractions, olefins as well as depreciation of the PLN exchange rate against the foreign currencies. At the same time there was visible, the negative impact of higher raw materials used for own energy needs as a result of higher crude oil prices by USD 8 / bbl (y/y) and lower margins on light distillates, polyolefins and PVC.

Despite the increase in the total volume sales of downstream segment by 1% (y/y), the impact of the periodic maintenance of the Olefin installation and the shutdown of the PTA installation in PKN ORLEN as well as extended shutdown of the Steamcracker installation in the Unipetrol Group after a periodic refurbishment from the 3rd quarter of 2018 affected on the decrease in sales of petrochemical products by 13% (y/y). This impact was partially offset by higher sales volumes of refining products by 3% (y/y) and increase in volumes in the retail segment by 6% (y/y) and upstream segment by 22% and as a result the total volume effect was PLN (125) million.

The impact of other factors amounted to PLN (223) million (y/y) and included mainly negative effect of net impairment allowances of inventories to net realisable value (so-called net realisable value) in the amount of PLN (398) million and use of more expensive stocks of crude oil and product during maintenance shutdowns at positive impact of retail and wholesale margins.

The impact of reversal of impairment allowances of property, plant and equipment and intangible assets in 4th quarter of 2018 amounted to PLN 668 million and mainly concerned assets of downstream segment in Unipetrol Group.

Net impairment allowances of property, plant and equipment and intangible assets in 4th quarter of 2017 amounted to PLN (104) million and mainly concerned upstream assets of Upstream Group in Poland.

After consideration above net reversal of impairment allowances the EBITDA LIFO profit of ORLEN Group in the 4th quarter of 2018 amounted to PLN 2,710 million and was higher by PLN 792 million (y/y)

2. The most significant events in the period from 1 January 2018 up to the date of preparation of the foregoing report**JANUARY 2018****Convening of the Extraordinary General Meeting of PKN ORLEN**

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

Changes in the composition of the Supervisory Board

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

Approval by the Polish Financial Supervision Authority of an annex to the prospectus relating to bond issue program

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

FEBRUARY 2018**Changes in the composition of the Supervisory Board**

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

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

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

Changes in the composition of the Management Board

On 5 February 2018 the Supervisory Board dismissed from the Management Board:

- Mr Wojciech Jasiński,
- Mr Mirosław Kochalski,
- Ms Maria Sosnowska.

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

Polish Financial Supervision Authority approved the annex No 2 to the prospectus relating to bond issue program

On 15 February 2018 the Polish Financial Supervision Authority approved the annex No 2 to the prospectus relating to the public bond issue program directed to the individual investor ("Annex No 2"). The Annex No 2 was prepared in connection with the changes in composition of the Management Board from 5 February 2018.

Signing a letter of intent concerning taking capital control over Grupa Lotos S.A. by PKN ORLEN

On 27 February 2018 was signed a letter of intent between PKN ORLEN and the State Treasury concerning taking capital control over Grupa Lotos S.A. by PKN ORLEN, understood as a purchase by PKN ORLEN directly or indirectly minimum 53% stake in Grupa Lotos S.A. share capital ("Transaction").

By signing the letter of intent, PKN ORLEN and the State Treasury agreed to start, in a good faith, discussions with the intent to conclude the Transaction. The Transaction assumes the purchase of Grupa Lotos S.A. shares from its shareholders by PKN ORLEN, in particular from the State Treasury, in line with the requirements of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies of 29 July 2005 (unified text Journal of Laws of 2016, item 1639, as amended), governing the requirement of announcement of a tender offer to acquire or exchange shares.

PKN ORLEN informed that the Transaction model, the schedule and detailed rules of its finalisation require detailed analysis. Finalisation of the Transaction will be possible, among others, after receiving appropriate corporate approvals and approvals of the competition protection authorities. According to the assumptions of both parties of the letter of intent, the Transaction is aimed at creating of a strong, integrated company capable of better competing internationally, more resistant to market fluctuations, among others through utilization of operating and costs synergies between PKN ORLEN and Grupa Lotos S.A.

PKN ORLEN indicated that the letter of intent is not a binding commitment to execution of the Transaction.

MARCH 2018**Polish Financial Supervision Authority approved the annex No 3 to the prospectus relating to bond issue program**

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

Changes in the composition of the Supervisory Board

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

Changes in the composition of the Management Board

On 22 March 2018 the Supervisory Board of PKN ORLEN has dismissed Mr Krystian Pater from the Company's Management Board with the effect from 22 March 2018.

At the same meeting the Supervisory Board decided to delegate with the effect from 23 March 2018 Ms Jadwiga Lesisz for temporary acting as the Member of the Management Board, Investments and Procurement.

Moreover the Supervisory Board appointed to the Management Board:

- Mr Ryszard Lorek to the position of the Member of the Management Board, Trade, with the effect from 10 April 2018,
- Mr Józef Węgrecki to the position of the Member of the Management Board, Operations, with the effect from 23 March 2018.

Mr Ryszard Lorek resigned from taking up of the position of the Management Board Member

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

APRIL 2018**The issue of PKN ORLEN Series C bonds within the Program from 2017**

On 24 April 2018 the Company's Management Board decided to launch the issue of Series C of bearer bonds within the bond issue Program directed to the individual investors, included in the prospectus approved by the Polish Financial Supervision Authority on 20 July 2017.

The bond issue program assumes the issue of several bond Series up to the total amount of PLN 1 billion during 12 months from the date of approval of the prospectus. The subsequent Series of bonds will be offered in a public offering. PKN ORLEN plans to introduce the bonds to trading on the Catalyst regulated market operated by the Warsaw Stock Exchange. Series A and B bonds issued within the Program are listed on the Catalyst market.

Series C bond issue terms and conditions:

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

On 8 May 2018 PKN ORLEN informed that the subscription period for the Series C bonds within the bond issue program directed to the individual investors was shortened. The last day of subscription, defined in the final terms and conditions of the offer on 21 May 2018, was moved for 8 May 2018. Date of Series C bonds allocation was changed. PKN ORLEN will allocate Series C bonds on 10 May 2018.

On 21 May 2018 the Central Securities Depository of Poland ("KDPW") issued a statement on conclusion of the agreement with PKN ORLEN regarding registration in a securities depository of 2,000,000 Series C bonds, with the unit nominal value of PLN 100. The registration date was set for 23 May 2018. The bonds will be registered under the ISIN code PLPKN0000174.

On 29 May 2018 the Management Board of the Warsaw Stock Exchange adopted a resolution regarding admission of 2,000,000 Series C bonds to exchange trading on the Catalyst market.

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

Annex to PKN ORLEN agreement with Saudi Aramco for crude oil deliveries

On 27 April 2018 the Management Board of PKN ORLEN decided to sign an annex to the agreement concluded on 6 May 2016 ("Annex") with Saudi Aramco, headquartered in Dhahran, Saudi Arabia. According to the agreement signed on 6 May 2016, Saudi Aramco delivered crude oil in the amount of approximately 200 thousand tons per month to the refinery from the ORLEN Capital Group and after the annex signed on 27 April 2018, deliveries increased to 300 thousand tons per month. Price of crude oil to be delivered will be calculated as per standard market practice. The agreement was signed for the period from 1 May 2018 to 31 December 2018 and it will be automatically extended for the following years unless it is terminated in line with the provisions of the agreement.

MAY 2018**Signing a non-disclosure agreement concerning the intent to start the works and analysis on potential transaction on certain logistic assets of PKN ORLEN**

On 11 May 2018 was signed a non-disclosure agreement between: PKN ORLEN, PERN, Operator Gazociągów Przesyłowych GAZ-SYSTEM ("GAZ-SYSTEM"), Inowrocławskie Kopalnie Soli SOLINO ("IKS SOLINO") and Kopalnia Soli Lubień Sp. z o.o. ("KS Lubień"). The agreement defines the conditions of disclosing information in connection with the intent to cooperate in potential sales transaction of the part of PKN ORLEN logistic assets and shares of IKS SOLINO and KS Lubień held by PKN ORLEN as well as in connection with the intent to set the cooperation on further use of abovementioned assets by PKN ORLEN and companies from ORLEN Group in case of their disposal to the benefit of PERN and GAZ-SYSTEM ("Transaction").

PKN ORLEN informs that the Transaction model, the schedule and detailed rules of its finalization require detailed analysis that will be now prepared. Finalization of the Transaction will be possible, among others, after receiving appropriate corporate approvals and approvals of the appropriate administration authorities, if such approvals will be required.

According to the assumptions of the parties of the agreement, the Transaction is aimed at creating a business partnership in transmission and storage infrastructure and in cavern projects that are realized, including energy safety of the State and realization of the "Polish Government Policy on logistic infrastructure in oil and gas sector" targets, described by the Polish Government in the resolution No 182/2017 as of 28 November 2017.

PKN ORLEN indicates that the non-disclosure agreement is not a binding commitment to execution of the Transaction. PKN ORLEN will inform about next steps connected with further Transaction process in separate regulatory announcements.

Polish Financial Supervision Authority approved the annex No 4 to the prospectus relating to bond issue program

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

The issue of PKN ORLEN Series D bonds within the program from 2017

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

Series D bond issue terms and conditions:

1. Subscription period: from 21 May 2018 to 4 June 2018 (the period may be shortened when the oversubscription occurs)
2. Date of bonds allocation: 6 June 2018
3. Expected bonds issue date: 19 June 2018
4. Redemption date: 19 June 2022
5. Number of Series D bonds issued: up to 2,000,000
6. The total nominal value of Series D bonds: up to PLN 200,000,000

7. Interest rate: variable
8. Margin: 1,2 %
9. Base rate: 6M WIBOR
10. Nominal value of one bond: PLN 100
11. Issue price: dependent on the day of subscription; in the range from PLN 100.00 to PLN 100.11
12. Rating to the bond issue program: A (pol)
13. Bond's allocation mechanism: the detailed terms of allocation are available in the final terms of the offer.

On 13 June 2018 the Central Securities Depository of Poland issued a statement on conclusion of the agreement with PKN ORLEN regarding registration in a securities depository of 2,000,000 Series D bonds, with the unit nominal value of PLN 100. The registration date was set for 15 June 2018. The bonds will be registered under the ISIN code PLPKN0000182.

On 18 June 2018 the Management Board of the Warsaw Stock Exchange adopted a resolution regarding admission of 2,000,000 Series D bonds to exchange trading on the Catalyst regulated market.

On 19 June 2018 the Management Board of the Warsaw Stock Exchange adopted a resolution determining the first day of trading of Series D bonds on 21 June 2018.

Decision regarding the purchase of all of Unipetrol a.s. shares held by minority shareholders

On 22 May 2018 the Company's Supervisory Board approved the purchase by PKN ORLEN of all shares of Unipetrol a.s. ("Unipetrol") held by Unipetrol minority shareholders, i.e. 10 827 673 shares, constituting ca. 5.97% of the Unipetrol's share capital. PKN ORLEN submitted an application to the Czech National Bank regarding conducting a buyout of these shares ("Buyout"). In the Buyout the Company intends to offer a price of CZK 380 per share, i.e. the total price of CZK 4,114,515,740. The acquisition by the Company of the above-mentioned shares will be realized by squeeze out of minority shareholders. The Buyout will be realized with an intent of delisting of Unipetrol's shares from trading at the Prague Stock Exchange.

Considering all operations required to conduct a Buyout, its settlement and closing is expected by the end of 2018.

JUNE 2018

Petrochemicals development program by 2023

On 12 June 2018 the Company's Management Board approved the program of PKN ORLEN Petrochemicals development by 2023 ("Program"), which will be a ground for the update of the Company's strategy in the area of Petrochemicals assets development.

The estimated budget necessary for realization of investments constituting the program, in the amount of ca. PLN 8,3 bn, will be provided in the Company's middle-term financial plan that is now being prepared. The estimated annual increase of PKN ORLEN EBITDA after finalization of the investments included in the program may amount to ca. PLN 1,5 bn.

The program of PKN ORLEN Petrochemicals development approved, assumes realization of three key investments:

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

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

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

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

PKN ORLEN Series E bond issue terms and conditions:

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

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

On 2 July 2018 the Central Securities Depository of Poland issued a statement on conclusion of the agreement with PKN ORLEN regarding registration in a securities depository of 2,000,000 Series E bonds, with the unit nominal value of PLN 100, issued within the public bond issue program, included in the prospectus approved by the Polish Financial Supervision Authority on 20 July 2017. The registration date was set for 3 July 2018. The bonds will be registered under the ISIN code PLPKN0000190.

On 2 July 2018 the Management Board of the Warsaw Stock Exchange adopted a resolution regarding admission of 2,000,000 Series E bonds to exchange trading on the Catalyst regulated market.

On 3 July 2018 the Management Board of the Warsaw Stock Exchange adopted a resolution determining the first day of trading of Series E bonds on 4 July 2018.

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

On 14 June 2018 the Polish Financial Supervision Authority approved the annex No 5 to the prospectus relating to the public bond issue program directed to the individual investors ("Annex No 5"). Annex No. 5 was prepared in connection with the Management Board approval (from 12 June 2018) of the Petrochemical Development Program of PKN ORLEN by 2023, which will constitute the basis for updating the Company's strategy in the area of petrochemical assets development.

Changes in the composition of the Management Board

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

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

On 20 June 2018 the Czech National Bank approved the purchase of all shares of Unipetrol a.s. ("Unipetrol") held by Unipetrol minority shareholders, i.e. 10,827,673 shares, constituting ca. 5.97% of the Unipetrol's share capital ("Buyout"). As the Czech National Bank accepted the Company's application in whole, on 20 June 2018 the Company formally waived its right to appeal against the decision of the Czech National Bank. As a result the Company intends to conduct the Buyout according to the above-mentioned decision of the Czech National Bank.

In the Buyout the Company will offer a price of CZK 380 per share, i.e. the total price of CZK 4,114,515,740. The acquisition by the Company of the above-mentioned shares will be realized by squeeze out of minority shareholders. The Buyout will be realized with an intent of delisting of Unipetrol's shares from trading at the Prague Stock Exchange.

Currently the next stage of the Buyout procedure will be conveying of the Unipetrol Extraordinary General Meeting to adopt a resolution to approve the Buyout. For this purpose the Company will submit a motion for conveying of such the Unipetrol Extraordinary General Meeting.

Changes in the composition of the Supervisory Board

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

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

Realisation of the Power plant in Plock investment process completed

On 29 June 2018 PKN ORLEN signed with the consortium of companies: Siemens AG and Siemens Spółka z o.o. a certificate on the base of which the realisation of investment process of the Power plant in Plock ("Power plant") building was completed.

The total CAPEX spent by the Company for the project of the Power plant building amounted to ca. PLN 1,7 bn.

AUGUST 2018**Filing the statement of claim for repealing of the resolutions of Ordinary General Meeting**

On 9 August 2018 PKN ORLEN informed that received the Shareholder's statement of claim for repealing of the following resolutions of PKN ORLEN Ordinary General Meeting dated 26 June 2018:

- to receive the Directors' Report on the activities of the ORLEN Group and PKN ORLEN for the year ended 31 December 2017,
- to receive the financial statements of PKN ORLEN for the year ended 31 December 2017,
- to grant discharge to Management Board members for performance of their duties for the year ended 31 December 2017,
- to grant discharge to the Chairman of the Supervisory Board for performance of her duties for the year ended 31 December 2017.

On 17 October 2018 the District Court in Lodz Commercial Division No X dismissed in whole the shareholder's statement of claim.

In justification of the today announced decision the Court pointed that the statement of claim, in whole, did not deserve acceptance and shared the Company's statement that there was no reason to repeal the resolutions.

Changes in the composition of the Management Board

Supervisory Board of PKN ORLEN, following its meeting on 10 August 2018 appointed to the Company's Management Board with the effect from 1 September 2018:

- Mr Michał Róg to the position of Management Board Member responsible for wholesale and international trade,
- Mr Armen Konrad Artwich to the position of Management Board Member responsible for corporate affairs,

SEPTEMBER 2018**Shutdown of the CCGT unit in Wloclawek**

On 8 September shutdown of the CCGT unit in Wloclawek took place. Verification of damage and scope of necessary repairs is currently in progress.

General Electric, SNC-LAVALIN POLSKA and PKN ORLEN have appointed dedicated teams to work closely together on identifying causes of the unplanned shutdown and preparing a schedule of works necessary for its launch.

PKN ORLEN expects that the block will be repaired under the contractual warranty and thus will not charge the Company with additional costs. Independently, the lost benefits resulting from the block's standstill will be estimated. It is expected that the power plant will be launched by the end of the 1st quarter of 2019.

OCTOBER 2018**PKN ORLEN has become the owner of 100% shares in Unipetrol, a.s.**

PKN ORLEN informed that in the course of the executed squeeze out of shares of Unipetrol a.s. owned by the minority shareholders of Unipetrol, shares representing app. 5.97% of Unipetrol share capital on 1 October 2018, has acquired all shares which were subject to Squeeze out. As a result, PKN ORLEN has become the sole shareholder of Unipetrol, controlling 100% of shares representing 100% of votes at the General Meeting of Shareholders of Unipetrol.

As at 26 September 2018, the shares of Unipetrol - by virtue of law - have been withdrawn from trading at the Prague Stock Exchange.

Acquisition of Bank Ochrony Środowiska S.A. shares

On 1 October 2018, the shares of Bank Ochrony Środowiska S.A. acquired by PKN ORLEN were introduced to stock exchange trading (BOŚ S.A.). PKN ORLEN acquired the package of 2,500,000 ordinary bearer shares (as part of issue of series V) at the issue price of 10 PLN per 1 share. This package of shares constitutes 2.69% of the BOŚ S.A. share capital. They are presented as financial assets measured at fair value through other comprehensive income.

Costs summary of program of public bonds issue dedicated to individual investors

PKN ORLEN informed about the costs of the program of public bonds issue dedicated to individual investors. The total costs of the Program under which five issues including 2 000 000 of Series A bonds, 2 000 000 of Series B bonds, 2 000 000 of Series C bonds, 2 000 000 of Series D bonds, and 2 000 000 of Series E bonds were conducted approximately amounted to PLN 5.5 million. The above mentioned amount includes the following:

- costs of preparing and conducting of the bonds offers – approximately PLN 3.1 million
- costs of preparing of the prospectus including consulting costs – approximately PLN 1.3 million
- costs of promoting of the bonds offers – approximately PLN 1.1 million.

The average cost of the offers per bond of the nominal value of PLN 100 amounted to PLN 0,13 p.a.

PKN ORLEN did not incurred the costs of underwriters fees, due to the fact that no underwriting agreement was signed by PKN ORLEN in connection with the offers of the bonds.

The expenses of the Program (excluding costs of promoting of the bonds offers) were included as prepayments and systematically charges the financial result from the day of Series A bonds issue (6 October 2017) to the day of Series E bonds maturity day (13 July 2022). The costs of promoting of the bonds offers were included in the financial result when they were incurred.

As far as taxes are concerned the transaction costs constitute tax deductible costs and are charged as of the dates of their enter into books.

The consent to change the bond issue program agreement from 2006 and commencement of works on issue of new series of bonds

PKN ORLEN informed that the Supervisory Board of PKN ORLEN following its meeting on 24 October 2018 gave consent to change the Agreement for a Bond Issue Program, signed on 27 November 2006 (with subsequent annexes) by the Company as the issuer and the consortium of banks ("Program Agreement"), including increase of the program limit to PLN 4 billion and to incur, by the Company, liabilities resulting from the changed Program Agreement.

The Company plans to start works on conducting the issue of unsecured, bearer bonds, which will be proposed to buy in the manner specified in Art. 33 point 2 of the Law on Bonds dated 15 January 2015 (Journal of Laws, 2018 point 483 with subsequent changes) under the bonds issue program based on the Program Agreement.

NOVEMBER 2018**Submission to the European Commission a draft notification for concentration regarding the planned taking capital control over Grupa Lotos S.A. by PKN ORLEN S.A.**

On 30 November 2018 PKN ORLEN submitted to the European Commission a draft notification for concentration ("Notification"), together with the draft outline of remedies areas, regarding the planned taking capital control over Grupa Lotos S.A. headquartered in Gdansk by the Company ("Transaction").

Notification, submitted today by the Company, initiates the process of the arrangement of its final version with the European Commission. After submitting the final notification by the Company, the European Commission will formally start the concentration investigation.

Notification includes, apart from the description of the parties and Transaction assumptions, description of parties activity on the certain markets and presents preliminary arguments on the influence of the Transaction on the competitiveness 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 attached arguments.

DECEMBER 2018**Anwil General Meeting consent to extend fertilizers production capacities**

On 14 December 2018 the General Meeting of Anwil S.A. gave consent to investment task regarding 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 for the end of 2021. After realization of the program, ie. from the beginning of 2022, it is estimated that the operating profit EBITDA of Anwil S.A. may increase by approximately EUR 57 million yearly (ie. approximately PLN 245 million translated using the exchange rate as at 31 December 2018).

The ORLEN Group strategy update for 2019-2022

On 20 December 2018 the Management and the Supervisory Board of PKN ORLEN approved the ORLEN Group strategy update for 2019-2022 ("Strategy update").

The approved document updates "PKN ORLEN growth strategy" dated 15 December 2016 in respect of PKN ORLEN directions of development, refers to the level of realization of targets determined for 2017-2018 and sets the Company's financial and operating targets for the next two years, ie. 2019-2020. The need for the update arose due to high volatility of macroeconomic factors and the need to present the targets for the next two-year period.

The presented material takes no account of the Grupa Lotos S.A. acquisition and integration process. Once the European Commission clearance is secured and a controlling interest in Grupa Lotos S.A. is acquired, a new strategy for the ORLEN Group will be unveiled. Detailed information about the Strategy is available on PKN ORLEN website:

<https://www.orlen.pl/EN/InvestorRelations/Presentations/Pages/default.aspx>

3. Other information**3.1. Composition of the Management Board and the Supervisory Board**

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

Management Board

| | |
|----------------------|--|
| Daniel Obajtek | – President of the Management Board, General Director |
| 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 |
| Wiesław Protasewicz | – Member of the Management Board, Chief Financial Officer |
| Michał Róg | – Member of the Management Board, Wholesale and International Trades |
| Józef Węgrecki | – Member of the Management Board, Operations |

Supervisory Board

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

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

| Shareholder | Percentage share in total voting rights at Shareholder's Meeting as at the submission date of | Number of shares as at submission date |
|----------------------------|---|--|
| State Treasury | 27.52% | 117 710 196 |
| Nationale-Nederlanden OFE* | 7.01% | 30 000 000 |
| Aviva OFE* | 6.60% | 28 240 000 |
| Other | 58.87% | 251 758 865 |
| | 100.00% | 427 709 061 |

*According to the information from the Ordinary General Shareholders' Meeting convened for 26 June 2018, continuing the Meeting on 17 July 2018

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

As at the date of the foregoing interim condensed consolidated financial statements, Members of the Management Board and the Supervisory Board did not hold any shares of PKN ORLEN.

In the period covered by the foregoing interim condensed consolidated financial statements, there were no changes in the ownership of shares PKN ORLEN held by members of the Management Board and the Supervisory Board.

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

PKN ORLEN is the guarantor of the 2 tranches of 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 | | Subscription date | Expiration date | Rating | Value of guarantee issued | |
|-----------|---------------|--------------|-------------------|-----------------|------------|---------------------------|--------------|
| | EUR | PLN | | | | EUR | PLN |
| Eurobonds | 750 | 3 318 ** | 7.06.2016 | 7.06.2023 | BBB-, Baa2 | 1 100 | 4 730 |
| Eurobonds | 500 | 2 131 * | 30.06.2014 | 30.06.2021 | BBB-, Baa2 | 1 000 | 4 300 |
| | 1 250 | 5 449 | | | | 2 100 | 9 030 |

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 2018

Moreover, as at 31 December 2018 and as at 31 December 2017, the Group granted sureties and guarantees to subsidiaries for third parties of PLN 1,540 million and PLN 1,457 million, respectively, and mainly related to the timely payment of liabilities.

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

The ORLEN Group did not publish forecasts of its results.

QUARTERLY FINANCIAL INFORMATION
PKN ORLEN

FOR THE 4th QUARTER

2018

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

C. QUARTERLY FINANCIAL INFORMATION OF PKN ORLEN
Separate statement of profit or loss and other comprehensive income

| | 12 MONTHS ENDED 31/12/2018 (unaudited) | 3 MONTHS ENDED 31/12/2018 (unaudited) | 12 MONTHS ENDED 31/12/2017 | 3 MONTHS ENDED 31/12/2017 (unaudited) |
|---|---|--|----------------------------------|--|
| Sales revenues | 86 997 | 23 296 | 70 012 | 18 191 |
| <i>revenues from sales of finished goods and services</i> | 46 396 | 12 092 | 34 611 | 9 502 |
| <i>revenues from sales of merchandise and raw materials</i> | 40 601 | 11 204 | 35 401 | 8 689 |
| Cost of sales | (78 781) | (21 748) | (62 106) | (15 968) |
| <i>cost of finished goods and services sold</i> | (39 482) | (10 877) | (27 855) | (7 597) |
| <i>cost of merchandise and raw materials sold</i> | (39 299) | (10 871) | (34 251) | (8 371) |
| Gross profit on sales | 8 216 | 1 548 | 7 906 | 2 223 |
| Distribution expenses | (2 850) | (749) | (2 547) | (670) |
| Administrative expenses | (809) | (215) | (799) | (226) |
| Other operating income | 431 | 163 | 449 | 169 |
| Other operating expenses | (354) | (179) | (222) | (83) |
| (Loss)/reversal of loss due to impairment of financial instruments | (10) | (8) | - | - |
| Profit from operations | 4 624 | 560 | 4 787 | 1 413 |
| Finance income | 2 288 | 228 | 3 793 | 1 315 |
| Finance costs | (1 641) | (290) | (1 533) | (198) |
| Net finance income and costs | 647 | (62) | 2 260 | 1 117 |
| (Loss)/reversal of loss due to impairment of financial instruments | (3) | (11) | - | - |
| Profit before tax | 5 268 | 487 | 7 047 | 2 530 |
| Tax expense | (821) | (55) | (945) | (274) |
| <i>current tax</i> | (852) | (99) | (852) | (259) |
| <i>deferred tax</i> | 31 | 44 | (93) | (15) |
| Net profit | 4 447 | 432 | 6 102 | 2 256 |
| Other comprehensive income: | | | | |
| which will not be reclassified subsequently into profit or loss | (8) | (2) | (2) | (2) |
| <i>actuarial gains and losses</i> | (2) | (2) | (2) | (2) |
| <i>gains/(losses) on investments in equity instruments at fair value through other comprehensive income</i> | (7) | - | - | - |
| <i>deferred tax</i> | 1 | - | - | - |
| which will be reclassified into profit or loss | (50) | 74 | 580 | 83 |
| <i>hedging instruments</i> | (164) | 65 | 716 | 103 |
| <i>hedging costs</i> | 102 | 26 | - | - |
| <i>deferred tax</i> | 12 | (17) | (136) | (20) |
| | (58) | 72 | 578 | 81 |
| Total net comprehensive income | 4 389 | 504 | 6 680 | 2 337 |
| Net profit and diluted net profit per share (in PLN per share) | 10.40 | 1.01 | 14.27 | 5.27 |

Separate statement of financial position

| | 31/12/2018 (unaudited) | 31/12/2017 |
|--|---------------------------|---------------|
| ASSETS | | |
| Non-current assets | | |
| Property, plant and equipment | 15 611 | 15 690 |
| Intangible assets | 755 | 772 |
| Shares in related parties | 14 103 | 9 564 |
| Derivatives | 118 | 189 |
| Other assets | 1 016 | 192 |
| | 31 603 | 26 407 |
| Current assets | | |
| Inventories | 9 889 | 8 239 |
| Trade and other receivables | 7 709 | 7 335 |
| Current tax assets | 8 | 58 |
| Cash | 3 461 | 5 477 |
| Non-current assets classified as held for sale | 149 | 170 |
| Derivatives | 450 | 396 |
| Other assets | 541 | 1 270 |
| | 22 207 | 22 945 |
| Total assets | 53 810 | 49 352 |
| EQUITY AND LIABILITIES | | |
| EQUITY | | |
| Share capital | 1 058 | 1 058 |
| Share premium | 1 227 | 1 227 |
| Hedging reserve | 203 | 253 |
| Revaluation reserve | (6) | - |
| Retained earnings | 28 165 | 25 027 |
| Total equity | 30 647 | 27 565 |
| LIABILITIES | | |
| Non-current liabilities | | |
| Loans, borrowings and bonds | 8 641 | 6 736 |
| Provisions | 520 | 440 |
| Deferred tax liabilities | 734 | 782 |
| Derivatives | 84 | 75 |
| Other liabilities | 257 | 220 |
| | 10 236 | 8 253 |
| Current liabilities | | |
| Trade and other liabilities | 8 853 | 9 897 |
| Liabilities from contracts with customers | 213 | - |
| Loans, borrowings and bonds | 1 122 | 552 |
| Provisions | 376 | 321 |
| Current tax liabilities | 376 | 66 |
| Derivatives | 324 | 278 |
| Other liabilities | 1 663 | 2 420 |
| | 12 927 | 13 534 |
| Total liabilities | 23 163 | 21 787 |
| Total equity and liabilities | 53 810 | 49 352 |

Separate statement of changes in equity

| | Share capital and share premium | Hedging reserve | Revaluation reserve | Retained earnings | Total equity |
|---------------------------------------|---------------------------------------|--------------------|------------------------|----------------------|-----------------|
| 01/01/2018 (approved data) | 2 285 | 253 | - | 25 027 | 27 565 |
| Impact of IFRS 9 adoption | - | - | - | (24) | (24) |
| 01/01/2018 (converted data) | 2 285 | 253 | - | 25 003 | 27 541 |
| Net profit | - | - | - | 4 447 | 4 447 |
| Items of other comprehensive income | - | (50) | (6) | (2) | (58) |
| Total net comprehensive income | - | (50) | (6) | 4 445 | 4 389 |
| Dividends | - | - | - | (1 283) | (1 283) |
| 31/12/2018 | 2 285 | 203 | (6) | 28 165 | 30 647 |
| (unaudited) | | | | | |
| 01/01/2017 | 2 285 | (327) | - | 20 210 | 22 168 |
| Net profit | - | - | - | 6 102 | 6 102 |
| Items of other comprehensive income | - | 580 | - | (2) | 578 |
| Total net comprehensive income | - | 580 | - | 6 100 | 6 680 |
| Dividends | - | - | - | (1 283) | (1 283) |
| 31/12/2017 | 2 285 | 253 | - | 25 027 | 27 565 |

Separate statement of cash flows

| | 12 MONTHS ENDED 31/12/2018 (unaudited) | 3 MONTHS ENDED 31/12/2018 (unaudited) | 12 MONTHS ENDED 31/12/2017 | 3 MONTHS ENDED 31/12/2017 (unaudited) |
|--|---|--|----------------------------------|--|
| Cash flows from operating activities | | | | |
| Profit before tax | 5 268 | 487 | 7 047 | 2 530 |
| Adjustments for: | | | | |
| Depreciation and amortisation | 1 365 | 358 | 1 241 | 338 |
| Foreign exchange (gain)/loss | 282 | 75 | (154) | (187) |
| Interest, net | 241 | 59 | 172 | 44 |
| Dividends | (870) | (30) | (1 599) | (75) |
| (Profit) on investing activities | (367) | (91) | (97) | (851) |
| Change in provisions | 215 | 55 | 159 | 51 |
| Change in working capital | (2 618) | (985) | (814) | (57) |
| inventories | (1 648) | 474 | (928) | (912) |
| receivables | (394) | 1 834 | (722) | 519 |
| liabilities | (576) | (3 293) | 836 | 336 |
| Other adjustments, incl.: | (273) | (127) | (240) | (101) |
| rights received free of charge | (276) | (74) | (213) | (73) |
| Income tax (paid) | (548) | (135) | (1 270) | (285) |
| Net cash from/(used in) operating activities | 2 695 | (334) | 4 445 | 1 407 |
| Cash flows from investing activities | | | | |
| Acquisition of property, plant and equipment, intangible assets and perpetual usufruct of land | (1 610) | (558) | (1 614) | (451) |
| Acquisition of shares, incl.: | (4 502) | - | (382) | (32) |
| redemption of non-controlling shares Unipetrol a.s. | (4 222) | - | - | - |
| Outflows from additional payments to subsidiaries' equity | (48) | - | - | - |
| Disposal of property, plant and equipment, intangible assets and perpetual usufruct of land | 207 | 39 | 184 | 22 |
| Interest received | 35 | 11 | 24 | 8 |
| Dividends received | 870 | 204 | 1 604 | 78 |
| Expenses from non-current loans granted | (53) | (3) | (1) | (1) |
| Proceeds from non-current loans granted | 6 | 2 | 6 | 2 |
| Proceeds/(Expenses) from current loans granted | (60) | - | 169 | 165 |
| Proceeds/(Outflows) from cash pool facility | 60 | (162) | (322) | (208) |
| Settlement of derivatives not designated as hedge accounting | 347 | 172 | (83) | (53) |
| Other | (7) | (7) | 10 | 6 |
| Net cash (used) in investing activities | (4 755) | (302) | (405) | (464) |
| Cash flows from financing activities | | | | |
| Proceeds from loans received | 2 075 | - | - | - |
| Bonds issued | 1 376 | 105 | 1 676 | 628 |
| Repayments of loans and borrowings | (38) | (38) | (822) | - |
| Redemption of bonds | (1 180) | (370) | (2 147) | (560) |
| Interest paid | (305) | (32) | (257) | (25) |
| Dividends paid | (1 283) | - | (1 283) | - |
| Proceeds/(Outflows) from cash pool facility | (602) | (1 009) | 1 766 | 971 |
| Other | (27) | (7) | (25) | (7) |
| Net cash from/(used in) financing activities | 16 | (1 351) | (1 092) | 1 007 |
| Net increase/(decrease) in cash | (2 044) | (1 987) | 2 948 | 1 950 |
| Effect of exchange rate changes | 28 | 25 | (34) | (43) |
| Cash, beginning of the period | 5 477 | 5 423 | 2 563 | 3 570 |
| Cash, end of the period | 3 461 | 3 461 | 5 477 | 5 477 |

The foregoing quarterly report was approved by the Management Board of the Parent Company on 23 January 2019.

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Daniel Obajtek
President of the Board

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Armen Artwich
Member of the Board

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Patrycja Klarecka
Member of the Board

.....
Zbigniew Leszczyński
Member of the Board

.....
Wiesław Protasewicz
Member of the Board

.....
Michał Róg
Member of the Board

.....
Józef Węgrecki
Member of the Board