2017

ORLEN GROUP ANNUAL REPORT

ANNUAL REPORT OF ORLEN GROUP FOR THE YEAR 2017

Polski Koncern Naftowy ORLEN
Spółka Akcyjna

Daniel Obajtek
President & CEO

Ladies and Gentlemen, Dear Shareholders,

The energy sector, in which the ORLEN Group operates, is particularly susceptible to changes in the macroeconomic, economic and social environment. Therefore, the key challenge facing any manager working in this industry is to bolster their company's position and maintain its competitive edge without compromising its financial condition. The ORLEN Group is braced for the current challenges. However, I believe that what we need to focus on now is fast-tracking those projects that would give the ORLEN Group an impregnable competitive position in Europe, while improving Poland's energy security. This is why we are determined to follow through with the acquisition of LOTOS Group by PKN ORLEN with a view to leveraging the resultant benefits in the interest of both companies involved, their environment and Polish economy as a whole.

New challenges are awaiting us, but it is definitely worth recalling the achievements of the past year, which have provided us with strong foundations to flexibly manage the Group's future development. In 2017, the ORLEN Group once again posted record-high LIFO-based EBITDA of PLN 10.4bn on the back of strong performance delivered by all of its business segments, including the retail segment with its highest ever profit. Last year, the Group recorded oil throughput and sales volumes at historically unprecedented levels. The Group was also assigned its best-on-record rating from Moody's, of Baa2 with a stable outlook, and paid its highest dividend to date, totalling PLN 1.3bn or PLN 3.00 per share.

In 2017, our performance was supported by low oil prices and, consequently, improved downstream margins. These market conditions have only changed in recent months, pushing down margins, but as the spike in oil prices has been driven by temporary factors, they may soon be expected to decline, lifting margins back up. Therefore, the Group should continue to deliver solid performance, further supported by an expected increase in demand for fuels and petrochemicals in the context of fast economic growth.

The retail segment delivered excellent performance in 2017, with the PKN ORLEN chain of modern service stations located across Poland, the Czech Republic, Germany and Lithuania posting total fuel sales of approximately 10bn litres before the year end. The strong retail sales were driven by a number of factors, including effective legislative measures implemented in Poland to curb illegal fuel trade. In the coming periods, we intend to prepare our retail assets for challenges posed by the uptake of electric mobility and develop our retail product and service portfolio to cater to the changing needs of even the most demanding customers.

As for the European downstream sector, it struggled with overcapacity. With demand expected to decline in the coming years, only the most competitive refiners will manage to survive. In 2017, investment projects were continued in the ORLEN Group's downstream segment to enhance the efficiency of our refining assets and extend the value chain, with the ultimate goal of keeping up our competitive power.

The Group was also deeply engaged in work to develop its power generation assets. With the completion of a CCGT unit in Płock, our power generation capacity in Poland will reach 1.6 GW. The Włocławek CCGT plant, thanks to its stable operation, was already able in 2017 to deliver process steam to ANWIL and supply electricity to the Group and the National Power Grid. What is important, more than 1 TWh of electricity was sold to SMEs.

In line with our strategy to gain additional advantages and the Polish government's extensive plans and measures to develop electric mobility, in 2017 the Group initiated a number of pilot projects in that field. Work is currently under way to deploy more than 20 EV charging points along the main transport routes in Poland and at PKN ORLEN's offices in Płock and Warsaw. Similar solutions are also being planned for the Czech market. As regards alternative fuel sales, we are currently testing a hydrogen filling station in Germany and CNG filling stands in the Czech Republic.

ORLEN

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Daniel Obajtek
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The ORLEN Group's crude oil supply policy has remained unchanged. Currently, as in the previous year, crude is supplied under forward contracts with producers from the CIS region and the Persian Gulf. To make up any possible shortfall in supply, spot transactions are concluded, e.g. in October 2017 the first-ever delivery of US crude was made under such contract to the Płock refinery. All decisions on oil supplies to the Group are considered from the economic perspective so as to combine secure deliveries with commercial viability. The same is true for gas supplies–PKN ORLEN has a diverse contract portfolio, and the decisive factor in selecting gas suppliers is the price. In the procurement area, we will seek and explore new opportunities offered by the significant negotiating leverage we would gain through potential consolidation of the Polish oil sector.

In foreign markets, 2017 saw changes that will determine the ORLEN Group's business activities in the coming years. In Lithuania, with the support of both Polish and Lithuanian governments, the long-standing dispute between ORLEN Lietuva and the Lithuanian Railways was finally settled. On the Czech market, in December 2017 a bid was launched to buy up shares in Unipetrol, with the transaction being closed in late February 2018, giving PKN ORLEN an over 94% ownership interest in the Czech company.

On its completion, the commenced acquisition of LOTOS Group by PKN ORLEN, will naturally determine strategic decisions to be taken in the coming years. As the ORLEN Group has already carried out a vast number of M&A transactions of various scale each strengthening its market position, I hope this extensive experience will considerably contribute to successful completion of the process.

In the coming periods, we will be taking major steps to evaluate, model, and schedule the planned transaction, as well as lay down the details of its execution. I am convinced that, given the current market conditions, it is necessary to create a strong and integrated corporate group, better positioned to compete in international markets and resilient to market fluctuations, by exploiting operational and cost synergies between PKN ORLEN and LOTOS Group. Not only will it give an edge to the business itself, which operates in an extremely demanding environment, but it will also considerably enhance Poland's energy security and help deliver a more comprehensive service portfolio to customers and trading partners alike. We are committed to identifying sources of competitive advantage, while building a modern, innovation- and technology-driven company. I hope the antitrust authorities, which have to approve the transaction, will give the green light for our plans, allowing us to create a strong national conglomerate resembling the ones already established in Hungary, Austria, Spain, and Norway.

Considerable challenges will also be facing our Supervisory Board, whose former and present members I would like to thank for their ongoing support and helpful guidance. Last but not least, I would like to extend my thanks to all ORLEN Group employees for their hard work, which has greatly helped the Group deliver its outstanding financial and operating performance, as well as for their enthusiastic commitment to our new development projects.

Daniel Obajtek

President of the Management Board, Chief Executive Officer,
PKN ORLEN S.A.

Deloitte Polska
Spółka z ograniczoną odpowiedzialnością Sp. k.
al. Jana Pawła II 22
00-133 Warszawa
Polska

Tel.: +48 22 511 08 11
Fax: +48 22 511 08 13
www.deloitte.com/pl

AUDITOR'S REPORT

To the Shareholders and Supervisory Board of Polski Koncern Naftowy Orlen S.A.

Auditor's report

We have audited the attached annual consolidated financial statements of the Polski Koncern Naftowy Orlen S.A. Capital Group (hereinafter: "Capital Group"), for which Polski Koncern Naftowy Orlen S.A. (hereinafter: "Parent Company") is the Parent Company, comprising: a consolidated statement of financial position prepared as at 31 December 2017, consolidated statement of profit and loss account and other comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows prepared for the financial year from 1 January 2017 to 31 December 2017 and notes comprising a summary of significant accounting policies and other explanatory information (hereinafter: "consolidated financial statements").

Responsibility of the Parent Company's manager and those charged with governance for the consolidated financial statements

The Management Board of the Parent Company is obliged to prepare the consolidated financial statements and to present them fairly in line with the International Accounting Standards, International Financial Reporting Standards and related interpretations published as European Commission regulations and other applicable laws as well as the entity's articles of association. The Management Board of the Parent Company is also responsible for ensuring internal control necessary for the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Under the Accounting Act, the Management Board of the Parent Company and members of its Supervisory Board are obliged to ensure that the consolidated financial statements meet the requirements of the Accounting Act of 29 September 1994 (Journal of Laws of 2018, item 395), hereinafter referred to as the "Accounting Act".

Auditor's responsibility

Our responsibility was to express an opinion whether the consolidated financial statements give a true and fair view of the financial and economic position as well as the financial performance of the Capital Group in line with the applicable International Accounting Standards, International Financial Reporting Standards and related interpretations published as European Commission regulations and the adopted accounting principles (policies).

Our audit of the consolidated financial statements has been performed in accordance with:

1) the Act on statutory auditors, auditing companies and public oversight of 11 May 2017 (Journal of Laws of 2017, item 1089) ("*Act on statutory auditors*");
2) National Auditing Standards in the wording of the International Standards on Auditing adopted by resolution No. 2783/52/2015 of the National Council of Statutory Auditors of 10 February 2015, as amended;
3) Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC (OJ EU L 158, 27 May 2014, p. 77 and OJ EU L 170, 11 June 2014, p. 66) ("*Regulation 537/2014*").

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Those regulations require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

The objective of the audit is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the above standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control and may involve any area of law and regulation not just those directly affecting the consolidated financial statements.

The audit involved performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The audit procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Parent Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management Board of the Parent Company, as well as evaluating the overall presentation of the consolidated financial statements.

The scope of the audit does not include an assurance regarding the future profitability of the audited Capital Group or the effectiveness of the Parent Company's Management Board in managing the Capital Group's affairs at present and in future.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. The audit opinion is consistent with the additional report to the Audit Committee issued as of the date of this auditor's report.

Independence

During the audit the key certified auditor and the audit firm remained independent of the audited members of the Capital Group in accordance with the provisions of the Act on statutory auditors, Regulation no 537/2014 and the ethical requirements set out in resolution of the National Council of Statutory Auditors.

We certify that, to the best of our knowledge and belief, we have not provided non-audit services, which are prohibited under Article 136 of the Act on statutory auditors and Article 5.1 of Regulation 537/2014, to the entities that belong to the Capital Group.

Choice of audit firm

We were appointed to audit the consolidated financial statements of the Capital Group by resolution no 1746/16 of Supervisory Board adopted on 15 December 2016. We have been auditing the consolidated financial statements of the Capital Group for an uninterrupted period beginning with the financial year ended 31 December 2017, i.e. for one consecutive financial year.

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Most significant risks

During the audit we identified the following, most significant risks of material misstatement, also resulting from fraud, and we designed audit procedures responsive to those risks. Where deemed appropriate for the understanding of the identified risks and the audit procedures performed by the auditor, we also included the most important findings related to those risks.

Risk of material misstatement — description	**Procedures carried out by the auditor in response to identified risks**
Recoverability of the carrying amount of property, plant and equipment — identification of indications	
The Group uses significant property, plant and equipment (notes 9.2.1 and 9.2.2) with the total impairment loss of PLN 12 856 million recognized in prior periods (note 9.2.1). Historically, the value of impairment losses was subject to significant fluctuations depending on the changes in the external environment, including macroeconomic conditions, as well as the Group's internal strategic decisions regarding new financial and operational objectives. Considering current plans, the Management Board did not identify any additional impairment and basis for reversal of the impairment losses recognised in prior years, except from those disclosed in the financial statements. We believe that the evaluation of the indications of impairment as well as any reversal of earlier impairment losses is the key audit risk due to the significance of the judgement, in particular with respect to the impact of changes of specific key assumptions used in the discounted cash flow models on the estimates of the assets' value in use.	In particular, our audit procedures included: • understanding of the internal control environment as regards the evaluation of the indications of the impairment of property, plant and equipment as well as of an increase in the estimated service potential of the assets which serves as the basis for reversal of the historical impairment losses; • evaluation of the correctness and consistency of the allocation of assets to individual cash generating units; • a critical assessment of the key assumptions made by the Management Board to identify indications of impairment for individual cash generating units including: the impact of the assumptions made in the new financial plan for the year 2018 and key assumptions made in the medium-term plan, changes in the expectations of the key macroeconomic factors which affect the performance of the Group and changes in the discount rates (with the support of Deloitte's valuations experts); • a separate evaluation of the identification of the indications of impairment for exploration and evaluation assets; • evaluation of the assumptions made based on the deposit reports drafted by the Group's external experts and their impact on the identification of the indications of impairment of assets arising from development and extraction of mineral resources; • for the units with financial performance exceeding plans, a critical assessment of the explanations regarding the lack of an increase in the service potential of assets which would serve as the basis for a reversal of the prior impairment losses; • evaluation of the correctness and completeness of the disclosures regarding identification of the indications and conclusions.

Risk of material misstatement — description	Procedures carried out by the auditor in response to identified risks
Assessment of provisions for disputes as well as related contingent liabilities	
As at 31 December 2017, in note 9.4.4, the Group disclosed a series of pending actions that the Group is party to and in which the value of claims is substantial. The analysis of the probability that a given claim will be considered valid is subject to significant uncertainty and subjectivity and is also the basis for recognition of a given claim under provisions or in the form of disclosures as a contingent liability in the financial statements.	In particular, our audit procedures included: • understanding of the internal control environment as regards evaluation of the effects of pending disputes and their classification in the financial statements; • an analysis of independent confirmations given by law firms and discussion of material disputes with the Group's lawyers; • a review of the minutes of meetings of the management boards and supervisory boards of the key Group companies, in addition to a review of the correspondence exchanged with respect to legal and regulatory proceedings • a critical assessment of the Group's classification of disputes from the perspective of recognition of provisions or their classification as contingent liabilities in the notes to the consolidated financial statements.
Hedge accounting used for the purposes of designation of hedging instruments and hedged items as well as testing the effectiveness of a hedge	
The Group enters into significant transactions on the derivatives market in order to hedge its cash flows, including those which result from sales of petrochemical products, sales and purchases of refined products, sales and purchases of crude oil or interest payments. A substantial part of derivative transactions are classified as cash flow hedges and accounted for using hedge accounting principles (note 9.3). A substantial risk of material misstatement of the financial statements is related to the correctness of designation of the hedging relationship, documentation of the process and assessment of the hedge effectiveness.	Our procedures, with the support of Deloitte's hedge accounting experts, involved in particular: • verification of compliance of the hedge accounting documentation with the requirements set out in the accounting standards; • understanding of the internal control environment as regards the procedure of identification of hedging instruments and hedged items subject to the hedge accounting and the procedure of documentation of the assumptions and strategies; • verification of the reasonableness of the application of hedge accounting principles for a sample of transactions hedging the currency risk, commodity risk and interest rate risk, including an analysis of the correctness of the selection of hedge accounting types for each of the hedged risks and of the designation of the hedged items for hedge accounting purposes; • for a sample of transactions, an analysis of the principles applicable to the measurement of the effectiveness of instruments falling within the scope of hedge accounting and of the accounting for the effective and ineffective portions; • an analysis of the correctness and completeness of disclosures in the consolidated financial statements of the Group.

Opinion

In our opinion, the attached annual consolidated financial statements:

- give a true and fair view of the economic and financial position of the Capital Group as at 31 December 2017 and its financial performance during the financial year from 1 January 2017 to 31 December 2017, in accordance with the applicable International Accounting Standards, International Financial Reporting Standards and related interpretations published as European Commission regulations and the adopted accounting principles (policies);
- comply, with respect to their form and content, with the applicable provisions of law, including the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information provided by issuers of securities and conditions for recognizing as equivalent information required under the law of a non-member state (Journal of Laws of 2014, item 133, as amended) and the articles of association of the Parent Company.

Other matters

The consolidated financial statements of the Company for the prior financial year ended 31 December 2016 were audited by another certified auditor who issued an unqualified opinion on those consolidated financial statements on 14 March 2017.

Report on other legal and regulatory requirements

Opinion on the report on the activities

We do not express an opinion on the report on the activities of the Capital Group.

It is the responsibility of the Management Board of the Parent Company to prepare the report on the activities of the Capital Group in accordance with the Accounting Act and other applicable laws. The Management Board of the Parent Company and members of the Supervisory Board are also obliged to ensure that the report on the activities of the Capital Group meets the requirements of the Accounting Act.

Under the act on statutory auditors we were obliged to issue an opinion as to whether the report on the activities of the Capital Group complies with the provisions of law and is consistent with underlying information disclosed in the attached consolidated financial statements. Additionally, it was our responsibility to indicate whether we have detected any material misstatement in the report on the activities of the Capital Group based on our knowledge of the Capital Group and its business environment obtained in the course of the audit and to explain the nature of each such material misstatement.

Report of the activities of Orlen Group and PKN Orlen S.A. for the year 2017, in accordance with art. 55 sec. 2a of the Accounting Act has been prepared jointly.

In our opinion, the report on the activities of Orlen Group and PKN Orlen S.A. (hereinafter: "report of the activities") has been prepared in line with the applicable provisions of law and is consistent with the underlying information disclosed in the attached consolidated financial statements. Furthermore, based on our knowledge of the Capital Group and its business environment obtained in the course of the audit we believe that the report on the activities of the Capital Group is free from material misstatement.

Opinion on the statement of compliance with corporate governance principles

The Management Board of the Parent Company and members of the Supervisory Board are responsible for compliance with corporate governance principles in line with the provisions of law. Furthermore, the Management Board of the Parent Company and members of the Supervisory Board are also obliged to ensure that the statement of compliance with corporate governance principles meets the requirements of the provisions of law.

As the auditors of the financial statements we were obliged — under the act on statutory auditors — to issue an opinion as to whether the issuer, required to submit a statement of compliance with corporate governance principles, which constitutes a separate part of the report on the activities, included in such statement the legally required information and — with respect to specific information so required or required by other rules — a declaration whether it complies with applicable regulations and is consistent with the information included in the annual consolidated financial statements.

In our opinion, the statement of compliance with corporate governance principles includes information specified in Article 91.5.4 letters a, b, g, j, k and l of the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information provided by issuers of securities and conditions for recognizing as equivalent information required under the law of a non-member state (Journal of Laws of 2014, item 133, as amended) ("*Ordinance*"). The information specified in Article 91.5.4 letters c-f, h and i of the Ordinance given in the statement of compliance with corporate governance principles is consistent with the applicable provisions of law and the information presented in the annual consolidated financial statements.

Information about the non-financial report

In accordance with the requirements of the Act on statutory auditors, we would like to inform you that the report on the activities includes information about preparation of a separate non-financial report, referred to in Article 49b.9 of the Accounting Act, and that the Parent Company has prepared such a separate report.

We have not performed any assurance works as regards the separate non-financial report and we do not express any assurance regarding that statement.

Conducting the audit on behalf of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. — entity entered under number 73 on the list of audit firms kept by the National Council of Statutory Auditors:

This Report is an English version of the original Polish version. In case of any discrepancies between the Polish and English version, the Polish version shall prevail.

P. Sokołowski

Piotr Sokołowski
Key certified auditor
No. 9752

Warsaw, 15 March 2018

SELECTED FINANCIAL DATA OF THE ORLEN GROUP

	PLN million		EUR million	
	2017	2016	2017	2016
Sales revenues	95 364	79 553	22 467	18 181
Profit from operations increased by depreciation and amortisation (EBITDA)	11 078	9 642	2 610	2 204
EBITDA before net impairment allowances	11 247	9 497	2 650	2 170
Profit from operations (EBIT)	8 657	7 532	2 039	1 721
Profit before tax	8 717	6 887	2 054	1 574
Net profit	7 173	5 740	1 690	1 312
Total net comprehensive income	7 296	5 957	1 719	1 361
Net profit attributable to equity owners of the parent	6 655	5 261	1 568	1 202
Total net comprehensive income attributable to equity owners of the parent	6 717	5 445	1 582	1 244
Net cash from operating activities	8 050	9 331	1 896	2 133
Net cash (used) in investing activities	(3 925)	(4 436)	(924)	(1 014)
Net cash (used) in financing activities	(2 832)	(2 210)	(667)	(505)
Net increase in cash and cash equivalents	1 293	2 685	305	614
Net profit and diluted net profit per share attributable to equity owners of the parent (in PLN/EUR per share)	15.56	12.30	3.67	2.81

	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Non-current assets	31 740	30 321	7 610	6 854
Current assets	28 924	25 238	6 935	5 705
Total assets	60 664	55 559	14 545	12 559
Share capital	1 058	1 058	254	239
Equity attributable to equity owners of the parent	32 197	26 763	7 719	6 050
Total equity	35 211	29 285	8 441	6 620
Non-current liabilities	9 071	9 652	2 176	2 182
Current liabilities	16 382	16 622	3 928	3 757
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)	75.28	62.57	18.05	14.14

In order to translate the items of the statement of financial position in the table "Selected financial data", the average exchange rate specified by National Bank of Poland as at 31 December 2017 and 31 December 2016 was applied. Items of the statement of profit and loss, statement of comprehensive income and statement of cash flows converted at the exchange rate being the arithmetic average of the average exchange rates specified by National Bank of Poland on the last day of each month of the reporting period: from 1 January to 31 December 2017 and from 1 January to 31 December 2016.

1 EUR	31 December 2017	31 December 2016
Statement of financial position	4.1709 PLN	4.4240 PLN
Statement of profit or loss, statement of other comprehensive income, statement of cash flows	4.2447 PLN	4.3757 PLN

CONSOLIDATED FINANCIAL STATEMENTS OF ORLEN GROUP FOR THE YEAR ENDED 31 DECEMBER 2017

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

2017

SELECTED DATA FOR 2017

ORLEN GROUP

- EBITDA PLN 11,078 million
- EBITDA before net impairment allowances PLN 11,247 million
- EBIT PLN 8,657 million
- Net profit PLN 7,173 million
- Assets PLN 60,664 million
- CAPEX PLN 4,602 million
- Total equity PLN 35,211 million

- Number of shares 427,709,061
- Total equity attributable to equity owners of the parent PLN 75.28 per share
- Dividend payment:
  PLN 1,283 billion / PLN 3 per share
- Net debt PLN 761 million
- Net financial gearing 2.2%

DOWNSTREAM

Production Sales Power Industry

- Sales revenues PLN 75,241 million
- EBITDA PLN 9,500 million
- EBITDA before net impairment allowances PLN 9,519 million
- EBIT PLN 7,932 million
- Assets PLN 42,159 million
- CAPEX PLN 2,925 million

RETAIL

- Sales revenues PLN 33,630 million
- EBITDA PLN 2,038 million
- EBITDA before net impairment allowances PLN 2,049 million
- EBIT PLN 1,616 million
- Assets PLN 6,511 million
- CAPEX PLN 678 million

UPSTREAM

- Sales revenues PLN 515 million
- EBITDA PLN 153 million
- EBITDA before net impairment allowances

  PLN 293 million
- EBIT PLN (165) million
- Assets PLN 3,839 million
- CAPEX PLN 778 million

EBIT - profit/(loss) from operations
EBITDA - profit/(loss) from operations increased by depreciation and amortization
EBITDA before net impairment allowances – EBITDA before consideration of net impairment allowances (reversal/recognition of impairment allowances of property, plant and equipment and intangible assets and other non-current assets.
CAPEX - increase of property, plant and equipment, intangible assets, investment property and perpetual usufruct of land together with the capitalisation of borrowing costs
Net debt: non-current and current loans, borrowings and bonds lower by cash and cash equivalents
Net financial gearing: net debt/equity (calculated as at the end of the period) x 100%

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(in PLN million)

1. CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	NOTE	2017	2016	change (y/y) value	%
Sales revenues	8.2, 9.1.1, 9.1.2	95 364	79 553	15 811	19.9
revenues from sales of finished goods and services		*72 915*	*57 775*	*15 140*	*26.2*
revenues from sales of merchandise and raw materials		*22 449*	*21 778*	*671*	*3.1*
Cost of sales	9.1.3	(81 766)	(68 223)	(13 543)	(19.9)
cost of finished goods and services sold		*(61 266)*	*(47 976)*	*(13 290)*	*(27.7)*
cost of merchandise and raw materials sold		*(20 500)*	*(20 247)*	*(253)*	*(1.3)*
Gross profit on sales		**13 598**	**11 330**	**2 268**	**20.0**
Distribution expenses		(4 327)	(4 125)	(202)	(4.9)
Administrative expenses		(1 537)	(1 426)	(111)	(7.8)
Other operating income	9.1.4	1 243	2 163	(920)	(42.5)
Other operating expenses	9.1.5	(568)	(707)	139	19.7
Share in profit from investments accounted for under equity method	9.2.4	248	297	(49)	(16.5)
Profit from operations		**8 657**	**7 532**	**1 125**	**14.9**
Finance income	9.1.6.1	1 760	248	1 512	609.7
Finance costs	9.1.6.2	(1 700)	(893)	(807)	(90.4)
Net finance income and costs		**60**	**(645)**	**705**	**-**
Profit before tax		**8 717**	**6 887**	**1 830**	**26.6**
Tax expense	9.1.7	(1 544)	(1 147)	(397)	(34.6)
current tax		*(1 329)*	*(751)*	*(578)*	*(77.0)*
deferred tax		*(215)*	*(396)*	*181*	*45.7*
Net profit		**7 173**	**5 740**	**1 433**	**25.0**
Other comprehensive income:					
which will not be reclassified subsequently into profit or loss		**(13)**	**(4)**	**(9)**	**225.0**
fair value measurement of investment property as at the date of reclassification		*-*	*6*	*(6)*	*-*
actuarial gains and losses		*(15)*	*(10)*	*(5)*	*50.0*
deferred tax		*2*	*-*	*2*	*-*
which will be reclassified into profit or loss		**136**	**221**	**(85)**	**(38.5)**
hedging instruments	9.2.8.3	*929*	*(396)*	*1 325*	*-*
exchange differences on translating foreign operations		*(618)*	*542*	*(1 160)*	*-*
deferred tax	9.1.7.2, 9.2.8.3	*(175)*	*75*	*(250)*	*-*
		123	**217**	**(94)**	**(43.3)**
Total net comprehensive income		**7 296**	**5 957**	**1 339**	**22.5**
Net profit attributable to		**7 173**	**5 740**	**1 433**	**25.0**
equity owners of the parent		*6 655*	*5 261*	*1 394*	*26.5*
non-controlling interest		*518*	*479*	*39*	*8.1*
Total net comprehensive income attributable to		**7 296**	**5 957**	**1 339**	**22.5**
equity owners of the parent		*6 717*	*5 445*	*1 272*	*23.4*
non-controlling interest		*579*	*512*	*67*	*13.1*
Net profit and diluted net profit per share attributable to equity owners of the parent (in PLN per share)		15.56	12.30	3.26	26.5

(in PLN million)

2. CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	NOTE	31/12/2017	31/12/2016	change (y/y) value	%
ASSETS					
Non-current assets					
Property, plant and equipment	9.2.1	29 071	27 671	1 400	5.1
Intangible assets	9.2.2	1 272	1 377	(105)	(7.6)
Investments accounted for under equity method	9.2.4	715	763	(48)	(6.3)
Deferred tax assets	9.1.7.2	49	167	(118)	(70.7)
Derivatives	9.2.9	303	66	237	359.1
Other assets	9.2.9	330	277	53	19.1
		31 740	**30 321**	**1 419**	**4.7**
Current assets					
Inventories	9.2.6.1	12 440	11 182	1 258	11.3
Trade and other receivables	9.2.6.2	9 518	8 553	965	11.3
Current tax assets		80	121	(41)	(33.9)
Cash and cash equivalents		6 244	5 072	1 172	23.1
Non-current assets classified as held for sale		75	61	14	23.0
Derivatives	9.2.9	434	97	337	347.4
Other assets	9.2.9	133	152	(19)	(12.5)
		28 924	**25 238**	**3 686**	**14.6**
Total assets		**60 664**	**55 559**	**5 105**	**9.2**
EQUITY AND LIABILITIES					
EQUITY					
Share capital	9.2.8.1	1 058	1 058	-	-
Share premium	9.2.8.2	1 227	1 227	-	-
Hedging reserve	9.2.8.3	331	(355)	686	(193.2)
Revaluation reserve		5	5	-	-
Exchange differences on translating foreign operations		334	946	(612)	(64.7)
Retained earnings	9.2.8.4	29 242	23 882	5 360	22.4
Equity attributable to equity owners of the parent		**32 197**	**26 763**	**5 434**	**20.3**
Non-controlling interests	9.2.8.5	**3 014**	**2 522**	492	19.5
Total equity		**35 211**	**29 285**	**5 926**	**20.2**
LIABILITIES					
Non-current liabilities					
Loans, borrowings and bonds	9.2.7.1	6 688	7 446	(758)	(10.2)
Provisions	9.2.10	902	828	74	8.9
Deferred tax liabilities	9.1.7.2	1 095	809	286	35.4
Derivatives	9.2.9	75	280	(205)	(73.2)
Other liabilities	9.2.9	311	289	22	7.6
		9 071	**9 652**	**(581)**	**(6.0)**
Current liabilities					
Trade and other liabilities	9.2.6.3	14 469	13 591	878	6.5
Loans, borrowings and bonds	9.2.7.1	317	989	(672)	(67.9)
Provisions	9.2.10	673	666	7	1.1
Current tax liabilities		290	659	(369)	(56.0)
Derivatives	9.2.9	313	403	(90)	(22.3)
Other liabilities	9.2.9	320	314	6	1.9
		16 382	**16 622**	**(240)**	**(1.4)**
Total liabilities		**25 453**	**26 274**	**(821)**	**(3.1)**
Total equity and liabilities		**60 664**	**55 559**	**5 105**	**9.2**

(in PLN million)

3. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Equity attributable to equity owners of the parent							
	Share capital and share premium	Hedging reserve	Revaluation reserve	Exchange differences on translating foreign operations	Retained earnings	Total	Non-controlling interests	Total equity
NOTE	9.2.8.1, 9.2.8.2	9.2.8.3			9.2.8.4		9.2.8.5	
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**
01/01/2016	2 285	(80)	-	537	19 431	22 173	2 071	24 244
Net profit	-	-	-	-	5 261	5 261	479	5 740
Items of other comprehensive income	-	(275)	5	463	(9)	184	33	217
Total net comprehensive income	**-**	**(275)**	**5**	**463**	**5 252**	**5 445**	**512**	**5 957**
Change in structure	-	-	-	(54)	54	-	(1)	(1)
redemption of non-controlling interest	*-*	*-*	*-*	*-*	*(1)*	*(1)*	*(1)*	*(2)*
merger/sale of related parties	*-*	*-*	*-*	*(54)*	*55*	*1*	*-*	*1*
Dividends	-	-	-	-	(855)	(855)	(60)	(915)
31/12/2016	**2 285**	**(355)**	**5**	**946**	**23 882**	**26 763**	**2 522**	**29 285**

(in PLN million)

4. CONSOLIDATED STATEMENT OF CASH FLOWS

		2017	2016	change (y/y) value	%
Cash flows from operating activities					
Profit before tax		**8 717**	**6 887**	**1 830**	**26.6**
Adjustments for:					
Share in profit from investments accounted for under equity method	9.2.4	(248)	(297)	49	16.5
Depreciation and amortisation	9.1.3	2 421	2 110	311	14.7
Foreign exchange (gain)/loss	9.1.6.4	(233)	287	(520)	-
Interest, net	9.1.6.3	204	219	(15)	(6.9)
Dividends		(4)	(5)	1	20.0
(Profit)/Loss on investing activities, incl.:		549	(299)	848	-
recognition/(reversal) of impairment allowances of property, plant and equipment and intangible assets	9.1.4, 9.1.5	*169*	*(145)*	*314*	-
Change in provisions	9.2.10	345	330	15	4.6
Change in working capital	9.2.6	(1 967)	816	(2 783)	-
inventories		*(1 445)*	*(287)*	*(1 158)*	*(403.5)*
receivables		*(1 579)*	*(1 679)*	*100*	*(6.0)*
liabilities		*1 057*	*2 782*	*(1 725)*	*(62.0)*
Other adjustments, incl.:		(131)	(381)	250	65.6
change in balances of settlements due to compensation from insurers in Unipetrol Group	9.2.6.2	*222*	*(222)*	*444*	-
rights received free of charge		*(310)*	*(240)*	*(70)*	*29.2*
Income tax (paid)	9.1.7.3	(1 603)	(336)	(1 267)	(377.1)
Net cash from operating activities		**8 050**	**9 331**	**(1 281)**	**(13.7)**
Cash flows from investing activities					
Acquisition of property, plant and equipment, intangible assets and perpetual usufruct of land		(4 039)	(5 033)	994	19.8
Acquisition of shares adjusted for received cash		(3)	(2)	(1)	(50.0)
Disposal of property, plant and equipment, intangible assets and perpetual usufruct of land		105	141	(36)	(25.5)
Sale of subsidiary		-	77	(77)	-
Dividends received		252	317	(65)	(20.5)
Settlement of derivatives not designated as hedge accounting		(234)	60	(294)	-
Other		(6)	4	(10)	-
Net cash (used) in investing activities		**(3 925)**	**(4 436)**	**511**	**11.5**
Cash flows from financing activities					
Proceeds from loans and borrowings received		6	3 586	(3 580)	(99.8)
Bonds issued		400	3 258	(2 858)	(87.7)
Repayments of loans and borrowings		(888)	(7 943)	7 055	88.8
Redemption of bonds		(700)	-	(700)	-
Interest paid	9.1.6.3	(234)	(223)	(11)	(4.9)
Dividends paid		(1 384)	(912)	(472)	(51.8)
to equity owners of the parent	9.2.8.7	*(1 283)*	*(855)*	*(428)*	*(50.1)*
to non-controlling interest		*(101)*	*(57)*	*(44)*	*(77.2)*
Payments of liabilities under finance lease agreements		(28)	(28)	-	-
Other		(4)	52	(56)	-
Net cash (used) in financing activities		**(2 832)**	**(2 210)**	**(622)**	**(28.1)**
Net increase in cash and cash equivalents		**1 293**	**2 685**	**(1 392)**	**(51.8)**
Effect of exchange rate changes		(121)	39	(160)	-
Cash and cash equivalents, beginning of the period		5 072	2 348	2 724	116.0
Cash and cash equivalents, end of the period		**6 244**	**5 072**	**1 172**	**23.1**

ORLEN GROUP (in PLN million)

5. BASIC INFORMATION

5.1. PRINCIPAL ACTIVITY OF THE ORLEN GROUP

PRINCIPAL INFORMATION ABOUT THE ORLEN GROUP	
NAME OF THE PARENT COMPANY	Polski Koncern Naftowy ORLEN Spółka Akcyjna
REGISTERED OFFICE	ul. Chemików 7, 09-411 Płock
NATIONAL COURT REGISTER NUMBER (KRS)	0000028860
INDUSTRY IDENTIFICATION NUMBER (REGON)	610188201
TAX IDENTIFICATION NUMBER (NIP)	774-00-01-454
PRINCIPAL ACTIVITY	- crude oil processing, - production of fuel, petrochemical and chemical goods, - retail and wholesale of fuel products, - exploration, recognition and extraction of hydrocarbons, - generates, distributes and trades of electricity and heat, - service-related activity: storage of crude oil and fuels, transportation, maintenance and overhaul services, laboratory, security, design, administrative, insurance and financial services.

Polski Koncern Naftowy ORLEN Spółka Akcyjna ("Company", "PKN ORLEN", "Issuer", "Parent Company") was founded by incorporation of Petrochemia Płock S.A. with Centrala Produktów Naftowych S.A., on 7 September 1999.
PKN ORLEN along with the entities forming the Capital Group of Polski Koncern Naftowy ORLEN S.A. ("ORLEN Group", "Group") is one of the biggest and most modern fuel and power companies in Central Europe, operating on the Polish, Lithuanian, Czech, German and Canadian market. The Group also possesses entities located in Malta, Sweden, the Netherlands, Slovakia, Hungary, Estonia, Latvia and the USA.
Since 26 November 1999 PKN ORLEN shares are quoted on the main market of the Warsaw Stock Exchange (WSE) in the continuous trading system.
One of the subsidiaries of PKN ORLEN – Unipetrol a.s. which shares are listed on the Stock Exchange in Prague.

5.2. PRINCIPLES OF PREPARATION OF FINANCIAL STATEMENTS

The consolidated financial statements have been prepared in accordance with accounting principles contained in the International Financial Reporting Standards (IFRS), comprising International Accounting Standards (IAS) as well as Interpretations of Standing Interpretation Committee (SIC) and the International Financial Reporting Standards Interpretations Committee (IFRIC), which were adopted by the European Union (EU) and entered in force till the end 2017. The Group adopted all IASs and IFRSs in accordance with their effective date.
The consolidated financial statements have been prepared on a historical cost basis, except derivatives, financial assets available for sale and investment properties, which have been measured at fair value. The foregoing financial statements have been prepared using the accrual basis of accounting except from the consolidated financial statement of cash flows.
The scope of consolidated financial statements is compliant with Minister of Finance Regulation of 19 February 2009 on current and periodic information provided by issuers of securities and conditions for recognition as equivalent information required by the law of a non-member state (uniform text: Official Journal 2014, item 133, as amended Official Journal 2016, item 860) ("Regulation") and covers the annual reporting period from 1 January to 31 December 2017 and the comparative period from 1 January to 31 December 2016. Presented consolidated financial statements present a true and fair view of the ORLEN Group's financial position as at 31 December 2017, results of its operations and cash flows for the year ended 31 December 2017.
The consolidated financial statements have been prepared assuming that the ORLEN Group will continue to operate as a going concern in the foreseeable future. As at the date of approval of the foregoing consolidated financial statements, there is no evidence indicating that the ORLEN Group will not be able to continue its operations as a going concern. Duration of the Parent Company and the entities comprising the ORLEN Group is unlimited.

5.3. FUNCTIONAL CURRENCY AND PRESENTATION CURRENCY OF FINANCIAL STATEMENTS AND METHODS APPLIED TO TRANSLATION OF FINANCIAL DATA FOR CONSOLIDATION PURPOSES

The functional currency of the Parent Company and presentation currency of the foregoing consolidated financial statements is Polish Złoty (PLN).
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	
	2017	2016	31/12/2017	31/12/2016
EUR/PLN	4.2576	4.3648	4.1709	4.4240
USD/PLN	3.7783	3.9459	3.4813	4.1793
CZK/PLN	0.1617	0.1614	0.1632	0.1637
CAD/PLN	2.9101	2.9772	2.7765	3.0995

5.4. ACCOUNTING PRINCIPLES

Significant accounting principles and significant values based on judgements and estimates are presented as a part of the specific explanatory notes to the consolidated financial statements. The Group applied the accounting principles consistently to all presented reporting periods.
The preparation of consolidated financial statements in accordance with IFRSs requires that the Management Board makes expert estimates and assumptions that affect the presented amounts. The estimates and related assumptions are based on historical expertise and other factors regarded as reliable in given circumstances and their effects provide grounds for professional judgment of the carrying amount of assets and liabilities which is not based directly on any other factors.
In the matters of considerable weight, the Management Board might base its judgments, estimates or assumptions on opinions of independent experts. The judgments, estimates and related assumptions are verified on a regular basis.

5.5. IMPACT OF IFRS AMENDMENTS ON CONSOLIDATED FINANCIAL STATEMENTS OF THE ORLEN GROUP

IFRSs, announced and adopted by the European Union, not yet effective

➢ IFRS 9 Financial Instruments

On 24 July 2014, the International Accounting Standards Board issued International Financial Reporting Standard 9 Financial Instruments („IFRS 9"). IFRS 9 covers three topics related to financial instruments: classification and measurement, impairment and hedge accounting. IFRS 9 applies to annual periods beginning on 1 January 2018 and later, with the possibility of earlier application.
The Group will apply IFRS 9 retrospectively for periods beginning after 1 January 2018 without converting comparable data. Changes in measurement of financial assets as of the date of the first application of IFRS 9 will be recognized under retained earnings.
In 2017, the Group carried out a detailed assessment of the impact of the adoption of IFRS 9 on the accounting principles applied by the Group with respect to the Group's operations or its financial results.

The Group assessed the adoption of IFRS 9 will have no impact on the consolidated statement of financial position and consolidated equity of the Group, except for the effects of the application of IFRS 9 in the area of impairment. As at 1 January 2018, impairment allowances (after deferred tax) will reduce the Group's equity by PLN (4.6) million in correspondence with a decrease in the carrying amount of trade receivables. In addition, as a result of the adoption of IFRS 9, the classification of some financial assets will change.

Classification and measurement
The Group expects that all financial assets so-far measured at fair value will remain measured in the same way. The Group has one business model assuming that assets are maintained in order to generate cash flows.
The Group will make use of the option to choose and in the case of shares in unlisted companies, will recognize their subsequent changes in fair value by other comprehensive income, therefore the adoption of IFRS 9 will have immaterial impact on the Group's future financial results.
Trade receivables are maintained to obtain cash flows resulting from the agreement, and the Group does not sell trade receivables as part of factoring - they will continue to be measured at amortized cost by the financial result.

Impairment
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 new impairment model will be based on the expected loss calculation as opposed to the currently applied model resulting from IAS 39, which is based on the concept of incurred loss. Expected credit losses are credit losses weighted by the probability of default. The Group will use the following models for determining impairment allowances:
- simplified model: for trade receivables,
- general model: for financial assets measured at amortized cost - other than trade receivables and assets valued at fair value through other comprehensive income.

In the general model, the Group will monitor the changes in the level of credit risk associated with a given financial asset and determines the level of impairment allowance for expected credit loss in the amount equal to 12-month expected credit loss (if from the initial recognition there was no significant increase in credit risk for a given instrument) or expected credit losses during the life of the financial instrument (in opposite situation).
In the case of trade receivables, the Group will apply a simplified approach and will measure the allowance for expected credit losses in the amount equal to the expected credit losses throughout the lifetime of the exposure. For the purpose of estimating the expected credit loss, the Group will use the provision matrix, which was estimated based on the observation of historical levels of repayment of receivables (including recoveries from receivables for which debt collection activities were undertaken and collateral used).

The most important 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 estimates, the new method of calculating allowances will not significantly affect the impairment loss as at 1 January 2018. The amount of the impairment loss on other financial assets is immaterial.

Hedge accounting
At the time of implementing IFRS 9, the Group may choose an accounting policy to remain in the hedge accounting model in accordance with IAS 39 or change to the hedge accounting model in accordance with IFRS 9. The Group decided to adopt a new hedge accounting model according to IFRS 9 from 1 January 2018.
IFRS 9 requires that hedging relationships are consistent with the Group's goals and risk management strategy and the use of a prospective approach to estimating the measurement of effectiveness. IFRS 9 also introduces new requirements for adjusting the hedge ratio (so-called rebalancing) and does not allow for the voluntary resolution of hedging relationships. At the same time, the standard enables the application of hedge accounting principles to a wider range of hedging strategies, in particular – an option to separate the risk component in non-financial assets or liabilities.
The Group intends to use the new requirements of hedge accounting in definition of its hedging relationships to a great extent, in particular: the mechanism of defining the commodity hedging relationships will be better aligned with the exposure characteristics and the applied risk management strategies. Each type of commodity hedging relationship will, as a rule, contain an element of the risk component. The Group will seek 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 intends to apply cost of hedging rules for FX hedging relationships, where the forward component and the cross-currency margin will be recorded in a separate item in other comprehensive income.
As a result of applying hedge accounting in accordance with IFRS 9, the Group expects to limit the volatility of the profit and loss.
The Group will apply the new accounting principles prospectively and therefore it will not affect the profit or loss or other comprehensive income as at 1 January 2018.
As a result of the implementation of IFRS 9, the Group will redesignate hedging relationships with the date of 1 January 2018 (with a prospective effect). From the perspective of the impact on the financial statements, this means that amounts as effective part of hedging instruments accumulated in other comprehensive income as at 31 December 2017 will be reclassified to the statement of profit or loss in future periods in accordance with the original schedule of hedging.

➢ IFRS 15 Revenue from Contracts with Customers

International Financial Reporting Standard 15 Revenue from Contracts with Customers ("IFRS 15") which was issued in May 2014, and amended in April 2016 establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised in an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS.
The Group will implement IFRS 15 on the required effective date using the modified retrospective method i.e. with the combined effect of the first application of IFRS 15 on the date of the first application (which could result in the adjustment of equity as at 1 January 2018). The Group analyzed in detail the impact of IFRS 15 on the current accounting policy. This assessment is based on the currently available information and interpretations of IFRS 15 and may be susceptible to revision arising from gaining additional reasonable and documentable information in the period when the Group will adopt the IFRS 15 for the first time and as a result of changes in interpretations of the standard. The Group will continue to monitor any further development in that area.

The analysis of IFRS 15 impact covered the following issues:

Delivery of products and merchandise with transportation and insurance services
The Group realises a number of deliveries under the contracts based on Incoterms. In terms of some of the agreements, the Group, as a vendor, is responsible for organizing transportation and/or providing the insurance of products. Under IAS 18 Revenues ("IAS 18") revenue is recognised when the risks and rewards over the goods are transferred to the buyer.
Regarding revenue recognition, IFRS 15 outlines a definition of transfer of control over goods, which is broader than transfer of risks and rewards concept. IFRS 15 requires also to identify separate performance obligations and to allocate the transaction price to identified performance obligations. The entity that offers transfer of goods, together with transportation and/or insurance considers whether they are separate performance obligations.
If the control over promised goods is transferred to the customer after the transportation service is completed and the insurance period is ended, delivery of goods, transportation and insurance form a single performance obligation. Alternatively, if the control over the promised goods is transferred to the customer before the transportation and/or insurance services are provided, then delivery of goods, transportation and insurance are separate performance obligations. The delivery of goods is an obligation which is fulfilled at a point in time, while the transportation and insurance services are obligations which are satisfied over time.
Allocation of part of consideration to the separate performance obligations i.e. the sale of goods, transportation service and insurance impacts the following areas:
- timing of revenue recognition – recognition of revenue related to delivered goods at a point in time when the control over the goods is transferred to the customer and recognition of revenue allocated to the transportation service and/or insurance over the time.

The Group estimated the impact of IFRS 15 related to agreements for delivery of goods with transportation and insurance services and determined that the impact of IFRS 15 on revenue recognition timing is immaterial. Consequently, no adjustment on the Group's equity as at 1 January 2018 is required.

Services provided to vendors
IFRS 15 requires to identify the distinct performance obligations and to determine whether the particular transactions with given counterparty are distinct. Currently, under IAS 18, the Group conducts the assessment whether the provided services could be treated as 'identifiable benefit' for the given supplier and the received consideration is related to the goods sold (i.e. whether it affects the cost of sales or constitutes a revenue item).

The Group does not expect the new revenue recognition standard to impact the Group's practices adopted under IAS 18.

Variable consideration
Under IFRS 15, if the consideration which is determined in the contract includes variable amounts, the Group should estimate the amount of consideration to which it expects to be entitled in exchange of transfer the promised goods and services to the customer and includes some or all of an amount of variable consideration to the transaction price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.
Some contracts with customers, concluded by the Group, include trade incentives such as discounts or volume rebates. Currently, the Group recognises the revenue from the sales of goods measured at the fair value of the consideration received or receivable, net of returns and allowances. If the revenue cannot be measured reliably, the Group defers revenue recognition until the uncertainty is resolved.
Due to the fact that IFRS 15 requires the variable components of consideration to be included in the transaction price at contract inception, the estimation of the amount of receivable variable consideration and allocation to performance obligations related to variable amount is necessary. These components of variable

consideration shall be updated at the end of each reporting period. As a consequence of standard implementation, in relation to selected contracts, i.a. the timing of recognition of trade incentives will be changed. Decrease or increase of the revenue due to this change will occur earlier than under legacy of IAS18, which permitted to recognise the conditional components of consideration (such as volume rabates) after the conditions to grant such rebate had been met.
Additionally, under IFRS 15, the variable components of consideration include penalty clauses. According to the current practice of the Group, income and costs related to penalties were presented in other operating activity. The Group analysed the types of penalties that occur in concluded contracts. In relation to penalties which were in the scope of other standards, such as IAS 37, before implementation of IFRS 15, the Group will continue to apply those other standards. The most common penalties such as breach of exclusivity clauses or not meeting purchase volume limits, will be treated as a part of a transaction price. In consequence, presentation of certain penalties in statement of profit or loss and other comprehensive income will be changed – it will be recognised as an increase or decrease of revenue from contracts with customers.
Subsequently, to predict the amount of variable consideration to which the Group will be entitled, the Group decided to use the most likely amount method for contracts with only a single volume threshold while for contracts with more than one volume threshold the expected value method or the most likely amount method, depending on which of them better predicts the amount of variable consideration for the particular contract.

The Group estimated the impact of IFRS 15 with respect to assessment of revenue arising from variable consideration. The Group determined that the impact of IFRS 15 at the moment of revenue recognition is immaterial. Consequently, no adjustment on the Group's equity as at 1 January 2018 is required.

Non-monetary exchanges

The Group enters into the transactions of non-monetary exchange of goods with the entities in the same line of business.
Under IFRS 15, the transactions of non-monetary exchanges between entities in the same line of business to facilitate sales to end-customers are out of the scope of the standard. The contracts between two oil companies that agree to exchange oil to fulfil demand from their customers in different specified locations on a timely basis are not in the scope of IFRS 15. Regarding that, this kind of exchange will not results in revenue recognition.

The Group analysed the non-monetary exchange transactions with the entities from the same line of business. Regarding the fact that under IFRS 15 the approach, which the Group will apply, is consistent with the current accounting policy, the Group does not identify the impact of IFRS 15 in this area.

Transactions with right of return

IFRS 15 regulates the issue of granting the customer with a right to return the goods. The standard determine that the revenue should be recognised in amount of consideration for which the Group expects to be entitled. The Group does not recognise the revenue from the sales of goods which are expected to be returned. Under IFRS 15, due to the fact that the contract allows the customer to return the goods, the consideration from the customer is variable. The Group decided to use expected value method to estimate the value of goods that are expected to be returned.

The Group analysed the revenue contracts, which include the sale of goods with a right of return. As a result of analysis, the Group does not identify IFRS 15 impact on Group's equity as at 1 January 2018.

Principal versus agent considerations

IFRS 15 establishes the new model for assessing whether the vendors act as a principal or as an agent. In accordance with IFRS 15, to determine whether the vendor acts as a principal, it should be considered, whether it has a control over the promised goods or services before the control is transferred to the customer. In the assessment concerning the agency model the Group decides to take into consideration the following criteria:
- primarily responsibility for fulfiling the promise of delivery of goods or services,
- inventory risk,
- discretion in establishing the prices of goods and services.

The Group analysed contractual clauses in sales contracts in the aspect of identifying the agency model and does not identified the impact of IFRS 15 in this area, having regard the specificity and nature of operating contracts.

Loyalty programmes

The Group offers the loyalty programmes to its customers (VITAY). According to the conditions, the customers are entitled to exchange the gained loyalty points to the goods purchased in the future. Under IFRIC 13 *Customer Loyalty Programmes* a loyalty program results in allocating some of transaction price to the loyalty program using the fair value of points issued and recognition of the deferred revenue in relation to points issued but not yet redeemed or expired. The Group concluded that under IFRS 15 the loyalty program gives rise to a separate performance obligation because it generally provides a material right to the customer. Consequently, the Group will need to allocate a portion of the transaction price to the loyalty program based on relative standalone selling price. The amounts which are currently presented as "Deferred revenue" will be reclassified and presented as "Contract liabilities".

The Group analyzed the impact of IFRS 15 in order to estimate a possible adjustment of the amount of recognized revenue in correspondence with the contractual obligation. The Group determined that the impact of IFRS 15 on the amount of recognized revenue is immaterial. Therefore, it does not determines adjustment on Group's equity as at 1 January 2018.

Significant financing component

Under IFRS 15, the Group assess whether the contract includes the significant financing component. The Group decided to use the practical expedient, in accordance to which the Group need not adjust the promised amount of consideration for the effects of a significant financing component if the entity expects, at contract inception, that the period between the transfer of promised good or service to the customer and the customer payment for that good or service will be one year or less. Consequently, the Group will not separate the significant financing component for short-term advance.

Presentation and disclosures

The presentation and disclosure requirements under IFRS 15 are more detailed than under current IFRS 18, IFRS 11 and related interpretations. The Group expects that the changes with the reference to the notes to the financial statements will be expanded in scope of significant judgements which regard i.a.: determining the transaction price of contracts that include variable consideration; allocation of the transaction price to the performance obligations and the assumptions made to estimate the stand-alone selling prices of each performance obligation. In addition, as it is required by IFRS 15, the Group will disaggregate the revenue from contracts with customers. The Revenue will be divided into categories that depict the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The Group will also disclose information about the correlation between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment.

➢ IFRS 16 Lease

International Financial Reporting Standard 16 Leases ("IFRS 16") was issued 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 introduces a unitary model of the lessee's accounting and requires the lessee to recognize assets and liabilities resulting from each lease with a period exceeding 12 months, unless the underlying asset is of low value. At the commencement date, the lessee recognizes an asset representing the right to use the underlying asset and a liability to make lease payments.
Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.
Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.
Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.
IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.
A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.
IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. The Group has not decided to IFRS 16 early adoption.
At the date of the authorization of these consolidated financial statements for publication, the Management Board is in the process of assessing the impact of the application of IFRS 16 on the accounting principles applied by the Group with respect to the Group's operations or its financial results.

The Group grouped its current operating lease agreements as well as identified agreements not previously classified as lease which can meet lease definition according to IFRS 16. For such determined areas of potential impact an assessment is made by the Group whether particular category of agreements fulfills or not definition of a lease under new standard.

Standards adopted by International Accounting Standards Board (IASB), waiting for approval of European Union

- IFRS 14 - Regulatory Deferral Accounts
- IFRS 17 - Insurance Contracts
- Amendments to IFRS 2 - Share-based Payment: Classification and Measurement of Share-based Payment Transactions
- Amendments to IFRS 9 - Financial Instruments: Prepayment Features with Negative Compensation
- Amendments to IFRS 10 - Consolidated Financial Statements and IAS 28 - Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments
- Amendments to IAS 19 - Employee Benefits: Plan Amendment, Curtailment or Settlement
- Amendments to IAS 28 - Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures
- Amendments to IAS 40 - Investment Property: Transfers of Investment
- Amendments to various standards due to "Improvements to IFRSs (cycle 2015-2017)" resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording
- IFRIC 22 - Foreign Currency Transactions and Advance Consideration
- IFRIC 23 - Uncertainty over Income Tax Treatments

The Group expects that the above standards will have no material impact on consolidated financial statements of the ORLEN Group.

The Group intends to adopt new IFRS standards listed above that are published by the International Accounting Standards Board, but not effective as at the date of publication of the foregoing financial statements, in accordance with their effective date.

(in PLN million)

6. ORLEN GROUP STRUCTURE

6.1. GROUP STRUCTURE

SELECTED ACCOUNTING PRINCIPLES

Principles of consolidation

The consolidated financial statements of the Group include assets, liabilities, equity, income, expenses and cash flows of the Parent Company and its subsidiaries that are presented as those of a single economic entity and are prepared as at the same reporting period as separate financial statements of the Parent Company and using uniform accounting principles in relation to similar transactions and other events in similar circumstances.

The subsidiaries are consolidated using full consolidation method, non-controlling interests shall be presented in the consolidated statement of financial position as non-controlling interest, separately from the equity of the owners of the Parent Company.

Joint operations by recognition of respective share in assets, liabilities, revenues and cost.

The joint ventures as well as investments in associates are accounted for under equity method. The Group's share in profit or loss of the investee is recognized in the Group's profit or loss as other operating activity. For investments in associates - the Group has a significant influence if it holds, directly or indirectly (i.e. through subsidiaries), from 20% to 49% of the voting rights of an entity, unless it can be clearly stated otherwise.

PROFESSIONAL JUDGEMENTS

Investments in subsidiaries and jointly controlled entities

The Group, regardless of the nature of its involvement in the entity (the entity in which it invested) defines its status by assessment, whether it controls the entity in which the investment was made, and whether it has a joint control in a joint venture, after consideration of all the facts and circumstances.

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

Name of entity	Parent company	Share in total voting rights 31/12/2017	Share in total voting rights 31/12/2016	Consolidation method/ Valuation method
Downstream Segment				
ORLEN Lietuva Group				
AB ORLEN Lietuva	PKN ORLEN S.A.	100%	100%	full
UAB Mazeikiu Naftos prekybos namai	AB ORLEN Lietuva	100%	100%	full
OU ORLEN Eesti	UAB Mezeikiu naftos prekybos namai	100%	100%	full
SIA ORLEN Latvija	UAB Mezeikiu naftos prekybos namai	100%	100%	full
UAB Emas	AB ORLEN Lietuva	100%	100%	full
UNIPETROL Group				
PARAMO, a.s.	UNIPETROL, a.s.	100%	100%	full
Paramo Oil, s.r.o. (in liquidation)	PARAMO, a.s.	100%	100%	full
UNIPETROL RPA, s.r.o.	UNIPETROL, a.s.	100%	100%	full
UNIPETROL Slovensko, s.r.o.	UNIPETROL RPA, s.r.o.	100%	100%	full
UNIPETROL Deutschland GmbH	UNIPETROL RPA, s.r.o.	100%	100%	full
UNIPETROL RPA Hungary Kft.	UNIPETROL RPA, s.r.o.	100%	100%	full
Spolana a.s.	UNIPETROL RPA, s.r.o.	100%	100%	full
UNIPETROL DOPRAVA, s.r.o.	UNIPETROL RPA, s.r.o.	100%	100%	full
PETROTRANS, s.r.o.	UNIPETROL RPA, s.r.o.	100%	100%	full
ČESKÁ RAFINÉRSKÁ, a.s.[1]	UNIPETROL, a.s.	-	100%	full
Butadien Kralupy a.s.	UNIPETROL, a.s.	51%	51%	share in assets and liabilities
Basell Orlen Polyolefins Group				
Basell ORLEN Polyolefins Sp. z o.o.	PKN ORLEN S.A.	50%	50%	equity method
Basell ORLEN Polyolefins Sprzedaż Sp. z o.o.	Basell ORLEN Polyolefins Sp. z.o.o.	100%	100%	equity method
ORLEN Południe Group				
ORLEN Południe S.A.	PKN ORLEN S.A.	100%	100%	full
Energomedia Sp. z o.o.	ORLEN POŁUDNIE S.A.	100%	100%	full
Euronaft Trzebinia Sp. z o.o.	ORLEN POŁUDNIE S.A.	100%	100%	full
Konsorcjum Olejów Przepracowanych - Organizacja Odzysku S.A.	ORLEN Poludnie S.A.	89%	89%	full
ORLEN Oil Group				
ORLEN Oil Sp. z o.o.	PKN ORLEN S.A.	100%	100%	full
Platinum Oil Wielkopolskie Centrum Dystrybucji Sp. z o.o.[2]	ORLEN Oil Sp. z o.o.	67.49%	22%	full
ORLEN Asfalt Group				
ORLEN Asfalt Sp. z o.o.	PKN ORLEN S.A.	100%	100%	full
ORLEN Asfalt Ceska Republika s.r.o.	ORLEN ASFALT Sp. z o.o.	100%	100%	full
Anwil S.A.	PKN ORLEN S.A.	100%	100%	full
Inowrocławskie Kopalnie Soli "Solino" S.A.	PKN ORLEN S.A.	100%	100%	full
Kopalnia Soli Lubień Sp. z o.o.	PKN ORLEN S.A.	100%	100%	full
ORLEN Paliwa Sp. z o.o.	PKN ORLEN S.A.	100%	100%	full

ORLEN GROUP (in PLN million)

Name of entity	Parent company	Share in total voting rights		Consolidation method/ Valuation method
		31/12/2017	31/12/2016	
ORLEN Aviation Sp. z o.o.	PKN ORLEN S.A.	100%	100%	full
ORLEN Eko Sp. z o.o.	PKN ORLEN S.A.	100%	100%	full
Baltic Power Sp. z o.o.	PKN ORLEN S.A.	100%	100%	full
ORLEN KolTrans Sp. z o.o.	PKN ORLEN S.A.	99.88%	99.85%	full
Ship-Service S.A.	PKN ORLEN S.A.	60.86%	60.86%	full
ORLEN Serwis S.A.	PKN ORLEN S.A.	100,00%	100,00%	full
Retail Segment				
AB Ventus-Nafta	PKN ORLEN S.A.	100%	100%	full
ORLEN Deutschland GmbH	PKN ORLEN S.A.	100%	100%	full
ORLEN Budonaft Sp .z o.o.	PKN ORLEN S.A.	100%	100%	full
ORLEN Centrum Serwisowe Sp. z o.o.	PKN ORLEN S.A.	99.33%	99.33%	full
UNIPETROL RPA, s.r.o.	UNIPETROL, a.s.	100%	100%	full
Upstream Segment				
ORLEN Upstream Group				
ORLEN Upstream Sp. z o.o.	PKN ORLEN S.A.	*100%*	*100%*	*full*
ORLEN Upstream Canada Ltd.	PKN ORLEN S.A.	*100%*	*100%*	*full*
1426628 Alberta Ltd.	ORLEN Upstream Canada Ltd.	*100%*	*100%*	*full*
OneEx Operations Partnership	ORLEN Upstream Canada Ltd.	*100%*	*100%*	*full*
Pieridae Production GP Ltd	ORLEN Upstream Canada Ltd.	*50%*	*50%*	*equity method*
671519 NB Ltd	Pieridae Production GP Ltd	*50%*	*50%*	*equity method*
KCK Atlantic Holdings Ltd.	ORLEN Upstream Canada Ltd.	*100%*	*100%*	*full*
Pieridae Production LP	KCK Atlantic Holdings Ltd.	*80%*	*80%*	*equity method*
FX Energy, Inc.	ORLEN Upstream Sp. z o.o.	*100%*	*100%*	*full*
Frontier Exploration, Inc.	FX Energy, Inc.	*100%*	*100%*	*full*
FX Energy Netherlands Partnership C.V.	FX Energy, Inc.	*100%*	*100%*	*full*
FX Energy Netherlands B.V.	FX Energy Netherlands Partnership C.V.	*100%*	*100%*	*full*
FX Energy Poland Sp. z o.o.	FX Energy Netherlands Partnership C.V.	*100%*	*100%*	*full*
Corporate Functions				
AB ORLEN Lietuva	PKN ORLEN S.A.	100%	100%	full
UNIPETROL Group				
UNIPETROL, a.s.	PKN ORLEN S.A.	*62.99%*	*62.99%*	*full*
UNIPETROL RPA, s.r.o.	UNIPETROL, a.s.	*100%*	*100%*	*full*
Unipetrol výzkumně vzdělávací centrum, a.s.	UNIPETROL, a.s.	*100%*	*100%*	*full*
HC Verva Litvinov, a.s.	UNIPETROL RPA, s.r.o.	70.95%	70.95%	full
ORLEN Administracja Sp. z o.o.	PKN ORLEN S.A.	100%	100%	full
ORLEN Capital AB	PKN ORLEN S.A.	100%	100%	full
ORLEN Centrum Usług Korporacyjnych Sp. z o.o.	PKN ORLEN S.A.	100%	100%	full
ORLEN Finance AB	PKN ORLEN S.A.	100%	100%	full
ORLEN Holding Malta Group				
ORLEN Holding Malta Ltd.	PKN ORLEN S.A.	*100%*	*100%*	*full*
Orlen Insurance Ltd.	ORLEN HOLDING MALTA Ltd.	*100%*	*100%*	*full*
ORLEN Ochrona Group				
ORLEN Ochrona Sp. z o.o.	PKN ORLEN S.A.	*100%*	*100%*	*full*
UAB Apsauga	ORLEN OCHRONA Sp. z o.o.	*100%*	*100%*	*full*
ORLEN Projekt S.A.	PKN ORLEN S.A.	99.77%	99.77%	full
ORLEN Laboratorium S.A.	PKN ORLEN S.A.	100%	99.38%	full
Płocki Park Przemysłowo-Technologiczny Group				
Płocki Park Przemysłowo-Technologiczny S.A. (PPPT S.A.)	PKN ORLEN S.A.	*50%*	*50%*	*equity method*
Centrum Edukacji Sp. z o.o.	PPPT S.A.	*69.43%*	*69.43%*	*equity method*

1) from 01.01.2017 UNIPETROL RPA, s.r.o.
2) In 2016, the Company accounted for under equity method, in 2017 consolidated using the full consolidation method, detailed information in note 6.2.

Activity of core companies belonging to ORLEN Group

Name of entity	Headquarters	Principal activity
AB ORLEN Lietuva (including its own Capital Group)	Lithuania - Juodeikiai	crude oil processing, production of refining products and wholesale
UNIPETROL a.s. (including its own Capital Group)	Czech Republic - Prague	crude oil processing as well as manufacture and distribution of refinery, petrochemical and chemical products
Anwil S.A	Poland - Włocławek	production of nitrogen fertilizers, plastic and chemicals
ORLEN Południe S.A.	Poland - Trzebinia	crude oil processing, production and sale of biofuels, oils
ORLEN Oil Sp. z o.o.	Poland - Cracow	production, distribution and sale of grease oils, maintenance liquids
ORLEN Asfalt Sp. z o.o.	Poland - Płock	manufacture and sale of road bitumens and specific bitumen products
ORLEN Paliwa Sp. z o.o.	Poland - Płock	liquid fuels trade
Inowrocławskie Kopalnie Soli "SOLINO" S.A.	Poland - Inowrocław	storage of crude oil, fuels , extraction of brine and packaging of salt
ORLEN Upstream Sp. z o.o. (including its own Capital Group)	Poland - Warsaw	exploration and recognition of hydrocarbon deposits, extraction of crude oil and natural gas

(in PLN million)

6.2. CHANGES IN SHAREHOLDER STRUCTURE OF THE ORLEN GROUP

TYPE OF TRANSACTION / ENTITY	TRANSACTION DATE	NUMBER OF AQUIRED / (SOLD) SHARES	SHARE IN TOTAL VOTING RIGHTS AFTER TRANSACTIONS
PURCHASE OF SHARES			
by PKN ORLEN:			
in ORLEN Laboratorium S.A.	10 March 2017	6,213	100.00%
by PKN ORLEN:			
in ORLEN KolTrans Sp. z o.o.	30 November 2017	11,201	99.88%
by ORLEN KolTrans Sp. z o.o, for depreciation:			
in ORLEN KolTrans Sp. z o.o.	30 November 2017	2,660	0.00%
by ORLEN OIL Sp. z o.o.:			
in Platinum Oil Wielkopolskie Centrum Dystrybucji Sp. z o.o.	20 December 2017	1,064	67.49%
MERGERS OF ENTITIES			
Unipetrol RPA s.r.o. i ČESKÁ RAFINÉRSKÁ a.s. as a result, one company was established under the company: Unipetrol RPA.	1 January 2017	-	100.00%
INCREASE IN SHARE CAPITAL AND SUBSCRIPTION OF SHARES			
by PKN ORLEN:			
in ORLEN Upstream Sp. z o.o.*	15 September 2017	4,534	100.00%
by PKN ORLEN:			
in ORLEN Upstream Sp. z o.o.*	7 November 2017	2,472	100.00%
by Euronaft Trzebinia Sp. z o.o.:			
in ORLEN KolTrans Sp. z o.o.	2 October 2017	13,861	25.33%
shares of shareholders in the ORLEN KolTrans share capital following the increase: PKN ORLEN - 74.55%, Euronaft Trzebinia - 25.33%, minority shareholders - 0.12%.			
CHANGE OF ENTITIES NAMES			
from Petrolot Sp. z o.o. to ORLEN Aviation Sp. z o.o.	19 May 2017	-	100.00%

* Date of transaction means the date of entry to the court register

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

STRUCTURED ENTITIES

ORLEN Capital AB

The company's business is raising funds through the issuance of bonds and other financial instruments for institutional and private investors. ORLEN Capital AB specializes in granting borrowings or loans to Group companies and conduct any other activities related to the financial instruments.
On 30 June 2014 and on 7 June 2016 ORLEN Capital AB issued Eurobonds with 7-year redemption of approximately of PLN 5,214 million translated using exchange rate as at 31 December 2017 (representing EUR 1,250 million).The funds obtained by ORLEN Capital through the issue were transferred to PKN ORLEN under the borrowing agreement. PKN ORLEN is the guarantor of the both issued bonds by an irrevocable and unconditional guarantees issued to the bondholders of PLN 8,759 million translated using exchange rate as at 31 December 2017 (representing of EUR 2.1 billion). The guarantees were granted for the time of the Eurobonds issues, until 30 June 2021 and 7 June 2023, respectively.

ORLEN Finance AB

The company's business is to conduct financial services within the ORLEN Group, including intercompany borrowings, as well as any other financial instruments. In the 2nd half of 2017, were commenced operations leading to the liquidation of the company.

ORLEN Insurance Ltd.

ORLEN Insurance is an internal insurance company (i.e. captive), which main purpose is insurance and reinsurance the Group's business, matching insurance to the individual needs of its property and the potential loss of margin.

7. OPERATING AND FINANCIAL RESULT

Profit or loss

Sales revenues of the ORLEN Group for 12 months of 2017 increased by PLN 15,811 million (y/y) to PLN 95,364 million.

In 2017, the ORLEN Group reached record sales volumes in all operating segments. The total sales volume amounted to PLN 42,382 thousand tons and was higher by 7% (y/y) mainly due to the good economic situation in the markets served, including the improvement of the market situation related to the introduction of a regulation package in Poland limiting influence of so-called shadow economy for fuel trade, growth in production capacities in Unipetrol Group after the rebuilding of steam cracker unit in 2016 and increase in quotation of main products: gasoline (by 19%), diesel oil (by 23%), light heating oil (by 23%), heavy fuel oil (by 44%), ethylene (by 12%) and propylene (by 28%).

The operating activity expenses increased by PLN (13,856) million (y/y) to PLN (87,630) million. The largest item in their 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 10.5 USD/bbl (y/y) crude oil global quotations and higher by 10% (y/y) crude oil processing which amounted to 33.2 million tons.

Positive result of other operating activities in 2017 amounted to PLN 675 million and decreased by PLN (781) million (y/y). It mainly included lower compensation for the settlement of damage related to the steam cracker unit accident of August 2015 and damage on installation FCC (Fluid Catalytic Cracking) of May 2016 in Unipetrol Group in the amount of PLN (630) million and received contractual penalties for improper execution of the contract of the CCGT in Włocławek in the amount of PLN 97 million in PKN ORLEN and recognition of impairment allowances of ORLEN Upstream Group's exploration assets in the amount of PLN (140) million.

Share in profit from investments accounted for under equity method decreased by PLN (49) million (y/y) to PLN 248 million.

As a result profit from operations amounted to PLN 8,657 million and was higher by PLN 1,125 million (y/y).

Net finance income in the described period amounted to PLN 60 million and included mainly net foreign exchange gains in the amount of PLN 645 million, settlement and valuation of net derivatives in the amount of PLN (305) million and net interest expenses in the amount of PLN (274) million.

After consideration of tax charges in the amount of PLN (1,544) million, the net profit of the ORLEN Group amounted to PLN 7,173 million and was higher by PLN 1,433 million (y/y).

Statement of financial position

As at 31 December 2017, total assets of the ORLEN Group amounted to PLN 60,664 million and was higher by PLN 5,105 million in comparison with 31 December 2016.

As at 31 December 2017, the value of non-current assets amounted to PLN 31,740 million and was higher by PLN 1,419 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 1,295 million.

Balance change of property, plant and equipment and intangible assets comprised mainly investment expenditures in the amount of PLN 4,602 million, primarily for the Construction of the Polyethylene 3 installation in Unipetrol Group, heat and power plants CCGT and Metathesis Installation in Płock, upstream projects in Canada and depreciation and amortisation in the amount of PLN (2,421) million and negative effect of exchange differences from recalculation of balances of foreign entities of the ORLEN Group on PLN as a result of appreciation of the PLN exchange rate against the foreign currencies in the amount of PLN (505) million.

The value of current assets increased by PLN 3,686 million, mainly as result of increase in balance of inventories by PLN 1,258 million, cash and cash equivalents by PLN 1,172 million, as well as increase of trade and other receivables by PLN 965 million. The increase in trade receivables is mainly due to higher sales volume and higher product prices as a result of increasing crude oil prices.

As at 31 December 2017, equity amounted to PLN 35,211 million and was higher by PLN 5,926 million in comparison with the end of 2016, mainly as a result of net profit in the amount of PLN 7,173 million, dividend payments from the previous year's profit in the total amount of PLN (1,372) million, impact of exchange differences on translating foreign operations in the amount of PLN (612) million and positive impact of change of balance of hedging reserve in the amount PLN 686 million.

As at 31 December 2017, net financial indebtedness of the ORLEN Group amounted to PLN 761 million and was lower by PLN (2,602) million in comparison with the end of 2016. Change of net financial indebtedness included net repayment of loans, borrowings and bonds in the amount of PLN (1,119) million, increase of cash and cash equivalents balance by PLN (1,172) million and the net impact of positive exchange differences from revaluation and indebtedness valuation in total amount of PLN (311) million.

Statement of cash flows

Proceeds of net cash from operating activities for 12 months of 2017 amounted to PLN 8,050 million and comprised mainly profit from operations increased by depreciation and amortisation in the amount of PLN 11,078 million, the negative impact of increase in a net working capital by PLN (1,967) million and paid income taxes in the amount of PLN (1,603) million.

Net cash used in investing activities for 12 months of 2017 amounted to PLN (3,925) million and comprised mainly net expenses for the acquisition of property, plant and equipment, intangible assets and perpetual usufruct of land in the amount of PLN (3,934) million.

Net expenses of cash used in financing activities for 12 months of 2017 amounted to PLN (2,832) million and comprised mainly the net repayment of loans and borrowings in the amount of PLN (882) million, redemption of retail bonds in the amount of PLN (700) million, issue of retail bonds in the amount of PLN 400 million, paid dividends in the amount of PLN (1,384) million including amount for equity owners of the Parent Company in the amount of PLN (1,283) million and interest paid in the amount of PLN (234) million.

After consideration the revaluation of cash due to exchange differences, the cash balance in 12 months of 2017 increased by PLN 1,172 million and as at 31 December 2017 amounted to PLN 6,244 million.

ORLEN GROUP (in PLN million)

8. SEGMENTS' DATA

8.1. OPERATING SEGMENTS

DOWNSTREAM

- Production
- Refining and petrochemical and sales
- Energy

USTREAM

- Exploration and extraction of mineral resources

RETAIL

- Activity at the petrol stations

CORPORATE FUNCTIONS

- Management
- Administration
- Remaining activities, i.e. reconciling items

SELECTED ACCOUNTING PRINCIPLES

Assessments of the segments' financial results and decisions on allocation of resources are performed mainly on the basis of EBITDA. EBITDA is one of a measure of the efficiency of the activity, which is not defined in IFRS. The ORLEN Group defines EBITDA as net profit/(loss) for the reporting period before taking into account the impact of the income tax, effects of financing activities and depreciation costs.
Revenues from transactions with external customers and transactions with other segments are carried out on an arm's length basis.

8.2. REVENUES, COSTS, FINANCIAL RESULTS, INVESTMENTS EXPENDITURES

2017

	NOTE	Downstream Segment	Retail Segment	Upstream Segment	Corporate Functions	Adjustments	Total
External revenues	9.1.1 , 9.1.2	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	9.1.4	1 048	105	4	86	-	1 243
Other operating expenses	9.1.5	(194)	(133)	(145)	(96)	-	(568)
Share in profit from investments accounted for under equity method	9.2.4	247	-	1	-	-	248
Profit/(Loss) from operations		**7 932**	**1 616**	**(165)**	**(726)**	**-**	**8 657**
Net finance income and costs	9.1.6.1, 9.1.6.2						60
Profit before tax							**8 717**
Tax expense							(1 544)
Net profit							**7 173**
Depreciation and amortisation	9.1.3	**1 568**	**422**	**318**	**113**	**-**	**2 421**
EBITDA		**9 500**	**2 038**	**153**	**(613)**	**-**	**11 078**
CAPEX		**2 925**	**678**	**778**	**221**	**-**	**4 602**

2016

	NOTE	Downstream Segment	Retail Segment	Upstream Segment	Corporate Functions	Adjustments	Total
External revenues	9.1.1 , 9.1.2	49 202	29 841	442	68	-	79 553
Inter-segment revenues		10 892	280	-	283	(11 455)	-
Sales revenues		60 094	30 121	442	351	(11 455)	79 553
Operating expenses		(54 939)	(28 681)	(537)	(1 072)	11 455	(73 774)
Other operating income	9.1.4	1 964	87	60	53	(1)	2 163
Other operating expenses	9.1.5	(324)	(125)	(83)	(176)	1	(707)
Share in profit from investments accounted for under equity method	9.2.4	298	-	(1)	-	-	297
Profit/(Loss) from operations		**7 093**	**1 402**	**(119)**	**(844)**	**-**	**7 532**
Net finance income and costs	9.1.6.1, 9.1.6.2						(645)
Profit before tax							**6 887**
Tax expense							(1 147)
Net profit							**5 740**
Depreciation and amortisation	9.1.3	**1 317**	**392**	**301**	**100**	**-**	**2 110**
EBITDA		**8 410**	**1 794**	**182**	**(744)**	**-**	**9 642**
CAPEX		**3 533**	**479**	**525**	**136**	**-**	**4 673**

CAPEX - increase of property, plant and equipment, intangible assets, investment property and perpetual usufruct of land together with the capitalisation of borrowing costs

(in PLN million)

9. EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9.1. EXPLANATORY NOTES TO THE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

9.1.1. Sales revenues by assortments

SELECTED ACCOUNTING PRINCIPLES

Sales revenues

Sales revenues of goods and services are recognized, when the significant risks and rewards of ownership are transferred to the buyer and when the Group is no longer permanently involved in managing sold goods to the extent, that such function is usually carried out in relation to goods, to which there is right of ownership, and it does not exercise effective control over them. Revenues include received and due payments for delivered finished goods, merchandise, raw materials and services, decreased by the amount of any trade discounts and value added tax (VAT), excise tax and fuel charges. Revenues are measured at the fair value of the payment received or due.

Revenues from the sale of finished goods, merchandise, raw materials and services are adjusted for profits or losses from settlement of cash flows hedging instruments related to the above mentioned revenues.

Revenues and costs from services, which beginning and end fall within different reporting periods, are recognized by reference to the stage of completion of the service, when the outcome of a contract can be valuated reliably, in other cases, revenues are recognized only to the extent of costs incurred to the date, but not higher than the costs that the Group expects to recover.

	2017	2016	% share	
			2017	2016
Downstream Segment				
Medium distillates	28 325	22 714	29.7%	28.6%
Light distillates	12 071	10 513	12.7%	13.2%
Heavy fractions	5 691	3 786	6.0%	4.8%
Monomers	2 994	2 025	3.1%	2.5%
Polymers	2 557	1 135	2.7%	1.4%
PTA	1 399	1 571	1.5%	2.0%
Plastics	1 466	1 218	1.5%	1.5%
Fertilizers	805	821	0.8%	1.0%
Aromas	1 100	625	1.2%	0.8%
Other	5 017	4 794	5.2%	6.0%
	61 425	**49 202**	**64.4%**	**61.8%**
Retail Segment				
Medium distillates	16 471	14 305	17.3%	18.0%
Light distillates	13 086	11 838	13.7%	14.9%
Other**	3 793	3 698	3.9%	4.6%
	33 350	**29 841**	**34.9%**	**37.5%**
Upstream Segment				
NGL*	249	178	0.2%	0.3%
Crude oil	62	84	0.1%	0.1%
Natural Gas	196	172	0.2%	0.2%
Other	8	8	0.0%	0.0%
	515	**442**	**0.5%**	**0.6%**
Corporate Functions	74	68	0.2%	0.1%
	95 364	**79 553**	**100.0%**	**100.0%**

** NGL (Natural Gas Liquids)*

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

In 2017 and 2016 no leading customers were identified in the Group, for which turnover individually would exceeded 10% of total revenues from sale of the ORLEN Group.

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

	2017	2016	% share	
			2017	2016
Poland	41 831	33 731	43.9%	42.4%
Germany	16 964	15 781	17.8%	19.8%
Czech Republic	13 085	9 861	13.7%	12.4%
Lithuania, Latvia, Estonia	7 797	6 216	8.2%	7.8%
Other countries	15 687	13 964	16.4%	17.6%
	95 364	**79 553**	**100.0%**	**100.0%**

The line other countries comprises mainly sales to customers from Switzerland, Ukraine, Hungary, Slovakia, Great Britain, the Netherlands, Canada and Austria.

(in PLN million)

9.1.3. Cost by nature

SELECTED ACCOUNTING PRINCIPLES

Costs

Cost of sales include costs of finished goods, merchandise, services and raw materials sold and adjustments related to inventories written down to net realizable value. Costs are adjusted for profits or losses from settlement of cash flow hedging instruments related to the above mentioned costs.
Distribution expenses include selling brokerage expenses, trading expenses, advertising and promotion expenses as well as distribution expenses.
Administrative expenses include expenses relating to management and administration of the Group as a whole.

	2017	2016	% share	
			2017	2016
Materials and energy	(57 277)	(43 512)	64.7%	59.0%
Cost of merchandise and raw materials sold	(20 500)	(20 247)	23.2%	27.4%
External services	(4 218)	(4 073)	4.8%	5.5%
Employee benefits, incl.:	(2 391)	(2 206)	2.7%	3.0%
payroll expenses	*(1 857)*	*(1 740)*	*2.0%*	*2.3%*
social security expenses	*(407)*	*(377)*	*0.5%*	*0.5%*
Depreciation and amortisation	(2 421)	(2 110)	2.7%	2.9%
Taxes and charges	(1 204)	(1 129)	1.4%	1.5%
Other	(524)	(529)	0.5%	0.7%
	(88 535)	**(73 806)**	**100.0%**	**100.0%**
Change in inventories	688	(232)		
Cost of products and services for own use	217	264		
Operating expenses	**(87 630)**	**(73 774)**		
Distribution expenses	4 327	4 125		
Administrative expenses	1 537	1 426		
Cost of sales	**(81 766)**	**(68 223)**		

9.1.4. Other operating income

	2017	2016
Profit on sale of subsidiaries	-	63
Profit on sale of non-current non-financial assets	40	60
Reversal of provisions	55	25
Reversal of receivables impairment allowances	42	13
Reversal of impairment allowances of property, plant and equipment and intangible assets and other non-current assets	77	366
Penalties and compensations	842	1 449
Other	187	187
received energy certificates	*132*	*49*
	1 243	**2 163**

The line penalties and compensation in 2017 and 2016 includes mainly amounts of partial compensation received from insurers due to the steam cracker unit accident in Unipetrol Group of August 2015 in the amount of PLN 442 million and PLN 1 280 million, respectively and in 2017 amounts of compensation of property damage and loss of profit related to the accident on installation FCC (Fluid Catalytic Cracking) in the Unipetrol Group of May 2016 in the amount of PLN 211 million and penalties received for improper execution of the contract of the power plant CCGT in Włocławek in the amount of PLN 97 million.

In 2016, the reversal of impairment allowances of property, plant and equipment and intangible assets concerned refinery assets of the Unipetrol Group in the amount of PLN 315 million.

9.1.5. Other operating expenses

	2017	2016
Loss on sale of non-current non-financial assets	(49)	(39)
Recognition of provisions	(46)	(178)
Recognition of receivables impairment allowances	(35)	(25)
Recognition of impairment allowances of property, plant and equipment and intangible assets and other non-current assets	(246)	(221)
Penalties, damages and compensations	(26)	(133)
Other	(166)	(111)
	(568)	**(707)**

Recognition of impairment allowances of property, plant and equipment and intangible assets in 2017 concerns mainly ORLEN Upstream Group's companies in Poland. As a result of an independent valuation of assets in the 4th quarter of 2017 an impairment allowances on exploration assets was recognized in the amount of PLN (97) million, while in the 3rd quarter of 2017, as a result of the decision to narrow of the search area, impairment allowances on exploration and recognition assets of mineral resources in the amount of PLN (43) million was recognized.

Recognition of impairment allowances of property, plant and equipment and intangible assets in 2016 concerned mainly impairment allowances of ORLEN Upstream Group's exploration assets in the amount of PLN (72) million and ORLEN Oil assets in the amount of PLN (55) million.

The line other in 2017 included costs recognized by ORLEN Południe related to the decision of the Head of the Małopolska Tax and Customs Office in Kraków determining the amount of excise tax liabilities for the previous years in the amount of PLN (75) million.

ORLEN GROUP (in PLN million)

9.1.6. Finance income and costs

9.1.6.1. Finance income

	2017	2016
Interest	50	59
Net foreign exchange gain	645	-
Dividends	4	5
Settlement and valuation of derivative financial instruments	1 025	156
Reversal of receivables impairment allowances	2	2
Other	34	26
	1 760	**248**

9.1.6.2. Finance costs

	2017	2016
Interest	(324)	(216)
Net foreign exchange loss	-	(542)
Settlement and valuation of derivative financial instruments	(1 330)	(98)
Recognition of receivables impairment allowances	(1)	(2)
Other	(45)	(35)
	(1 700)	**(893)**

The line interest in 2017 includes the recognition by ORLEN Południe interest from excise tax liabilities for the previous years in the amount of PLN (112) million.

9.1.6.3. Interest, net

	NOTE	2017	2016
Finance income and costs of net interest presented in statement of profit or loss and other comprehensive income	*9.1.6.1, 9.1.6.2*	**(274)**	**(157)**
Adjustments to profit before tax of net interest presented in statement of cash flows		**204**	**219**
interest paid concerning financing activities		*234*	*223*
accrued interest concerning investing and financing activities		*(30)*	*(4)*
Net interest concerning operating activities not correcting profit before tax		70	(62)

9.1.6.4. Foreign exchange gain/(loss)

	NOTE	2017	2016
Foreign exchange gain/(loss) surplus presented in statement of profit or loss and other comprehensive income	*9.1.6.1, 9.1.6.2*	**645**	**(542)**
Adjustments to profit before tax of foreign exchange differences presented in statement of cash flows		**(233)**	**287**
realized foreign exchange differences concerning investing and financing activities		*90*	*355*
unrealized foreign exchange differences concerning investing and financing activities		*(363)*	*(59)*
foreign exchange differences on cash		*40*	*(9)*
Foreign exchange differences concerning operating activities not correcting profit before tax		412	*(255)*

9.1.7. Tax expense

SELECTED ACCOUNTING PRINCIPLES

Income tax expenses (tax expense)
Income tax expenses (tax expense) include of current tax and deferred tax. Current tax expense is determined in accordance with the relevant tax law based on the taxable profit for a given period and is recognized as a liability, in the amount which has not been paid or receivable, if the amount of the current and prior periods income tax paid exceeds the amount due the excess is recognized.
Deferred tax assets and liabilities are accounted as non-current and are not discounted. They are offset on the level of particular financial statements of the Group companies when there is a legally enforceable right to set off the recognized amounts.

	2017	2016
Tax expense in the statement of profit or loss		
Current tax expense	(1 329)	(751)
Deferred tax	(215)	(396)
	(1 544)	**(1 147)**
Deferred tax recognized in other comprehensive income		
Hedging instruments	(175)	75
Fair value measurement of investment property as at the date of reclassification	-	(1)
Actuarial gains and losses	2	1
	(173)	**75**
	(1 717)	**(1 072)**

(in PLN million)

9.1.7.1. Reconciliation of effective tax rate

	2017	2016
Profit before tax	**8 717**	**6 887**
Tax expense by the valid tax rate in Poland (19%)	(1 656)	(1 309)
Differences between tax rates	25	22
Lithuania (15%)	*41*	*39*
Germany (29%, 48%)	*(18)*	*(19)*
Canada (27%)	*2*	*2*
Tax losses	31	213
Impairment allowances of property, plant and equipment and intangible assets	7	(90)
Investments accounted for under equity method	47	56
Other	2	(39)
Tax expense	**(1 544)**	**(1 147)**
Effective tax rate	**18%**	**17%**

As at 31 December 2017 and as at 31 December 2016, the Group had unsettled tax losses in the total amount of PLN 314 million and PLN 410 million, respectively mainly relating to the Unipetrol Group, and the Upstream Group, for which no deferred tax asset was recognized due to the lack of certainty regarding the possibility of their realization in the future. The possibility of settlement of the above tax losses will expire by 2022.

9.1.7.2. Deferred tax

	31/12/2016	Deferred tax recognized in profit or loss	Deferred tax recognized in other comprehensive income	Exchange differences on translating foreign operations	31/12/2017
Deferred tax assets					
Impairment allowances	495	(60)	-	(1)	434
Provisions and accruals	222	96	-	(1)	317
Tax losses	493	(153)	-	(18)	322
Valuation of derivative financial instruments	78	18	(77)	-	19
Other	(30)	136	2	1	109
	1 258	**37**	**(75)**	**(19)**	**1 201**
Deferred tax liabilities					
Temporary differences related to non-current assets	1 772	197	-	(3)	1 966
Unrealized foreign exchange gains	-	14	-	-	14
Valuation of derivative financial instruments	-	4	98	-	102
Other	128	37	-	-	165
	1 900	**252**	**98**	**(3)**	**2 247**
	(642)	**(215)**	**(173)**	**(16)**	**(1 046)**

	31/12/2015	Deferred tax recognized in profit or loss	Deferred tax recognized in other comprehensive income	Exchange differences on translating foreign operations	31/12/2016
Deferred tax assets					
Impairment allowances	779	(286)	-	2	495
Provisions and accruals	306	(85)	-	1	222
Tax losses	189	304	-	-	493
Valuation of derivative financial instruments	10	(7)	75	-	78
Other	138	(168)	-	-	(30)
	1 422	**(242)**	**75**	**3**	**1 258**
Deferred tax liabilities					
Temporary differences related to non-current assets	1 542	223	-	7	1 772
Other	189	(69)	-	8	128
	1 731	**154**	**-**	**15**	**1 900**
	(309)	**(396)**	**75**	**(12)**	**(642)**

As at 31 December 2017 deferred tax assets and liabilities amounted to PLN 49 million and PLN 1,095 million, respectively.

(in PLN million)

9.1.7.3. Income tax (paid)

	NOTE	2017	2016
Tax expense on profit before tax	9.1.7.1	**(1 544)**	**(1 147)**
Change in deferred tax asset and liabilities		404	333
Change in current tax receivables and liabilities		(328)	420
Deferred tax recognized in other comprehensive income	9.1.7.2	(173)	75
Liability for withholding tax		57	-
Foreign exchange differences		(19)	(17)
		(1 603)	**(336)**

9.2. EXPLANATORY NOTES TO THE STATEMENT OF FINANCIAL POSITION

9.2.1. Property, plant and equipment

SELECTED ACCOUNTING PRINCIPLES

Property, plant and equipment

Property, plant and equipment shall be measured initially at acquisition or production cost and shall be presented in the statement of financial position in its net carrying amount, including grants. Property, plant and equipment are stated in the statement of financial position at the net book value which is the amount at which an asset is initially recognized (cost) less accumulated depreciation and any accumulated impairment losses, as well as received grants for assets.
The costs of significant repairs and regular maintenance programs are recognized as property, plant and equipment.
Fixed assets are depreciated with straight-line method and in justified cases units of production method of depreciation (catalysts, assets arising from development and extraction of mineral resources).
Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately over the period reflecting its useful lives.
The following standard useful lives are used for property, plant and equipment:

Buildings and constructions	*10-40 years*
Machinery and equipment	*4-35 years*
Vehicles and other	*2-20 years*

The method of depreciation, residual value and useful life of an asset are reviewed at least at the end of each year. When it is necessary adjustments of depreciation are carried out in subsequent periods (prospectively).

Grants

Grants are recognized if there is reasonable assurance that the grants will be received and the entity will comply with the conditions attaching to them.
Grants related to assets are recognized as a decrease of a carrying amount of an asset and as a result a decrease of depreciation and amortisation charges over its useful life.

Exploration and extraction of mineral resources

Within the framework of exploration and extraction of mineral resources, the following classification of stage was made:

Stage of exploration and assessment of mineral resources include:

- *acquisition of rights to explore and extract, exploration and recognition of resources are recognized according to the successful efforts method,*
- *expenditures for exploratory,*
- *other expenditures which are directly attributable to the phase of exploration and recognition.*

The Group shall review annually expenditures incurred in the stage of exploration and recognition of mineral resources in order to confirm the intention of further work. The analyzes are carried out at the level of projects, including works with a defined exploratory and/or prospective purpose, which are conducted in the assigned area. If the work is unsuccessful, resulting in a lack of intention to continue the work, the cost previously recognized as an asset are recognized as cost of a current period.
Expenditure incurred in the exploration and recognition of resources are recognized as assets related to development and extraction of mineral resources within property, plant and equipment at the moment of the conclusion of their technical feasibility and economic viability of mining.

Stage of site planning and of extraction of mineral resources

Expenditure incurred for mineral resource sites planning and extraction of resources are capitalized and amortised by unit of production method calculated proportionally to the amount of extraction of hydrocarbons based on unit of installation. The Group calculates the depreciation of all assets related to sites planning and extraction of mineral resources based on so called proved plus probable reserves.
In case of significant change in estimated mineral resources, at the reporting date potential impairment allowances are recognized or reversed.
In case of performance of exploratory drillings on already extracted resource, the Group analyses, if costs incurred enable rising new boreholes. If not, the expenditures are recognized in costs of the current period.

PROFESSIONAL JUDGEMENTS

Expenditures for exploration and evaluation of mineral resources

Application of the Group's accounting policy for expenditures for exploration and evaluation of mineral resources requires an assessment, whether future economic benefits resulting from future extraction or sale are possible or if indications allowing to estimate the resources does not yet exist. When estimating the resources, the Group assesses future events and circumstances, including the assessment whether the extraction will be economically feasible.

ESTIMATES

Useful lives of property, plant and equipment

The Group verifies useful lives of property, plant and equipment once at year end. The impact of verification of useful lives in 2017 resulted in a decrease of depreciation costs by PLN 38 million compared to depreciation costs that were recognized based on useful lives applied in 2016.

Exploration and evaluation of mineral resources

The Group estimates resources based on interpretation of available geological data and verifies then on a the current basis, based on effects of further drills, trial exploitation, actual extraction and economic factors such as: hydrocarbons' prices, contractual terms or investment plans.
At the end of each reporting period the Group analyses cost of removal of wells and supporting infrastructure.

Remediation of land – water environment

The Group estimates the level of provisions related to non-current assets, which to a significant probability are needed for land – water environment remediation of the territory of petrol stations, fuel depots and areas of production plants. Detailed information in *note 9.2.10.1.*

(in PLN million)

	Land	Buildings and constructions	Machinery and equipment	Vehicles and other	Construction in progress	Exploration and evaluation of mineral resource assets	Assets related to development and extraction of mineral resources	Total
Net carrying amount at 01/01/2017								
Gross carrying amount	1 164	20 837	37 950	2 110	4 707	986	5 307	**73 061**
Accumulated depreciation	(12)	(8 805)	(19 582)	(1 283)	-	(27)	(1 036)	**(30 745)**
Impairment allowances	(37)	(2 531)	(10 338)	(145)	(146)	(495)	(778)	**(14 470)**
Grants	-	(52)	(117)	(5)	(1)	-	-	**(175)**
	1 115	**9 449**	**7 913**	**677**	**4 560**	**464**	**3 493**	**27 671**
increases/(decreases), net								
Investment expenditures	-	106	66	55	3 460	107	653	4 447
Depreciation	(1)	(649)	(1 188)	(180)	-	(12)	(321)	(2 351)
Borrowing costs	-	29	83	1	(66)	2	-	49
Acquisition of subsidiary	-	10	1	3	-	-	-	14
Net impairment allowances, incl.: *	-	160	441	25	25	(43)	(96)	512
Recognition	-	*63*	*7*	*1*	*6*	-	-	*77*
Reversal	-	*(73)*	*(16)*	*(6)*	*(6)*	*(44)*	*(96)*	*(241)*
Reclassifications	20	968	2 048	211	(3 765)	(22)	48	(492)
Grants	-	1	4	1	-	-	-	6
Foreign exchange differences, incl.:	(18)	(29)	(99)	(25)	(31)	(4)	(293)	(499)
foreign exchange differences of impairment allowances	*(1)*	*132*	*1 338*	*13*	*11*	-	*82*	*1 575*
Other	1	(18)	(193)	(42)	(27)	(5)	(2)	(286)
	1 117	**10 027**	**9 076**	**726**	**4 156**	**487**	**3 482**	**29 071**
Net carrying amount at 31/12/2017								
Gross carrying amount	1 166	21 838	37 489	2 152	4 267	1 049	5 666	**73 627**
Accumulated depreciation	(11)	(9 521)	(19 741)	(1 315)	-	(24)	(1 392)	**(32 004)**
Impairment allowances	(38)	(2 239)	(8 559)	(107)	(110)	(538)	(792)	**(12 383)**
Grants	-	(51)	(113)	(4)	(1)	-	-	**(169)**
	1 117	**10 027**	**9 076**	**726**	**4 156**	**487**	**3 482**	**29 071**
Net carrying amount at 01/01/2016								
Gross carrying amount	1 128	20 546	36 947	2 018	2 819	762	4 293	**68 513**
Accumulated depreciation	(12)	(8 500)	(19 593)	(1 186)	-	(3)	(420)	**(29 714)**
Impairment allowances	(33)	(2 564)	(10 045)	(165)	(154)	(423)	(705)	**(14 089)**
Grants	-	(51)	(116)	(6)	(1)	-	-	**(174)**
	1 083	**9 431**	**7 193**	**661**	**2 664**	**336**	**3 168**	**24 536**
increases/(decreases), net								
Investment expenditures	-	74	130	59	3 736	175	340	4 514
Depreciation	(1)	(595)	(967)	(172)	-	(24)	(288)	(2 047)
Borrowing costs	-	-	1	1	56	9	-	67
Acquisition of subsidiary	40	194	233	34	18	-	-	519
Net impairment allowances, incl.: *	-	101	249	25	14	(72)	-	317
Recognition	-	*162*	*200*	*1*	*3*	-	-	*366*
Reversal	-	*(81)*	*(41)*	*(7)*	*(5)*	*(72)*	-	*(206)*
Reclassifications	13	431	1 348	120	(1 935)	-	29	6
Grants	-	(1)	(1)	1	-	-	-	(1)
Sale of subsidiary	(40)	(194)	(233)	(34)	(18)	-	-	(519)
Foreign exchange differences, incl.:	23	77	142	17	39	5	245	548
foreign exchange differences of impairment allowances	*(4)*	*(68)*	*(542)*	*(5)*	*(6)*	-	*(73)*	*(698)*
Other	(3)	(69)	(182)	(35)	(14)	35	(1)	(269)
Net carrying amount at 31/12/2016	**1 115**	**9 449**	**7 913**	**677**	**4 560**	**464**	**3 493**	**27 671**

* In 2017 and in 2016 the increases/(decreases) net of impairment allowances include recognition, reversal, usage and reclassifications.
Description of the reasons for changes in major impairment allowances is presented in the *note 9.2.5.*

In 2017 and 2016 the capitalization rate used to calculate borrowing costs amounted to 1.05% and 1.14%, respectively.
The gross carrying amount of all fully depreciated property, plant and equipment still in use as at 31 December 2017 and as at 31 December 2016 amounted to PLN 5,044 million and PLN 5,086 million, respectively.

9.2.2. Intangible assets

SELECTED ACCOUNTING PRINCIPLES

Intangible assets
An intangible asset shall be measured initially at acquisition or production cost and shall be presented in the statement of financial position in its net carrying amount, including grants.
Intangible assets with the finite useful life are amortised using straight-line method. Amortization shall begin when the asset is available for use.
Standard useful lives of intangible assets are from 2 to 10 for software and from 2 to 15 years for concessions, licenses, patents and similar.
The amortization method and useful life of intangible asset item are verified at least at the end of each year.

Goodwill
Goodwill acquired in a business combination shall, from the acquisition date, be allocated to each of the acquirer's cash-generating units (CGU), that is expected to benefit from the synergies of the combination.
After combination the acquirer shall measure goodwill in the amount recognized at the acquisition date less any accumulated impairment allowances.
A cash-generating unit to which goodwill has been allocated shall be tested for impairment annually, and whenever there is an indication that the unit may be impaired.

(in PLN million)

Rights

The main item of rights is CO_2 emission rights, not amortised, tested for impairment.
Granted emission allowances are presented as intangible assets in correspondence with deferred income at fair value as at the date of registration. Purchased allowances are presented at purchase price.
For the estimated CO_2 emission during the reporting period, a provision is created (taxes and charges).
Grants are recognized on a systematic basis in each reporting period to ensure proportionality with the relevant costs of the created reserve.
Outgoing of allowances is recognized using FIFO method (First In, First Out).
Rights also include energy certificates.

ESTIMATES

Useful lives of intangible assets

The Group verifies useful lives of intangible assets once at year end with effect from the beginning of next year. Should the economic useful lives of intangible assets from 2016 be applied in 2017, the depreciation expense would not change significantly.

Change in internally generated intangible assets

As at 31 December 2017 and as at 31 December 2016 internally generated intangible assets amounted to PLN 82 million and PLN 108 million, respectively.

Change in other intangible assets

	Patents, trade marks and licenses	Goodwill	Rights	Other	Total
Net carrying amount at 01/01/2017					
Gross carrying amount	1 521	384	886	101	**2 892**
Accumulated amortisation	(1 055)	(19)	-	(59)	**(1 133)**
Impairment allowances	(107)	(315)	(59)	(6)	**(487)**
Grants	(3)	-	-	-	**(3)**
	356	**50**	**827**	**36**	**1 269**
increases/(decreases), net					
Investment expenditures	9	1	-	72	82
Amortisation	(73)	-	-	3	(70)
Borrowing costs	-	-	-	1	1
Net impairment allowances, incl.: *	(1)	-	1	2	2
Reversal	*(1)*	-	-	-	*(1)*
Foreign exchange differences, incl.:	(3)	(2)	-	-	(5)
foreign exchange differences of impairment allowances	*4*	*9*	-	*(1)*	*12*
Other **	95	-	(140)	(44)	(89)
	383	**49**	**688**	**70**	**1 190**
Net carrying amount at 31/12/2017					
Gross carrying amount	1 602	374	746	113	**2 835**
Accumulated amortisation	(1 112)	(19)	-	(38)	**(1 169)**
Impairment allowances	(104)	(306)	(58)	(5)	**(473)**
Grants	(3)	-	-	-	**(3)**
	383	**49**	**688**	**70**	**1 190**

	Patents, trade marks and licenses	Goodwill	Rights	Other	Total
Net carrying amount at 01/01/2016					
Gross carrying amount	1 395	374	840	132	**2 741**
Accumulated amortisation	(944)	(18)	(1)	(65)	**(1 028)**
Impairment allowances	(98)	(315)	(59)	(7)	**(479)**
Grants	(3)	-	-	-	**(3)**
	350	**41**	**780**	**60**	**1 231**
increases/(decreases), net					
Investment expenditures	45	8	-	-	53
Amortisation	(69)	-	-	2	(67)
Net impairment allowances, incl.: *	(6)	-	-	-	(6)
Reversal	*(2)*	-	-	*(1)*	*(3)*
Foreign exchange differences, incl.:	5	1	-	1	7
foreign exchange differences of impairment allowances	*(3)*	-	-	*1*	*(2)*
Other **	31	-	47	(27)	51
Net carrying amount at 31/12/2016	**356**	**50**	**827**	**36**	**1 269**

* In 2017 and in 2016 increases/(decreases) net of impairment allowances include recognition, reversal, usage and reclassifications.
** Other net increases/(decreases) of property rights consist mainly granted free of charge for 2017 and 2016 and settlement of rights for 2016 and 2015.
Description of the reasons for changes in major impairment allowances is presented in the note 9.2.5.

The gross carrying amount of all fully amortised intangible assets still in use as at 31 December 2017 and as at 31 December 2016 amounted to PLN 540 million and PLN 586 million, respectively.

(in PLN million)

9.2.2.1. Rights

Change in owned CO_2 emission rights for 2017

	Quantity (in thous. tonnes)	Value
01/01/2017	34 521	816
Granted free of charge	7 783	181
Emission settlement for 2016	(12 916)	(322)
Purchase/(Sale), net	89	1
Impairment allowances	-	1
	29 477	**677**
CO_2 emission in 2017	14 334	377

The market value of owned EUA rights exceeds their total carrying amount, therefore the Group does not identify impairment indicators.
As at 31 December 2017 the market value of one EUA amounted to PLN 33.95 (representing EUR 8.14 at exchange rate as at 31 December 2017) (source: www.theice.com).

The rights to colourful energy (energy certificates) recognized in the line rights as at 31 December 2017 and as at 31 December 2016 amounted PLN 11 million. In 2017 the Group recognized granted free of charge rights to energy certificates in the amount of PLN 82 million.

Additionally, as at 31 December 2017 and as at 31 December 2016 the Group recognized CO_2 emission rights in the amount PLN 10 million and PLN 11 million, respectively and rights to colourful energy in the amount PLN 60 million and PLN 3 million, respectively (note 9.2.6.2) in the line trade and other receivables.

9.2.3. Assets by operating segments and by geographical allocation

9.2.3.1. Assets by operating segments

	31/12/2017	31/12/2016
Downstream Segment	42 159	38 770
Retail Segment	6 511	6 139
Upstream Segment	3 839	3 840
Segment assets	**52 509**	**48 749**
Corporate Functions	8 206	6 943
Adjustments	(51)	(133)
	60 664	**55 559**

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

9.2.3.2. Assets by geographical allocation

	31/12/2017	31/12/2016	% share	
			2017	2016
Poland	20 055	19 631	65.6%	67.1%
Germany	922	966	3.0%	3.3%
Czech Republic	5 966	5 216	19.5%	17.8%
Lithuania, Latvia, Estonia	831	708	2.7%	2.4%
Canada	2 788	2 731	9.2%	9.4%
	30 562	**29 252**	**100.0%**	**100.0%**

Non-current assets by geographical allocation include property, plant and equipment (note 9.2.1), intangible assets (note 9.2.2), investment property and perpetual usufruct of land (note 9.2.9).

9.2.4. Investments accounted for under equity method

PROFESSIONAL JUDGEMENTS

Based on its own judgment, taking into account its rights, obligations, considering the structure, legal form and the terms of the agreement agreed by the parties, the Group assessed that BOP, PPPT and Pieridae Production constitute a joint contractual arrangement whereby PKN ORLEN exercises joint control over them. The agreements give all shareholders a joint control over the companies, decisions related to significant operations require the unanimous approval of all shareholders, and the legal form of separate entities does not give shareholders the right to their assets and obligations to repay liabilities. In relation to above, the Group classified BOP, PPPT and Pieridae Production as joint ventures that are accounted for under equity method in the consolidated financial statements.

ORLEN GROUP (in PLN million)

	Place of business	Principal activity	Valuation method
joint ventures			
Basell ORLEN Polyolefins Sp. z o.o. (BOP)	Płock/Poland	production, distribution and sales of poliolefins	equity method
Płocki Park Przemysłowo-Technologiczny (PPPT)	Płock/Poland	construction and renting real estate	equity method
Pieridae Production GP Ltd (ORLEN Upstream Group)	Calgary/Canada	exploration and extraction of minerals, storage, transport and logistics	equity method
joint operations			
Butadien Kralupy a.s. (Unipetrol Group)	Kralupy nad Vltavou/Czech Republic	manufacturing of butadien	share in assets and liabilities

The ORLEN Group in accordance with IFRS 11 classified Butadien Kralupy a.s. in as joint operations. Based on Article association of Butadien Kralupy a.s, the Group has the right to proportionate share of the income and bears a proportionate share in the costs of joint operations. As a result, the Group recognizes its share (51%) in assets, liabilities, revenues and costs.

ORLEN Upstream Group has participated in the following joint operations:
- consortium (Blue Gas – Polish Shale Gas program) founded by ORLEN Upstream, Polskie Górnictwo Naftowe i Gazownictwo (PGNIG), LOTOS Petrobaltic and University of Science and Technology (Akademia Górniczo-Hutnicza), Institue of Oil and Gas (Instytut Nafty i Gazu), Gdansk University of Technology, Warsaw University of Technology. The program aims to manufacture and commercialize the technology and gain knowledge for the extraction of shale gas in Poland. In the past year ended a 5-year period of activity of the consortium. The cooperation was summarized in all 6 projects in which ORLEN Upstream was involved. The total contribution of ORLEN Upstream in the implementation of the above projects amounted to PLN 24 million. Applications were collected that provides grounds for applying for patent rights for developed solutions.
- exploration – extraction projects carried out together with PGNiG (the search areas „Sieraków" – 49% share of ORLEN Upstream, "Bieszczady" – 49% share of ORLEN Upstream and through subsidiary FX Energy Poland the search areas "Płotki" – 49% share of FX Energy Poland). The agreements provide the conduct of joint operations and activities in the field of exploration, prospection and extraction of crude oil and natural gas.

ORLEN Upstream Group has the right to proportionate share of the income and bears a proportionate share in the costs of joint operations.

Investments accounted for under equity method

	31/12/2017	31/12/2016
Joint ventures, incl.:	709	756
Basell ORLEN Polyolefins Sp. z o.o.	*677*	*677*
Associates	6	7
	715	**763**

Share in profit from investments accounted for under equity method

	2017	2016
Joint ventures, incl.:	248	297
Basell ORLEN Polyolefins Sp. z o.o.	*248*	*298*
	248	**297**

Condensed financial information of Bassel ORLEN Polyolefines Sp. z o.o.

	31/12/2017	31/12/2016
Non-current assets	845	856
Current assets	1 242	1 152
cash	*329*	*440*
other current assets	*913*	*712*
Total assets	**2 087**	**2 008**
Total equity	**1 375**	**1 395**
Non-current liabilities	50	50
Current liabilities, incl.:	662	563
trade and other liabilities	*646*	*548*
Total liabilities	**712**	**613**
Total equity and liabilities	**2 087**	**2 008**
Net debt	**(329)**	**(440)**
Net assets	1 375	1 395
Group's share in joint ventures (50%)	688	698
Consolidation adjustments	(11)	(21)
Joint ventures investments accounted for under equity method	**677**	**677**

(in PLN million)

Condensed financial information of Bassel ORLEN Polyolefines Sp. z o.o. continued

	2017	2016
Sales revenues	3 526	3 218
Cost of sales, incl.:	(2 809)	(2 365)
depreciation and amortisation	*(86)*	*(97)*
Gross profit on sales	**717**	**853**
Distribution expenses	(94)	(90)
Administrative expenses	(23)	(25)
Other operating income and expenses, net	-	(1)
Profit from operations	**600**	**737**
Net finance income and costs	(12)	7
Profit before tax	**588**	**744**
Tax expense	(113)	(142)
Net profit	**475**	**602**
Total net comprehensive income	**475**	**602**
Net cash from operating activities	**427**	**745**
Net cash (used) in investing activities	**(41)**	**(74)**
Net cash (used) in financing activities	**(497)**	**(625)**
Dividends received from joint ventures	**248**	**311**
Net profit	475	602
Group's share in joint ventures (50%)	238	301
Consolidation adjustments	10	(3)
Group's share in result of joint ventures accounted for under equity method	**248**	**298**

In 2017 and 2016, there were no significant restrictions in associates and joint ventures resulting from loans agreements, regulatory requirements and other contractual agreements that would restrict access to assets and settlement of liabilities of the Group.

9.2.5. Impairment of property, plant and equipment and intangible assets

SELECTED ACCOUNTING PRINCIPLES

Impairment of property, plant and equipment and intangible assets
At the end of the reporting period, the Group assesses whether there are indicators that an asset or cash-generating unit (CGU) may be impaired or any indicators that the previously recognized impairment should be reversed.
Assets that do not generate the independent cash flows are grouped on the lowest level on which cash flows, independent from cash flows from other assets, are generated (CGU). If such case occurs, the recoverable amount is determined on the CGU level, to which the asset belongs.
Recognition and reversal of impairment allowances of property, plant and equipment and intangible assets is recognized in other operating activity.

ESTIMATES AND JUDGMENTS

Impairment of property, plant and equipment and intangible assets
The Management Board assesses whether there is any indicator for impairment of an assets or cash generating unit. As part of the analysis of indications, both external factors - including primarily the macroeconomic environment as well as internal environment are analyzed - including strategic decisions, financial projections and operational plans. If there is any indicator for impairment, the estimation of recoverable amount of an asset is made.

Net impairment allowances of property, plant and equipment and intangible assets in 2017

	NOTE	2017	2016
ORLEN Upstream		(140)	(73)
Unipetrol Group		(12)	300
ORLEN Asfalt		(8)	-
ORLEN Oil Group		-	(55)
other		(5)	(15)
	9.2.1, 9.2.2	**(165)**	**157**

As at 31 December 2017, the Group identified in accordance with IAS 36 "Impairment allowances of assets" impairment indicators of exploration assets in FX Energy Poland in Upstream Group, mainly due to the observed decrease in hydrocarbon prices. As a result of an independent valuation of the assets, an impairment allowances of exploration assets of FX Energy Poland of PLN (97) million was recognized. The value in use of exploration assets was estimated at the discount rate of 8.69% and amounted to PLN 501 million.

Additionally, in the 3rd quarter of 2017, as a result of the decision to partially narrow the exploration area of ORLEN Upstream Group in Poland, an impairment of exploration and recognition of mineral resources assets of FX Energy Poland of PLN (43) million was recognized.
The total influence of impairment allowances on exploration assets in FX Energy Poland on the financial result in 2017 on the Upstream segment amounted to PLN (140) million.

Other impairment allowances recognized in 2017 concerned mainly the impairment of assets in the Unipetrol Group in the amount of PLN (12) million for impairment of the Retail segment and ORLEN Asfalt in the amount of PLN (8) million in the Downstream segment.

Sensitivity analysis of the FX Energy Poland exploration assets value in use within an impairment test performed as at 31 December 2017

in PLN million — HYDROCARBONS PRICES

DISCOUNT RATE change	-5%	0%	5%
- 0.5 p.p.	*increase in allowance* (25)	*decrease in allowance* 10	*decrease in allowance* 35
0.0 p.p.	*increase in allowance* (42)	-	*decrease in allowance* 24
+ 0.5 p.p.	*increase in allowance* (59)	*decrease in allowance* (18)	*decrease in allowance* 14

The Group did not identify any impairment indicators of other assets in the ORLEN Group.
In relation to other assets of the ORLEN Group, the valuations made as at 31 December 2016 remain valid.

Net impairment allowances of property, plant and equipment and intangible assets in 2016

Assumptions of the ORLEN Group Strategy for 2017-2021 adopted in December 2016 ("Strategy") include among others, economic growth in key markets activity of the ORLEN Group, the increase of crude oil prices resulting from the need to replace natural decreases in extractions by productions from more expensive sources and restrictions on investment in recent years, the stabilization of downstream margin and a further increase in regulatory pressure, especially in the field of low carbon economy and environmental protection. Macroeconomic assumptions were developed on the basis of commercially available sources of knowledge of industry analytical agencies, forecasts of bank analysts, expert knowledge of the ORLEN Group.
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 2016 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), government bonds quotation and government agencies available as at 31 December 2016.

The discount rate structure used in the impairment tests of assets by cash-generating unit of ORLEN Group as at 31 December 2016

	Poland				Czech Republic			Lithuania		Canada	Germany
	Refining	Petrochemical	Retail	Upstream	Refining	Petrochemical	Retail	Refining	Retail	Upstream	Retail
Cost of equity	15.40%	14.70%	17.65%	15.13%	11.88%	11.21%	14.07%	15.26%	17.83%	8.91%	11.10%
Cost of debt after tax	2.37%	2.37%	2.37%	2.37%	1.56%	1.56%	1.56%	4.27%	4.27%	1.70%	0.88%
Capital structure	0.60	0.29	1.12	1.24	0.60	0.29	1.12	0.60	1.12	0.47	1.12
Nominal discount rate	**10.50%**	**11.93%**	**9.57%**	**8.06%**	**8.00%**	**9.04%**	**7.45%**	**11.13%**	**10.65%**	**6.60%**	**5.69%**
Long-term rate of inflation	1.38%	1.38%	1.38%	1.38%	1.98%	1.98%	1.98%	1.84%	1.84%	1.78%	1.50%

As a result in the 4th quarter of 2016 were recognized mainly effects of reversal of impairment allowance of refinery assets of Unipetrol Group in the amount of PLN 315 million and assets of ORLEN Oil in the amount of PLN (55) million.

As a part of above tests discount rates of 8% were applied for the Unipetrol Group refining assets and 9.57% for the ORLEN Oil assets The value in use of the refining assets of the Unipetrol Group and ORLEN Oil assets were CZK 10 billion and PLN 121 million respectively. The total influence of impairment allowances on assets as at 31 December 2016 on the Downstream segment amounted to PLN 230 million.

At the same time, ORLEN Upstream Sp. z o.o. evaluated the validity of continuing exploration work on the concession areas located in the Mazowieckie, Lubelskie, Łódzkie and Małopolskie province and decided to continue further exploration work on these concessions only in selected, the most promising areas of conventional research. As a result in the 4th quarter of 2016 an impairment allowance mainly of exploration assets in ORLEN Upstream Group in Poland in the Upstream segment of PLN (72) million was recognized. The total influence of impairment allowances on assets as at 31 December 2016 within the Upstream segment amounted to PLN (73) million.

The total influence of impairment allowances on net assets as at 31 December 2016 amounted to PLN 157 million.

Sensitivity analysis of the Unipetrol Group refining assets value in use within an impairment test performed as at 31 December 2016

in PLN million — EBITDA

DISCOUNT RATE change	-5%	0%	5%
- 0.5 p.p.	*decrease of reversal* (81)	*increase of reversal* 112	*increase of reversal* 305
0.0 p.p.	*decrease of reversal* (185)	-	*increase of reversal* 185
+ 0.5 p.p.	*decrease of reversal* (279)	*decrease of reversal* (102)	*increase of reversal* 75

Sensitivity analysis of the ORLEN Oil assets value in use within an impairment test performed as at 31 December 2016

in PLN million — EBITDA — DISCOUNT RATE

change	-5%	0%	5%
- 0.5 p.p.	*increase in allowance* (1)	*decrease in allowance* 8	*decrease in allowance* 15
0.0 p.p.	*increase in allowance* (8)	-	*decrease in allowance* 8
+ 0.5 p.p.	*increase in allowance* (14)	*increase in allowance* (7)	*decrease in allowance* 1

9.2.6. Net working capital

Net working capital
The Group defined net working capital as: inventories and trade and other receivables decreased by trade and other liabilities

	NOTE	Inventories	Trade and other receivables	Trade and other liabilities	Net working capital
31/12/2016		**11 182**	**8 553**	**13 591**	**6 144**
31/12/2017		**12 440**	**9 518**	**14 469**	**7 489**
Change in working capital in the statement of financial position		**(1 258)**	**(965)**	**878**	**(1 345)**
Adjustments		**(187)**	**(614)**	**179**	**(622)**
Change in rights and advances for non-financial non-current assets	*9.2.6.2*	-	*(269)*	-	*(269)*
Change in investment liabilities	*9.2.6.3, 9.2.9*	-	-	*(34)*	*(34)*
Change in financial liabilities from finance lease	*9.2.6.3, 9.2.9*	-	-	*(28)*	*(28)*
Liability for withholding tax	*9.1.7.3*	-	-	*(57)*	*(57)*
Change in compensations' receivables	*9.2.6.2*	-	*(222)*	-	*(222)*
Foreign exchange differences		*(218)*	*(135)*	*288*	*(65)*
Reclassification		*12*	-	-	*12*
Other		*19*	*12*	*10*	*41*
Change in working capital in the statement of cash flows		**(1 445)**	**(1 579)**	**1 057**	**(1 967)**

9.2.6.1. Inventories

SELECTED ACCOUNTING PRINCIPLES

Inventories
Inventories, including mandatory reserves comprise products, semi-finished products and work in progress, merchandise and materials.
Finished goods, semi-finished products and work in progress are measured initially at production cost. Production costs include costs of materials and costs of conversion for the production period of finished goods, semi-finished products as well as work in progress and systematic allocation of fixed and variable production overheads estimated for its normal level.
Finished goods, semi-finished products and work in progress shall be measured at the end of the reporting period at the lower of cost or net realizable value.
Outgoings of finished goods, semi-finished products and work in progress are determined based on the weighted average cost of production.
Merchandise and materials are measured initially at acquisition cost, while as at the end of the reporting period merchandise and raw materials are measured at the lower of cost or net realizable value. Outgoings of merchandise and raw materials are determined based on the weighted average acquisition cost.
The initial value of inventories is adjusted for their profits or losses from settlement of cash flow hedging instruments.
Impairment tests for specific items of inventories are carried out at the end of each month. Write-down to net realizable value concerns inventories that are damaged or obsolete and the selling price have fallen. Raw materials held for use in the production are not written down below acquisition or production cost if the products in which they will be incorporated are expected to be sold at or above cost.
However, when a decline in the price of materials indicates that the cost of the products exceeds net realizable value, the materials are written down to net realizable value.
Recognition and reversal of impairment allowances of inventories is recognized in cost of sales.

ESTIMATES

Net realizable values from sale of inventories
The inventory allowances required estimation of the net realizable value based on the most recent sales prices at the moment of estimations.

	31/12/2017	31/12/2016
Raw materials	6 911	6 367
Semi - finished goods and work in progress	1 289	1 154
Finished goods	3 566	3 139
Merchandise	674	522
Inventories, net	**12 440**	**11 182**
Impairment allowances of inventories to net realisable value	134	158
Inventories, gross	**12 574**	**11 340**

(in PLN million)

The main item of inventories, which is realized more than 12 months after the end of the reporting period are mandatory reserves. As at 31 December 2017 and as at 31 December 2016 the value of mandatory reserves presented in consolidated financial statements amounted to PLN 4,262 million and PLN 4,109 million, respectively.

Change in impairment allowances of inventories to net realizable value

	2017	2016
At the beginning of the period	158	288
Recognition	119	153
Reversal	(54)	(98)
Usage	(77)	(191)
Foreign exchange differences	(12)	6
	134	**158**

In 2017 and 2016 the recognition and reversal of net impairment allowances of inventories to net realizable value related mainly to the downstream segment and amounted to PLN (65) million and PLN (42) million, respectively.

9.2.6.2. Trade and other receivables

SELECTED ACCOUNTING PRINCIPLES

Receivables
Receivables, including trade receivables, are recognized initially at a fair value and subsequently, at amortised cost using the effective interest method less impairment allowances.
The Group applies simplified methods of valuation of receivables measured at amortized cost if it does not distort information included in the statement of financial position, in particular when the period until the repayment date is not long.

ESTIMATES

Impairment of trade and other receivables
The Management Board assesses whether there is a risk of collectability of receivables taking into account the adopted internal procedures as individual assessment of each customer with regard to credit risk. Impairment allowances of receivables are based on the individual contractors analysis taking into account the value of held collaterals, and based on the possible compensation of debts. Recognition and reversal of impairment allowances of receivables are recognized in other operating activity in relation to principal amount and in financial activities in relation to interest for delayed payments.

	NOTE	31/12/2017	31/12/2016
Trade receivables		8 476	7 161
Other, incl.:		161	281
compensation from insurers in Unipetrol Group		-	222
Financial assets		**8 637**	**7 442**
Excise tax and fuel charge		120	123
Other taxation, duties, social security and other benefits		216	181
Advances for non-current non-financial assets		178	503
Rights		70	14
Advances for deliveries		70	31
Prepayments		227	259
Non-financial assets		**881**	**1 111**
Receivables, net		**9 518**	**8 553**
Receivables impairment allowance	9.2.6.2.2	448	479
Receivables, gross		**9 966**	**9 032**

Division of financial assets denominated in foreign currencies is presented in note 9.3.5.2. Division of receivables from related parties is presented in note 9.4.6.2.
The Group expects that the trade and other receivables by contractors will be realized no later than twelve months after the end of the reporting period.

9.2.6.2.1. The ageing analysis of receivables

Based on the analysis of balances of not past due receivables the customers were divided into two groups:
- Group I – customers with very good or good history of cooperation in the current year;
- Group II – other customers.

The division of not past due receivables

	31/12/2017	31/12/2016
Group I	7 488	6 205
Group II	603	895
	8 091	**7 100**

As at 31 December 2017 and as at 31 December 2016 the division of not past due receivables includes beside trade and other receivables also non-current receivables presented in other non-current financial assets in the amount of PLN 9 million and PLN 32 million, respectively (note 9.2.9).

(in PLN million)

The division of past due receivables, but not impaired as at the end of the reporting period

	31/12/2017	31/12/2016
up to 1 month	504	304
above 1 to 12 months	25	36
above 1 year	25	34
	554	**374**

The Group assess that the risk of unsettled receivables by customer in the field of undue receivables and due receivables not covered by write-down is remote due to effective management of trade credit and debt recovery. The Group among others sets limits for particular customers, establishes hedge and has the possibility to compensate of debts.

9.2.6.2.2. Change in impairment allowances of trade and other receivables

	NOTE	2017	2016
At the beginning of the period		479	477
Recognition	*9.1.5, 9.1.6.2*	36	27
Reversal	*9.1.4, 9.1.6.1*	(44)	(15)
Usage		(20)	(20)
Foreign exchange differences		(4)	10
		448	**479**

9.2.6.3. Trade and other liabilities

SELECTED ACCOUNTING PRINCIPLES

Liabilities
Liabilities, including trade liabilities, are initially measured at fair value and subsequently, at amortised cost using the effective interest rate method.
The Group applies simplified methods of valuation of liabilities measured at amortized cost if it does not distort information included in the statement of financial position, in particular when the period until settlement of the liability is not long.

	31/12/2017	31/12/2016
Trade liabilities	7 901	7 549
Investment liabilities	1 435	1 398
Finance lease	32	29
Other	287	113
Financial liabilities	**9 655**	**9 089**
Payroll liabilities	284	260
Excise tax and fuel charge	2 830	2 585
Value added tax	1 377	1 333
Other taxation, duties, social security and other benefits	190	161
Holiday pay accruals	76	71
Other	57	92
Non-financial liabilities	**4 814**	**4 502**
	14 469	**13 591**

Division of financial liabilities denominated in foreign currencies is presented in note 9.3.5.2. Division of liabilities from related parties is presented in note 9.4.6.2
As at 31 December 2017 and as at 31 December 2016 in the Group were no material overdue liabilities.
The Group expects that the payment of trade liabilities to contractors will take place no later than twelve months after the end of the reporting period.

9.2.7. Net debt and equity management

SELECTED ACCOUNTING PRINCIPLES

Net debt
The Group defined net debt as: non-current and current loans, borrowings and bonds lower by cash and cash equivalents.

Cash comprises cash on hand and in a bank accounts. Cash equivalents are short-term, highly liquid investments (of initial maturity up to three months), that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Valuation and outflows of cash and cash equivalents in foreign currencies are based on FIFO (First In First Out) method.
The Group to assess the level of debt used ratios: net financial gearing (net debt / equity (calculated as at the end of the period) x 100%) and net debt / EBITDA before net impairment allowances.

ORLEN GROUP (in PLN million)

Changes in net debt and liabilities from financing activities

	Loans and borrowings (A)	Bonds (B)	Cash and cash equivalents (C)	Net debt (A + B - C)	Financial lease (D)	Change in liabilities from financing activities (A + B + D)
01/01/2017	940	7 495	5 072	**3 363**	170	**8 605**
Cash changes						
net proceeds/(outflows)	*(882)*	*(300)*	*1 293*	***(2 475)***	*(28)*	***(1 210)***
interest paid	*(33)*	*(193)*	*-*	***(226)***	*(8)*	***(234)***
Non-cash changes						
foreign exchange differences in statement of profit or loss	*(9)*	*(318)*	*(121)*	***(206)***	*-*	***(327)***
valuation of debt	*(38)*	*273*	*-*	***235***	*9*	***244***
settlement of loans hedging instruments	*63*	*-*	*-*	***63***	*-*	***63***
acquisition of subsidiary	*7*	*-*	*-*	***7***	*1*	***8***
new finance lease agreements	*-*	*-*	*-*	***-***	*54*	***54***
31/12/2017	**48**	**6 957**	**6 244**	**761**	**198**	**7 203**
Net financial gearing						2.2%
Net debt / EBITDA before net impairment allowances						0.07

	Loans and borrowings (A)	Bonds (B)	Cash and cash equivalents (C)	Net debt (A + B - C)	Financial lease (D)	Change in liabilities from financing activities (A + B + D)
01/01/2016	5 003	4 155	2 348	**6 810**	166	**9 324**
Cash changes						
net proceeds/(outflows)	*(4 357)*	*3 258*	*2 685*	***(3 784)***	*(28)*	***(1 127)***
interest paid	*(92)*	*(122)*	*-*	***(214)***	*(9)*	***(223)***
Non-cash changes						
foreign exchange differences in statement of profit or loss	*178*	*100*	*39*	***239***	*-*	***278***
valuation of debt	*174*	*104*	*-*	***278***	*11*	***289***
settlement of loans hedging instruments	*34*	*-*	*-*	***34***	*-*	***34***
new finance lease agreements	*-*	*-*	*-*	***-***	*30*	***30***
31/12/2016	**940**	**7 495**	**5 072**	**3 363**	**170**	**8 605**
Net financial gearing						11.5%
Net debt / EBITDA before net impairment allowances						0.35

9.2.7.1. Loans, borrowings and bonds

	Non-current		Current		Total	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Loans	-	653	48	286	48	939
Borrowings	-	-	-	1	-	1
Bonds	6 688	6 793	269	702	6 957	7 495
	6 688	**7 446**	**317**	**989**	**7 005**	**8 435**

The ORLEN Group bases its financing on fixed and floating interest rates. Depending on the currency of financing these are relevant interbank rates increased by margin. The margin reflects risk of the Group and in case of some long-term contracts depends on net debt/EBITDA ratio.

On 10 March 2017 PKN ORLEN early repaid the long-term credit in the amount of PLN 763 million with interest due, under the agreement the maturity falling in 2025. The credit agreement allowed the early repayment at the request of the borrower.

9.2.7.1.1. Loans

- by currency (translated into PLN)/ by interest rate

	31/12/2017	31/12/2016
PLN - WIBOR	6	758
EUR - EURIBOR	-	71
CAD - LIBOR CAD	42	110
	48	**939**

As at 31 December 2017 unused credit lines (note 9.3.5.4) increased by trade and other receivables (note 9.2.6.2) and cash and cash equivalents exceeded trade and other liabilities (note 9.2.6.3) by PLN 10,471 million.
The Group hedges partially cash flows related to interest payments regarding external financing in EUR and USD, by using interest rate swaps (IRS).
In the period covered by the foregoing consolidated financial statements as well as after the reporting date there were no cases of violations of loans or interests repayment.
In case of operating loans agreements, the ORLEN Group entities have obligation to maintain selected financial ratios within specified ranges. In 2017 these ratios assessed by the creditor banks were at a safe level. The value of covenant as at 31 December 2017 included in the loan agreement of PKN ORLEN (net debt / EBITDA before net impairment allowances) amounted to 0.07.

ORLEN GROUP (in PLN million)

9.2.7.1.2. Bonds

- by currency (translated into PLN)

	31/12/2017	31/12/2016
PLN	1 716	2 017
EUR	5 241	5 478
	6 957	**7 495**

- by interest rate

	Fixed rate bonds		Floating rate bonds		Total	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Nominal value	5 549	5 549	1 600	1 900	7 149	7 449
Carrying amount	5 342	5 579	1 615	1 916	6 957	7 495

	Nominal value PLN	Nominal value EUR	Subscription date	Maturity date	Base rate	Margin	Rating
Bond issue program 2017-2022							
A Series	200	-	19.09.2017	19.09.2021	6M WIBOR	1.00%	A - (pol)
B Series	200	-	08.12.2017	08.12.2022	6M WIBOR	1.00%	A - (pol)
Bond issue program 2013-2014							
E Series	200	-	02.04.2014	02.04.2018	6M WIBOR	1.30%	A - (pol)
F Series	100	-	09.04.2014	09.04.2020	Fixed interest rate 5%		A - (pol)
Retail bonds	**700**	**-**					
Corporate bonds	**1 000**	**-**	27.02.2012	27.02.2019	6M WIBOR	1.60%	-
Eurobonds	2 131 *	500	30.06.2014	30.06.2021	Fixed interest rate 2.5%		BBB-, Baa2
Eurobonds	3 318 **	750	07.06.2016	07.06.2023	Fixed interest rate 2.5%		BBB-, Baa2
Eurobonds	**5 449**	**1 250**					
	7 149	**1 250**					

*translated into PLN using the exchange rate as at 31 December 2014
** translated into PLN using the exchange rate as at 31 December 2016

The difference between the nominal value and carrying amount of bonds results from measurement of bonds according to amortized cost using the effective interest method.

In the 2nd quarter of 2017 PKN ORLEN redeemed of retail bonds A and B series in the total amount of PLN 400 million issued under public bond issue program conducted in 2013-2014. Then PKN ORLEN in the 4th quarter of 2017 redeemed of retail bonds C and D series in the total amount of PLN 300 million issued under the first public bond issue program conducted in 2013-2014.
Under the second public bond issue program PKN ORLEN in the 4th quarter of 2017 issued retail bonds series A and B in the total amount of PLN 400 million.

9.2.7.2. Equity management policy

Equity management is performed in order to protect the Group's financial security in the process of continue its operations while maximizing returns for shareholders, in particular by:
- providing access to liquidity for the Group entities and development of effective liquidity distribution structures within the Group;
- diversification of sources of external financing and maintaining their long maturity, taking into account banking and non-bank sources.

Above actions are performed based on the constant monitoring of:
- net financial gearing of the Group - as at 31 December 2017 and as at 31 December 2016 amounted to 2.2% and 11.5% respectively;
- net debt to EBITDA ratio before net impairment allowances;
- PKN ORLEN rating.

Dividend per ordinary shares – depends on financial position of the Group, including maintaining financial ratios at a secure level. In 2017 and 2016 the dividend in the amount of PLN 3 per share and of PLN 2 per share, was paid, respectively.

9.2.8. Equity

SELECTED ACCOUNTING PRINCIPLES

Share capital
Equity paid by shareholders and stated at nominal value in accordance with the Parent Company's of association and the entry in the Commercial Register.
Share capital as at 31 December 1996, in accordance with IAS 29, § 24 and 25, was revalued based on monthly price indices of consumer goods and services.

Share premium
Equity created by the surplus of the issuance value in excess of the nominal value of shares decreased by issuance costs. Capital from issue of shares above their nominal value as at 31 December 1996, in accordance with IAS 29, § 24 and 25, was revalued based on monthly price indices of consumer goods and services.

Hedging reserve
Equity including valuation and settlement of hedging instruments that meet the criteria of cash flow hedge accounting.

Exchange differences on translating foreign operations
Result mainly from translation of the financial statements of the foreign companies into PLN under consolidation procedures.

(in PLN million)

Retained earnings
include:
- *reserve capital created and used in accordance with the Commercial Companies Code,*
- *actuarial gains and losses from post-employment benefits,*
- *the current reporting period profit/loss,*
- *other capitals created and used according to the rules prescribed by law.*

9.2.8.1. Share capital

	31/12/2017	31/12/2016
Share capital	535	535
Share capital revaluation adjustment	523	523
	1 058	**1 058**

In accordance with the Polish Commercial Register, the share capital of Polski Koncern Naftowy ORLEN S.A. as at 31 December 2017 and as at 31 December 2016 was divided into 427,709,061 ordinary shares with nominal value of PLN 1.25 each.

Number of shares issued				
A Series	B Series	C Series	D Series	Total
336 000 000	6 971 496	77 205 641	7 531 924	**427 709 061**

In Poland, each new issue of shares is labelled as a new series of shares. All of the above series have the exact same rights.

Shareholders' structure

	Number of shares / voting rights	Nominal value of shares (in PLN)	Share in share capital
State Treasury	117 710 196	147 137 745	27.52%
Nationale-Nederlanden OFE*	30 000 000	37 500 000	7.01%
Aviva OFE*	28 300 000	35 375 000	6.62%
Other	251 698 865	314 623 581	58.85%
	427 709 061	**534 636 326**	**100.00%**

** Shareholders holding directly or indirectly via related parties, at least 5% of total votes at the Extraordinary Shareholders Meeting of PKN ORLEN S.A. held on 2 February 2018*

9.2.8.2. Share premium

	31/12/2017	31/12/2016
Nominal share premium	1 058	1 058
Share premium revaluation adjustment	169	169
	1 227	**1 227**

9.2.8.3. Hedging reserve

	2017	2016
At the beginning of the period	(355)	(80)
gross value	*(440)*	*(99)*
deferred tax	*85*	*19*
Items of other comprehensive income	929	(396)
settlement of hedging instruments,gross, incl.:	(107)	129
sales revenues	37	(67)
cost of sales	(54)	105
foreign exchange differences	(185)	47
inventories	78	31
ineffective part from settlement	17	-
settlement of instruments - no hedged item	*(48)*	*61*
valuation of hedging instruments, gross	*1 084*	*(586)*
Deferred tax from hedging instruments valuation and settlement	(175)	75
Items of other comprehensive income attributable to non-controlling interest	(68)	46
	331	**(355)**
gross value	*409*	*(440)*
deferred tax	*(78)*	*85*

9.2.8.4. Retained earnings

	31/12/2017	31/12/2016
Reserve capital	21 735	17 756
Other capital	884	884
Actuarial gains and losses	(32)	(19)
Net profit for the period attributable to equity owners of the parent	6 655	5 261
	29 242	**23 882**

(in PLN million)

9.2.8.5. Equity attributable to non-controlling interest

	31/12/2017	31/12/2016
Unipetrol Group	3 000	2 511
Other	14	11
	3 014	**2 522**

	31/12/2017	31/12/2016
At the beginning of the period	2 522	2 071
Share in profit net, incl.:	518	479
Unipetrol Group	*518*	*481*
Share in items of other comprehensive income	61	33
hedging reserve, net	*68*	*(46)*
exchange differences on translating foreign operations	*(7)*	*79*
Change in the structure of non-controlling interest	2	(1)
Paid and declared dividends	(89)	(60)
	3 014	**2 522**

Condensed financial information relating to UNIPETROL GROUP

	31/12/2017	31/12/2016
Non-current assets	6 104	5 259
Current assets	6 259	5 965
cash	*401*	*480*
other current assets	*5 858*	*5 485*
Total assets	**12 363**	**11 224**
Total equity	**8 121**	**6 799**
Non-current liabilities	393	328
Current liabilities, incl.:	3 849	4 097
trade and other liabilities	*3 383*	*3 762*
loans and borrowings	*3*	*3*
Total liabilities	**4 242**	**4 425**
Total equity and liabilities	**12 363**	**11 224**
Net debt	**(398)**	**(477)**

	2017	2016
Sales revenues	19 811	14 179
Cost of sales, incl.:	(17 832)	(13 438)
depreciation and amortisation	*(459)*	*(316)*
Gross profit on sales	**1 979**	**741**
Distribution expenses	(432)	(401)
Administrative expenses	(261)	(237)
Net other operating income and expenses, incl.:	663	1 512
reversal / recognition of impairment allowances of property, plant and equipment and intangible assets	*(12)*	*300*
penalties, damages and compensations	*659*	*1 194*
Profit from operations	**1 949**	**1 615**
Net finance income and costs	(229)	21
Profit before tax	**1 720**	**1 636**
Tax expense	(317)	(337)
Net profit	**1 403**	**1 299**
Items of other comprehensive income	160	92
Total net comprehensive income	**1 563**	**1 391**

In 2017 and 2016, there were no significant restrictions in entities with significant non-controlling interest resulting from credit agreements, regulatory requirements and other contractual arrangements that restrict access to assets and settlement of liabilities of the Group.

9.2.8.6. Proposal for distribution of the Parent Company's profit for 2017

The Management Board of PKN ORLEN, after considering the liquidity situation and achievement of strategic financial objectives, proposes to distribute the net profit of PKN ORLEN for the year 2017 in the amount of PLN 6,101,792,575.09 as follows: PLN 1,283,127,183 will be 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 Management Board of PKN ORLEN recommends 20 July 2018 as the dividend date and 3 August 2018 as the dividend payment date. This recommendation of the Management Board will be presented to the General Shareholders' Meeting of PKN ORLEN, which will make a conclusive decision in this matter.

ORLEN GROUP (in PLN million)

9.2.8.7. Distribution of the Parent Company's profit for 2016

The Ordinary General Meeting of Shareholders of PKN ORLEN S.A. on 30 June 2017 distributed the net profit of PKN ORLEN for the year 2016 in the amount of PLN 5,364,455,552.64 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 net profit of PLN 4,081,328,369.64 as reserve capital.

9.2.9. Derivatives and other assets and liabilities

Derivatives and other assets

	Non-current		Current		Total	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Cash flow hedging instruments	303	66	311	92	614	158
currency forwards	*303*	*12*	*225*	*32*	*528*	*44*
commodity swaps	-	*54*	*86*	*60*	*86*	*114*
Derivatives not designated as hedge accounting	-	-	123	5	123	5
currency forwards	-	-	*89*	*5*	*89*	*5*
commodity swaps	-	-	*33*	-	*33*	-
currency interest rate swaps	-	-	*1*	-	*1*	-
Derivatives	**303**	**66**	**434**	**97**	**737**	**163**
Other financial assets	93	73	133	152	226	225
receivables on settled derivatives	-	-	*126*	*149*	*126*	*149*
financial assets available for sale	*84*	*40*	-	-	*84*	*40*
other	*9*	*33*	*7*	*3*	*16*	*36*
Other non-financial assets	237	204	-	-	237	204
investment property	*104*	*97*	-	-	*104*	*97*
perpetual usufruct of land	*115*	*107*	-	-	*115*	*107*
other	*18*	-	-	-	*18*	-
Other assets	**330**	**277**	**133**	**152**	**463**	**429**

Derivatives and other liabilities

	Non-current		Current		Total	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Cash flow hedging instruments	-	190	141	376	141	566
currency forwards	-	*42*	*7*	*117*	*7*	*159*
commodity swaps	-	*28*	*134*	*228*	*134*	*256*
currency interest rate swaps	-	*120*	-	*31*	-	*151*
Derivatives not designated as hedge accounting	75	90	172	25	247	115
currency forwards	-	-	*100*	*4*	*100*	*4*
commodity swaps	-	-	*72*	*21*	*72*	*21*
interest rate swaps	*56*	*90*	-	-	*56*	*90*
currency interest rate swaps	*19*	-	-	-	*19*	-
Embedded derivatives	-	-	-	2	-	2
currency swaps	-	-	-	*2*	-	*2*
Derivatives	**75**	**280**	**313**	**403**	**388**	**683**
Other financial liabilities	302	280	125	169	427	449
liabilities on settled derivatives	-	-	*125*	*169*	*125*	*169*
investment liabilities	*108*	*111*	-	-	*108*	*111*
finance lease	*166*	*141*	-	-	*166*	*141*
other	*28*	*28*	-	-	*28*	*28*
Other non-financial liabilities	9	9	195	145	204	154
deferred income	*9*	*9*	*195*	*145*	*204*	*154*
Other liabilities	**311**	**289**	**320**	**314**	**631**	**603**

9.2.10. Provisions

SELECTED ACCOUNTING PRINCIPLES

Provisions

The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

Environmental provision

The Group creates provisions for future liabilities due to reclamation of contaminated land or water or elimination of harmful substances if there is such a legal or constructive obligation. Environmental provision for reclamation is periodically reviewed on the basis of the degree of contamination. Changes of provision increase or decrease in the current period the value of asset causing the obligation of reclamation. In case of decrease of provision is higher than carrying amount of the asset, the amount of that excess is recognized in profit or loss.

Jubilee bonuses and post-employment benefits

Under the remuneration plans employees of the Group are entitled to jubilee bonuses, paid to employees after an elapse of a defined number of years in service as well as retirement and pension benefits, paid once at retirement or pension. The amount of above benefits and jubilee bonuses depends on the number of years in service and an employee's remuneration.

The jubilee bonuses are other long-term employee benefits, whereas retirement and pension benefits are classified as post-employment defined benefit plans.

Provisions are determined by an independent actuary and revalued if there are any indications impacting their value, taking into account the staff turnover and planned change in wages.

ORLEN GROUP (in PLN million)

Actuarial gains and losses from post-employment benefits are recognized in components of other comprehensive income and from other employment benefits are recognized in profit or loss.

CO_2 emissions, energy certificates

The Group recognizes the estimated CO_2 emissions costs during the reporting period in operating activity costs (taxes and charges). Provision is recognized based on the value of allowances taking into account the principle of FIFO. In case of a shortage of allowances, the provision is created based on the purchase price of allowance concluded in forward contracts or market quotations of allowances at the reporting date.

Energy certificates are property rights to energy and energy efficiency certificates. The Group recognizes provisions for the estimated volume of energy rights and energy efficiency certificates for depreciation in the reporting period, which is recognized as a reduction of revenues from sales of energy or as operating costs in case of purchase of electricity for own needs.

The obligation to submit energy certificates for depreciation or to pay a substitute fee or obtain a statement together with an energy efficiency audit is regulated on the basis of separate regulations.

Other provisions

Other provisions include mainly provisions for going on legal proceedings and are recognized after consideration of available information, including the opinions of independent experts.

The Group recognizes provisions if at the end of the reporting period the Group is an obligation arising from past events that can be reliably estimated and it is probable that fulfilment of this obligation will cause an outflow of resources embodying economic benefits.

ESTIMATES

Recognition of provisions requires estimates of the probable outflow of resources embodying economic benefits and defining the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. Provisions are recognized when the probability of outflow of resources embodying economic benefits is higher than 50%.

Provisions

	Non-current		Current		Total	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Environmental	626	570	67	38	693	608
Jubilee bonuses and post-employment benefits	238	212	39	33	277	245
CO_2 emissions, energy certificates	-	-	376	365	376	365
Other	38	46	191	230	229	276
	902	**828**	**673**	**666**	**1 575**	**1 494**

Changes in provisions

	Environmental provision	Jubilee bonuses and post-employment benefits provision	CO_2 emissions, energy certificates	Other	Total
01/01/2017	608	245	365	276	1 494
Recognition	134	49	378	19	580
Reversal	(9)	-	(15)	(48)	(72)
Usage	(36)	(16)	(343)	(18)	(413)
Foreign exchange differences	(4)	(1)	(9)	-	(14)
	693	**277**	**376**	**229**	**1 575**
01/01/2016	489	253	466	251	1 459
Recognition	154	10	354	118	636
Reversal	(4)	-	(63)	(140)	(207)
Usage	(44)	(20)	(397)	(61)	(522)
Acquisition of subsidiary	(8)	-	-	-	(8)
Foreign exchange differences	21	2	5	108	136
	608	**245**	**365**	**276**	**1 494**

	2017	2016
Change in provisions presented in the statement of financial position	**81**	**35**
Usage of prior year provision for CO_2 emissions, energy certificates from previous year	336	392
Capitalization of environmental provision	(99)	(56)
Actuarial gains and losses	(15)	(10)
Foreign exchange differences	42	(28)
Other	-	(3)
Change in provisions in the statement of cash flows	**345**	**330**

9.2.10.1. Environmental provision

The Group has legal obligation to clean contaminated land – water environment in the area of production plant in Plock, fuel stations, fuel terminals and warehouses.

ORLEN GROUP (in PLN million)

The Management Board estimated the provision for environmental risk related to the removal of pollution based on an analyses provided by independent expert taking into account the expected costs of remediation. Depending on the type of pollution generating facility, the provision is estimated by taking into account the frequency of remediation, the scale of environmental pollution and the achieved ecological effects. The decommissioning of most facilities will take place many years in the future and the precise requirements that will have to be met when the removal event occurs are uncertain. The level of uncertainty is subject to potential change in regulations concerning, among others environmental and social expectations. At the same time, technological progress is an important factor that will determine future decommissioning costs. The Group believes that the impact of any reasonably foreseeable change to these provisions on the Group's operating results, financial position or liquidity will not be material.

In the Czech Republic, the Government is responsible for liabilities arising from contamination of land-water environment before date of entity's privatization. In case of new contamination that arose after this date the Group is responsible for those liabilities.
In 2016, Unipetrol Group recognized provision for the estimated costs of plant for the production of chlorine using the mercury electrolysis liquidation in Spolana a.s in the amount of approximately PLN 21 million. In November 2017, the process of liquidation of the plant began. The plan assumes the completion of recultivation works and the use of the specific reserve by the end of 2018.
As at 31 December 2017 the balance of provision for liquidation and contaminations clean up costs in the plant amounted to PLN 26 million translated using the exchange rate as at 31 December 2017 (representing CZK 160 million).

Moreover, at the stage of development and extraction of hydrocarbon deposits, the Group recognizes provisions for the cost of removal of drillings and supporting infrastructure. The line environmental provision mainly concerns entities operating in Poland and Canada.
In Poland provision was discounted based mainly on the risk-free rate set on the level of yields on 10-year treasury bonds and adjusted by the 5-year inflation rate. As at 31 December 2017 and as at 31 December 2016 the rate amounted to 0.86% and 2.33%, respectively.
The companies of the Upstream segment in Canada to update the environmental provision applied the discount rate as at 31 December 2017 and 31 December 2016 at 2.20% and 2.40%, respectively.

9.2.10.2. Provision for jubilee bonuses and post-employment benefits

Change in employee benefits obligations

	NOTE	Jubilee bonuses provision		Post-employment benefits		Total	
		31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016
At the beginning of the period		137	150	108	103	245	253
Current service costs		7	6	5	3	12	9
Interest expenses		4	5	4	3	8	8
Actuarial gains and losses arising from changes in assumptions:		14	(16)	15	10	29	(6)
demographic		*7*	*(19)*	*4*	*3*	*11*	*(16)*
financial		*6*	*(4)*	*5*	*(2)*	*11*	*(6)*
other		*1*	*7*	*6*	*9*	*7*	*16*
Past employment costs		-	(4)	(1)	5	(1)	1
Payments under programme		(17)	(15)	(3)	(4)	(20)	(19)
Other		-	11	4	(12)	4	(1)
	9.2.10	**145**	**137**	**132**	**108**	**277**	**245**

The carrying amount of employee benefits liabilities is identical to their present value as at 31 December 2017 and 31 December 2016.

Employee benefits liabilities divided into active and retired employees

	Active employees		Retired employees		Total	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Poland	205	189	38	32	243	221
Czech Republic	17	17	-	-	17	17
Lithuania, Latvia, Estonia	17	7	-	-	17	7
	239	**213**	**38**	**32**	**277**	**245**

	Jubilee bonuses provision		Post-employment benefits		Total	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Employee benefits liabilities divided into geographical structure						
Poland	140	132	104	89	244	221
Czech Republic	5	5	12	12	17	17
Lithuania, Latvia, Estonia	-	-	16	7	16	7
	145	**137**	**132**	**108**	**277**	**245**
Maturity of employee benefits analysis						
up to 1 year	19	16	20	17	39	33
above 1 to 5 years	54	51	19	13	73	64
above 5 years	72	70	93	78	165	148
	145	**137**	**132**	**108**	**277**	**245**

The weighted average duration of liabilities for post-employment benefits in 2017 and in 2016 amounted to: Poland 8 and 9 years, the Czech Republic 8 and 10 and Lithuania, Latvia, Estonia 12 and 10 years, respectively.

In 2017 the amount of provision for employee benefits changed as the result of update of assumptions, mainly in relation to discount rate, projected inflation and expected remuneration increase ratio. Should the 2016 assumptions be used, the provision for the employee benefits would be lower by PLN (22) million.

Sensitivity analysis to changes in actuarial assumptions

As at 31 December 2017, the Group used the following actuarial assumptions that had an impact on the level of actuarial provisions for the Polish entities: discount rate 3.2%, expected inflation 2.3% in 2018, 2.7% in 2019 and 2.5% in subsequent years the remuneration increase rate: 4% in 2018 and 2.5% in subsequent years. In the Group's foreign entities the main impact had value of discount rate: from 0.8% to 1.5%.
The Group analysed the impact of the financial and demographic assumptions and calculated that the changes of ratios: remuneration ratio by +/- 0.5 p.p., the discount rate by +/- 0.5 p.p. and the rate of turnover by +/- 0.5 p.p. in Poland, Czech, Lithuania, Latvia and Estonia are no higher than PLN 8 million. Therefore, the Group does not present any detailed information.
The Group carries out the employee benefit payments from current resources. As at 31 December 2017 there were no funded plans and the Group paid no contributions to fund liabilities.

9.2.10.3. Provision for CO_2 emissions, energy certificates

Provision for CO_2 emissions and energy certificates comprises mainly recognition of the provisions for estimated in the reporting period, the cost of CO_2 emissions. As at 31 December 2017 and as at 31 December 2016 the value of the provision amounted to PLN 364 million and PLN 353 million, respectively.

9.2.10.4. Other provisions

As at 31 December 2017 and as at 31 December 2016 other provisions comprise mainly provisions for the risk of unfavourable decisions of pending administrative or court proceedings of PLN 164 million and PLN 192 million, respectively.

9.3. EXPLANATORY NOTES TO THE FINANCIAL INSTRUMENTS AND FINANCIAL RISK

SELECTED ACCOUNTING PRINCIPLES

Financial instruments

Measurement of financial assets and liabilities
At initial recognition, the Group measures financial assets and liabilities not qualified as at fair value through profit or loss (i.e. held for trading) at their fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. The Group does not classify instruments as measured at fair value through profit or loss upon initial recognition, i.e. does not apply the fair value options.
At the end of the reporting period, the Group measures item of financial assets and liabilities at amortised cost using effective interest rate method, except for derivatives, which are measured at fair value.
The Group uses simplified methods of valuation of financial assets and liabilities accounted at amortized cost if it does not distort information included in the statement of financial position, in particular when the period until the repayment of debt or settlement of the liability is not long.
Financial assets accounted at amortized cost, where the Group applies simplifications, are accounted at initial recognition in the amount due, and later, including at the end of the reporting period, in the amount of the payment due less impairment allowances.
Financial liabilities for which the Group applies simplifications are accounted at initial recognition and at a later date, including at the end of the reporting period, at the amount due.
Gains and losses resulting from changes in fair value of derivatives, for which hedge accounting is not applicable, are recognized in the current year profit or loss.

Hedge accounting
Derivatives designated as hedging instruments whose cash flows are expected to offset changes in the cash flows of a hedged item are accounted for in accordance with the cash flow hedge accounting.
The Group has one type of hedging relation: cash flow hedge.
The Group assess effectiveness of cash flow hedge at the inception of the hedge and later, at minimum, at reporting date. In case of cash flow hedge accounting, the Group recognizes in other comprehensive income part of profits and losses connected with the effective part of the hedge, whereas profits or losses connected with the ineffective part - under profit or loss.
The Group uses statistical methods, in particular regression analysis and method of direct compensation, to assess effectiveness of the hedge.
If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognized in other comprehensive income are reclassified to profit or loss of the reporting period in the same period or periods during which the asset acquired, or liability assumed, affects profit or loss.
However, if the Group expects that all or a portion of a loss recognized in other comprehensive income will not be recovered in one or more future periods, it reclassifies the amount that is not expected to be recovered to profit or loss. Derivative instruments are presented as assets, when their valuation is positive and as liabilities, when their valuation is negative.
If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, or a forecast transaction for a non-financial asset or non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, the Group removes the associated gains and losses that were recognized in the other comprehensive income and includes them in the initial cost or other carrying amount of the asset or liability when the item appears in the statement of financial position.
If a hedge of a forecast transaction results in the recognition of revenue from sales of products, merchandise, materials or services, the Group removes the associated gains or losses that were recognized in the other comprehensive income and adjusts above revenues.

Fair value measurement
The Group maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs to estimate the fair value, i.e. the price at which an orderly transaction to transfer the liability or equity instrument would take place between market participants as at the measurement date under current market conditions.
The Group measures derivatives at fair value using valuation models for financial instruments based on generally available exchange rates, interest rates, forward and volatility curves for currencies and commodities quoted on active markets.
The fair value of derivatives is based on discounted future flows related to contracted transactions as the difference between term price and transaction price.
Forward exchange rates are not modelled as a separate risk factor, but derives from the spot rate and the respective forward interest rate for foreign currency in relation to PLN.

PROFESSIONAL JUDGEMENTS

Financial instruments
The Management Board assesses the classification of financial instruments, nature and extent of risk related to financial instruments and application of the cash flow hedge accounting. The financial instruments are classified into different categories depending on the purpose of the purchase and nature of acquired assets.

(in PLN million)

9.3.1. Financial instruments by category and class

Financial instruments by class	Financial instruments by category	NOTE	31/12/2017	31/12/2016
ASSETS				
Quoted and unquoted shares	Available for sale	9.2.9	84	40
Derivatives not designated as hedge accounting	At fair value through profit or loss	9.2.9	123	5
Cash flow hedging instruments	Hedging financial instruments	9.2.9	614	158
	Loans and receivables		15 023	12 699
Trade receivables	*Loans and receivables*	9.2.6.2	*8 476*	*7 161*
Cash and cash equivalents	*Loans and receivables*		*6 244*	*5 072*
Receivables on settled derivatives	*Loans and receivables*	9.2.9	*126*	*149*
Other	*Loans and receivables*	9.2.6.2, 9.2.9	*177*	*317*
			15 844	**12 902**
LIABILITIES				
Embedded derivatives and derivatives not designated as hedge accounting	At fair value through profit or loss	9.2.9	247	117
Cash flow hedging instruments	Hedging financial instruments	9.2.9	141	566
Finance lease	Excluded from the scope of IAS 39	9.2.6.3, 9.2.9	198	170
	Measured at amortised cost		16 889	17 803
Loans	*Measured at amortised cost*	9.2.7.1.1	*48*	*939*
Borrowings	*Measured at amortised cost*	9.2.7.1	*-*	*1*
Bonds	*Measured at amortised cost*	9.2.7.1.2	*6 957*	*7 495*
Trade liabilities	*Measured at amortised cost*	9.2.6.3	*7 901*	*7 549*
Investment liabilities	*Measured at amortised cost*	9.2.6.3, 9.2.9	*1 543*	*1 509*
Liabilities on settled derivatives	*Measured at amortised cost*	9.2.9	*125*	*169*
Other	*Measured at amortised cost*	9.2.6.3, 9.2.9	*315*	*141*
			17 475	**18 656**

9.3.2. Income, expenses, profit and loss in the consolidated statement of profit or loss and other comprehensive income

	Financial instruments by category	NOTE	2017	2016
Interest income	*Loans and receivables*	9.1.6.1	50	59
Interest costs		9.1.6.2	(205)	(216)
	Measured at amortised cost		(197)	(211)
	Cash flow hedging financial instruments (ineffective part)		-	4
	Excluded from the scope of IAS 39		(8)	(9)
Recognition/reversal of receivables impairment allowances	*Loans and receivables*		8	(12)
other operating income/expenses	*Loans and receivables*	9.1.4, 9.1.5	*7*	*(12)*
finance income/costs	*Loans and receivables*	9.1.6.1, 9.1.6.2	*1*	-
Financial instruments gains/(losses)			343	(484)
	Loans and receivables		*(1 074)*	*209*
	Measured at amortised cost		*1 718*	*(756)*
	At fair value through profit or loss		*(296)*	*48*
	Cash flow hedging financial instruments (ineffective part)		*(9)*	*10*
	Available for sale		*4*	*5*
			196	**(653)**
other, excluded from the scope of IFRS 7			**(129)**	**(4)**
interest on excise tax liability			*(119)*	-

9.3.3. Fair value measurement

31/12/2017

	NOTE	Carrying amount	Fair value	Fair value hierarchy Level 1	Fair value hierarchy Level 2
Financial assets					
Quoted shares		43	43	43	-
Derivatives	9.2.9	737	737	-	737
		780	**780**	**43**	**737**
Financial liabilities					
Loans	9.2.7.1.1	48	48	-	48
Bonds	9.2.7.1.2	6 957	7 361	7 361	-
Finance lease	9.2.6.3, 9.2.9	198	207	-	207
Derivatives	9.2.9	388	388	-	388
		7 591	**8 004**	**7 361**	**643**

ORLEN GROUP (in PLN million)

31/12/2016

	NOTE	Carrying amount	Fair value	Fair value hierarchy Level 1	Level 2
Financial assets					
Derivatives	*9.2.9*	163	163	-	163
		163	**163**	**-**	**163**
Financial liabilities					
Loans	*9.2.7.1.1*	939	941	-	941
Borrowings	*9.2.7.1*	1	1	-	1
Bonds	*9.2.7.1.2*	7 495	7 811	7 811	-
Finance lease	*9.2.6.3, 9.2.9*	170	182	-	182
Derivatives	*9.2.9*	683	683	-	683
		9 288	**9 618**	**7 811**	**1 807**

For other classes of financial assets and liabilities fair value represents their carrying amount.

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

Financial liabilities due to loans, bonds, finance lease and liabilities and receivables for borrowings are measured at fair value using discounted cash flows method. Discount rates are calculated based on market interest rates according to quotations of 1- month, 3-months and 6-months interest rates increased by proper margins for particular financial instruments.
As at 31 December 2017 and as at 31 December 2016 the Group held unquoted shares in entities, for which fair value cannot be reliably measured, due to the fact that there are no active markets for these entities and no comparable transactions in the same type of instruments were noted. The value of shares of these entities was recognized in the consolidated statement of financial position as at 31 December 2017 and as at 31 December 2016 of PLN 41 million and PLN 40 million, respectively at acquisition cost less impairment allowances. As at 31 December 2017 and as at 31 December 2016 the Group did not intend to sell financial instruments classified as available for sale, for which it is not possible to determine fair value. Additionally, as at 31 December 2017 the Group possesses shares of listed companies on the Polish and Canadian Stock Exchange in the amount of PLN 44 million, which are measured at fair value.
During the reporting period and comparative period there were no reclassifications of financial instruments in the Group between Level 1 and 2 of fair value hierarchy.

9.3.4. Hedge accounting

Net carrying amount of cash flows hedging instruments

Type of instruments / type of risk	***Hedging strategies within the cash flow hedge related to exposure to:***	NOTE	31/12/2017	31/12/2016
currency forwards / risk of exchange rates changes	*operating and investing activity; sales of products and purchase of crude oil;*		521	(115)
commodity swaps / commodity risk	*time mismatch occurring on purchases of crude oil, risk of crude oil prices on arbitrage transactions cash & carry, offers for which price formulas are based on fixed price, refinery margin volatily and prices of raw materials or finished goods constituting oversized operating inventories;*		(48)	(142)
currency interest rate swaps / risk of interest rates changes	*interest payments;*		-	(151)
		9.2.9	**473**	**(408)**

In 2017, the Group changed the method of setting hedge relations, the methodology of conducting effectiveness analyses of relations, and applied the changes in assessment principles of their effectiveness.
In 2017, the Group changed the presentation of:
- derivatives within the commodity risk hedging transactions related to the time mismatch on purchases of crude oil. In 2017, the settlement of hedging instruments the forecast planned future sale of diesel adjusted revenues from sales of finished goods and services, while in 2016 was adjusted the initial value of inventories;
- hedging of the price risk of products related to time mismatch on non-normative operating inventories. In 2017, the settlement of the purchase of crude oil hedging instruments adjusted the initial value of inventories, while in 2016 was recognized in the cost of finished goods and services sold.

Since 2017, the Group ceased using hedge accounting in relation to interest rate swaps EUR/PLN.

The implemented changes are aimed at the coherence of the presentation in the financial statements of the results on hedging derivative transactions with the business objectives and economic effects of the conclusion of these transactions.

Planned realization date of hedged cash flows which will be recognized in the profit or loss

	31/12/2017	31/12/2016
Currency operating exposure	2018-2020	2017-2018
Finance currency exposure	-	2017
Interest rate exposure	-	2017-2019
Commodity risk exposure	2018-2019	2017-2018

(in PLN million)

9.3.5. Risk identification

Risk management is mainly focused on the unpredictability of markets and aims to reduce the impact of volatility on the Group's financial results..

Type of risk		Exposure	Measurement of exposure	Management/Hedging
MARKET RISK	**Commodity**	- risk of changes in refining and petrochemical margins on sale of products and Brent differential fluctuations; - risk of changes in crude oil and products prices related to the time mismatch; - risk of changes in CO_2 emission rights prices; - risk of changes in crude oil and refinery product prices related to the obligation to maintain mandatory reserves of crude oil and fuels; - risk of changes in commodity prices on arbitrage transactions cash & carry involving acquisition of crude oil or products for stock in order to sell them or process them at a later date	Based on planned cash flows.	Market risk management policy and hedging strategies, which define principles of measurement of individual exposure, parameters and the time horizon of risk hedging and hedging instruments. Market risk management is performed using derivatives, which are used only to reduce the risk of changes in fair value and the risk of changes in cash flows. By setting the market valuation of instruments, the Group uses its own recording systems and valuation of derivatives as well as relies on information obtained from market-leading banks and brokerage companies or information services. Transactions are concluded only with reliable partners, allowed to participate in transactions as a result of the application of appropriate procedures and signing of appropriate documentation.
MARKET RISK	**Exchange rates changes**	- economic currency exposure resulting from inflows decrease by expenses indexed to or denominated in other than the functional currency; - currency exposure resulting from investment or probable liabilities and receivables in foreign currencies; - balance sheet exposure resulting from assets and liabilities denominated in foreign currency	Based on planned cash flows. Based on analysis of balance sheet positions.	
MARKET RISK	**Interest rates changes**	Exposure resulting from owned assets and liabilities for which interest gains or losses are dependent on floating interest rates.	Based on total gross debt to positions for which interest costs are dependent on floating interest rate.	
Liquidity		Risk of unforeseen shortage of cash or lack of access to financing sources, both in the horizon of short and long-term, leading to temporary or permanent loss of ability to pay financial liabilities or the need to obtain funds on unfavourable terms.	Based on planned cash flows in short and long-term horizon.	Liquidity risk management policy, which defines rules of reporting and consolidation of liquidity of PKN ORLEN and ORLEN Group entities. Group carries out a policy of its financing sources diversification and uses range of tools for effective liquidity management.
Losing cash and deposits		Risk of bankruptcy of domestic or foreign banks, in which accounts are kept or in which cash is invested.	Regular review of credit rating of banks and setting limits on concentration of funds.	Management based on principles of surplus cash management, which determine possibility of granting quotas for individual banks made on the basis of, among others, ratings and reporting data. Cooperation mainly with crediting banks.
Credit		Risk of unsettled receivables for delivered products and services by customers related to the creditability of customers with whom trade transactions are concluded.	Analysis of creditability and solvency of customers.	Management based on procedures and policies adopted for management of trade credit and debt recovery including the determination of limits and hedging.

The ORLEN Group applies a consistent financial risk hedging policy based on market risk management policy and strategies supported and supervised by the Financial Risk Committee, the Management Board and the Supervisory Board of PKN ORLEN.

9.3.5.1. Commodity risk

The impact of commodity risk hedging instruments on the Group's financial statements

Type of hedged raw material/product	Unit of measure	31/12/2017	31/12/2016
Crude oil	bbl	13 273 000	16 574 715
Heating oil	t	625 616	354 091
Gas	gj	1 825 000	7 300 000
Other	t	505 361	46 619

The net carrying amount of commodity risk hedging instruments as at 31 December 2017 and as at 31 December 2016 amounted to PLN (48) million and PLN (142) million, respectively.

(in PLN million)

Sensitivity analysis for changes in prices of products and raw materials

31/12/2017

Analysis of the influence of changes in the carrying amount of financial instruments on result before tax and hedging reserve to a hypothetical change in prices of products and raw materials:

	Assumed variations		Influence on result before tax		Influence on hedging reserve		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
			Increase of prices		Increase of prices		Total influence	
Crude oil USD/bbl; CAD/bbl	25%	45%	(56)	-	(194)	(817)	(250)	(817)
Diesel USD/t	22%	42%	(29)	-	(42)	(28)	(71)	(28)
Gasoline USD/t	25%	41%	-	-	(2)	(8)	(2)	(8)
Heating oil USD/t	25%	53%	-	-	(133)	33	(133)	33
Gas CAD/Gj	23%	42%	4	-	-	(31)	4	(31)
JET fuel USD/t	21%	-	-	-	(3)	-	(3)	-
			(81)	**-**	**(374)**	**(851)**	**(455)**	**(851)**
	2017	2016	Decrease of prices		Decrease of prices		Total influence	
Crude oil USD/bbl; CAD/bbl	-25%	-45%	56	-	194	817	250	817
Diesel USD/t	-22%	-42%	29	-	42	28	71	28
Gasoline USD/t	-25%	-41%	-	-	2	8	2	8
Heating oil USD/t	-25%	-53%	-	-	133	(33)	133	(33)
Gas CAD/Gj	-23%	-42%	(4)	-	-	31	(4)	31
JET fuel USD/t	-21%	-	-	-	3	-	3	-
			81	**-**	**374**	**851**	**455**	**851**

Applied for the sensitivity analysis of commodity risk hedging instruments variations of crude oil, gas and products prices were calculated based on their observed volatility. The influence of changes in prices was presented on annual basis.

In case of derivatives, the influence of crude oil, gas and products prices variations on fair value were examined at constant level of currency rates.

9.3.5.2. The risk of exchange rates changes

Currency structure of financial instruments as at 31 December 2017

Financial instruments by class	EUR	USD	CZK	CAD	Other currencies after translation to PLN	Total after translation to PLN
Financial assets						
Trade receivables	562	193	7 757	9	24	4 332
Derivatives	131	49	1	7	-	737
Cash and cash equivalents	799	376	4 279	-	24	5 364
Receivables on settled derivatives	-	36	-	-	-	126
Other	7	1	120	28	-	129
	1 499	**655**	**12 157**	**44**	**48**	**10 688**
Financial liabilities						
Loans	-	-	-	15	-	42
Bonds	1 256	-	-	-	-	5 241
Trade liabilities	306	1 242	3 479	19	8	6 228
Investment liabilities	114	11	1 310	29	-	808
Derivatives	23	80	-	6	-	388
Liabilities on settled derivatives	-	36	-	-	-	125
Other	-	55	216	-	-	228
	1 699	**1 424**	**5 005**	**69**	**8**	**13 060**

(in PLN million)

Currency structure of financial instruments as at 31 December 2016

Financial instruments by class	EUR	USD	CZK	CAD	Other currencies after translation to PLN	Total after translation to PLN
Financial assets						
Trade receivables	466	150	6 337	15	18	3 790
Derivatives	4	31	-	5	-	163
Cash and cash equivalents	679	76	2 657	-	19	3 775
Receivables on settled derivatives	-	36	-	-	-	149
Other	4	1	182	8	-	75
	1 153	**294**	**9 176**	**28**	**37**	**7 952**
Financial liabilities						
Loans	16	-	-	36	-	181
Bonds	1 238	-	-	-	-	5 478
Trade liabilities	333	1 069	2 650	4	4	6 390
Investment liabilities	146	9	839	26	-	901
Derivatives	76	77	-	8	-	683
Liabilities on settled derivatives	-	40	-	-	-	169
Other	1	1	232	-	-	47
	1 810	**1 196**	**3 721**	**74**	**4**	**13 849**

Sensitivity analysis for changes in the exchange rates

	EUR / PLN		USD / PLN		CZK / PLN		CAD / PLN		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	variation of exchange rates +15%									
Influence on result before tax (A)	(751)	(423)	(297)	(339)	51	(68)	7	(17)	(990)	(847)
Influence on hedging reserve (B)	(675)	(1 863)	4	(146)	-	-	-	(97)	(671)	(2 106)
Influence on foreign exchange differences on subsidiaries from consolidation (C)	122	14	13	(63)	123	136	(18)	-	239	87
Total influence (A+B+C)	**(1 304)**	**(2 272)**	**(280)**	**(548)**	**174**	**68**	**(11)**	**(114)**	**(1 422)**	**(2 866)**
Sensitivity of net investment in foreign operations including hedging reserve (D)	105	93	278	274	1 218	1 019	280	274	1 881	1 660
Total influence on profit or loss and other comprehensive income (A+B+D)	**(1 321)**	**(2 193)**	**(15)**	**(211)**	**1 269**	**951**	**287**	**160**	**220**	**(1 293)**

At variation of currency rates by (-)15% the sensitivity analysis states variations of the same value as in the above table but with the opposite sign.
Variations of currency rates described above were calculated based on average volatility of particular currency rates in 2017 and 2016.
The influence of currency rate variations on fair value of derivatives was examined at constant level of interest rates.

9.3.5.3. The risk of interest rates changes

Structure of financial instruments subject to risk of interest rates changes as at 31 December 2017

Financial instruments by class	NOTE	WIBOR	EURIBOR	LIBOR USD	LIBOR CAD	Total
Financial assets						
Derivatives	*9.2.9*	2*	547*	171	19	737**
		2	**547**	**171**	**19**	**737**
Financial liabilities						
Loans	*9.2.7.1.1*	6	-	-	42	48
Bonds	*9.2.7.1.2*	1 615	-	-	-	1 615
Derivatives	*9.2.9*	19*	96*	276	16	388**
		1 640	**96**	**276**	**58**	**2 051****

** In financial assets and liabilities – net derivatives include cross interest rate swaps (CIRS) valuated at the amount of PLN 17 million was recognized, which are sensitive to both WIBOR and EURIBOR interest rates changes.*
***Total assets and liabilities on derivatives include CIRS valuation of PLN 2 million and PLN 19 million, respectively.*

ORLEN GROUP (in PLN million)

Structure of financial instruments subject to risk of interest rates changes as at 31 December 2016

Financial instruments by class	NOTE	WIBOR	EURIBOR	LIBOR USD	PRIBOR	LIBOR CAD	Total
Financial assets							
Derivatives	9.2.9	-	18	130	-	15	163
		-	**18**	**130**	**-**	**15**	**163**
Financial liabilities							
Loans	9.2.7.1.1	758	71	-	-	110	939
Borrowings	9.2.7.1	1	-	-	-	-	1
Bonds	9.2.7.1.2	1 916	-	-	-	-	1 916
Derivatives	9.2.9	151*	334*	321	-	26	681**
		2 826	**405**	**321**	**-**	**136**	**3 537****

** In financial liabilities – derivatives include cross interest rate swaps (CIRS) valuated at the amount of PLN 151 million was recognized, which are sensitive to both WIBOR and EURIBOR interest rates changes.*
***Total includes CIRS valuation of PLN 151 million.*

The ORLEN Group is subject to risk of cash flows changes in interest rates arising from owned assets and liabilities, for which interest gains or losses are dependent on floating interest rates.
The ORLEN Group hedges the consolidated exposure to volatility of cash flows due to changes in interest rates. For this purpose, interest rate swap and currency swap are used.
Measurement of risk is based on total gross debt to positions for which interest costs are dependent on floating interest rates.

Sensitivity analysis for the interest rates changes

Interest rate	Assumed variations		Influence on result before tax		Influence on hedging reserve		Total	
	31/12/2017	31/12/2016	2017	2016	2017	2016	2017	2016
WIBOR	+0.5p.p.	+0.5p.p.	(3)	(13)	-	13	(3)	-
LIBOR USD	+0.5p.p.	+0.5p.p.	6	11	-	-	6	11
EURIBOR	+0.5p.p.	+0.5p.p.	16	24	(1)	3	15	27
			19	**22**	**(1)**	**16**	**18**	**38**
WIBOR	-0.5p.p.	-0.5p.p.	3	13	-	(13)	3	-
LIBOR USD	-0.5p.p.	-0.5p.p.	(6)	(11)	-	-	(6)	(11)
EURIBOR	-0.5p.p.	-0.5p.p.	(16)	(24)	1	-	(15)	(24)
			(19)	**(22)**	**1**	**(13)**	**(18)**	**(35)**

The above interest rates variations were calculated based on observations of average interest rates fluctuations in 2017 and 2016.
The influence of interest rates changes was presented on annual basis.
For derivatives in sensitivity analysis for the risk of interest rates changes interest rate curve displacement due to potential reference rate change was used, provided that other risk factors remain constant.

9.3.5.4. Liquidity and credit risk

Liquidity risk

Maturity analysis for financial liabilities as at 31 December 2017

	NOTE	up to 1 year	above 1 to 3 years	above 3 to 5 years	above 5 years	Total	Carrying amount
Loans - undiscounted value	9.2.7.1.1	48	-	-	-	48	48
Bonds	9.2.7.1.2	253	1 148	417	5 240	7 058	6 957
floating-rate bonds - undiscounted value		*248*	*1 040*	*417*	*-*	*1 705*	*1 615*
fixed rate bonds - undiscounted value		*5*	*108*	*-*	*5 240*	*5 353*	*5 342*
Trade liabilities	9.2.6.3	7 901	-	-	-	7 901	7 901
Investment liabilities	9.2.6.3, 9.2.9	1 435	18	14	76	1 543	1 543
Derivatives - undiscounted value	9.2.9	312	48	-	-	360	388
gross exchange amounts, incl.:		*166*	*(8)*	-	-	*158*	*187*
currency forwards	9.2.9	*98*	-	-	-	*98*	*100*
currency interest rate swaps	9.2.9	-	*(8)*	-	-	*(8)*	*19*
commodity swaps	9.2.9	*68*	-	-	-	*68*	*68*
net exchange amounts, incl.:		*146*	*56*	-	-	*202*	*201*
currency forwards	9.2.9	*7*	-	-	-	*7*	*7*
interest rate swaps	9.2.9	*23*	*33*	-	-	*56*	*56*
commodity swaps	9.2.9	*116*	*23*	-	-	*139*	*138*
Liabilities on settled derivatives	9.2.9	125	-	-	-	125	125
Other	9.2.6.3, 9.2.9	320	44	25	124	513	513
		10 394	**1 258**	**456**	**5 440**	**17 548**	**17 475**

ORLEN GROUP (in PLN million)

Maturity analysis for financial liabilities as at 31 December 2016

	NOTE	up to 1 year	above 1 to 3 years	above 3 to 5 years	above 5 years	Total	Carrying amount
Loans - undiscounted value	*9.2.7.1.1*	288	204	194	358	1 044	939
Bonds	*9.2.7.1.2*	761	1 264	103	5 479	7 607	7 495
floating-rate bonds - undiscounted value		*756*	*1 254*	*-*	*-*	*2 010*	*1 916*
fixed rate bonds - undiscounted value		*5*	*10*	*103*	*5 479*	*5 597*	*5 579*
Trade liabilities	*9.2.6.3*	7 549	-	-	-	7 549	7 549
Investment liabilities	*9.2.6.3, 9.2.9*	1 398	14	14	83	1 509	1 509
Derivatives - undiscounted value	*9.2.9*	421	189	13	-	623	683
gross exchange amounts, incl.:		*114*	*66*	*-*	*-*	*180*	*244*
currency forwards	*9.2.9*	*87*	*-*	*-*	*-*	*87*	*91*
currency interest rate swaps	*9.2.9*	*25*	*66*	*-*	*-*	*91*	*151*
net exchange amounts, incl.:		*307*	*123*	*13*	*-*	*443*	*439*
currency forwards	*9.2.9*	*30*	*44*	*-*	*-*	*74*	*72*
interest rate swaps	*9.2.9*	*27*	*50*	*13*	*-*	*90*	*90*
commodity swaps	*9.2.9*	*250*	*29*	*-*	*-*	*279*	*277*
Liabilities on settled derivatives	*9.2.9*	169	-	-	-	169	169
Other	*9.2.6.3, 9.2.9*	171	36	24	81	312	312
		10 757	**1 707**	**348**	**6 001**	**18 813**	**18 656**

A financial liquidity risk is the loss of ability to timely settle current liabilities.
The ORLEN Group is exposed to liquidity risk resulting from the relation between current assets and short-term liabilities. As at 31 December 2017 and 31 December 2016, the current liquidity indicator amounted to 1.8 and 1.5, respectively.

The objective of the liquidity risk management process is to ensure the Group's financial security and financial stability, and the basic tool limiting the above risk is the ongoing review of matching maturities of assets and maturity of liabilities. Moreover, the ORLEN Group carries out a policy of its financing sources diversification and uses range of tools for effective liquidity management.
The ORLEN Group uses systems of cash concentration ("cash-pool systems") to effectively manage current financial liquidity and to optimize financial costs within the ORLEN Group. At the end of 2017, the following cash-pool systems by PKN ORLEN operated:

- cash-pool systems dedicated to Polish companies of the ORLEN Group. As at 31 December 2017 systems included a total of 24 ORLEN Group entities,
- international cash-pool system dedicated to foreign companies of the ORLEN Group. As at 31 December 2017 the system comprised 8 ORLEN Group entities.

PKN ORLEN may issue bonds within the settled limits as well as purchase bonds issued by the ORLEN Group entities when managing liquidity.
In 2017, the ORLEN Group invested cash in bank deposits. Decisions regarding bank deposits are based on maximization of the rate of return and assessment of the financial condition of banks requiring a short-term rating by the bank for investment-grade deposits.

As at 31 December 2017 and as at 31 December 2016 the maximum possible indebtedness due to loans amounted to PLN 9,929 million and PLN 12,728 million, respectively. As at 31 December 2017 and as at 31 December 2016 PLN 9,178 million and PLN 11,110 million, respectively, remained unused.

The value of guarantees regarding liabilities to third parties granted during ongoing operations as at 31 December 2017 and as at 31 December 2016 amounted to PLN 350 million and PLN 488 million, respectively. These concern mainly: civil-law guarantees of contract performance and public-law guarantees resulting from generally applicable regulations secured regularity of business licensed in the liquid fuels sector and resulting from this activity tax and customs receivables, etc.
In addition, guarantees and sureties granted in the Group on behalf of related parties as at 31 December 2017 and as at 31 December 2016 amounted to PLN 10,216 million and PLN 12,437 million, respectively. They were mainly related to secure of ORLEN Capital future liabilities due to these transactions of Eurobonds issuance and timely payment of liabilities by related parties.
Based on analysis and forecasts as at the end of the reporting period, the Group recognized the probability of payment of above amounts as low.

Credit risk

As at 31 December 2017 and as at 31 December 2016 the Group received bank and insurance guarantees of PLN 2,804 million and PLN 2,520 million, respectively. The Group additionally receives from its customers security in the form of sureties, voluntary submission to execution (Article 777 of the Code of Civil Procedure), deposits, registered pledges, mortgages and bills of exchange.
Additional information is presented in note 9.2.6.2.

9.4. OTHER EXPLANATORY NOTES

9.4.1. Concessions held

The Group's operations require concessions, due to their importance to the public interest.

31/12/2017	Remaining concessions periods (in years)
Electrical energy: manufacturing, distribution, trade	2-13
Heating energy: manufacturing, transmission, distribution, trade	8-13
Gaseous fuels: transmission, distribution, trade	3-13
Liquid fuels: manufacturing, transmission, trade, storage and transshipment	2-13
Non-reservoir storage of crude oil and liquid fuels	12
Rock salt: exploration, recognition and exploitation	0,5-15
Exploration and recognition of crude oil and natural gas deposits	1-5
Marine Wind Farms: preparation, implementation, operation	24
Personal and property security services	indefinitely

As at 31 December 2017 and as at 31 December 2016 the Group had no liabilities related to concession services in scope of IFRIC 12 – Service concession arrangements.

(in PLN million)

9.4.2. Leases

SELECTED ACCOUNTING PRINCIPLES

Lease

A lease is an agreement whereby a lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time. Assets used under the finance lease, that is under agreement which transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee, are recognized as assets of the lessee. Assets used under the operating lease, that is under the agreement that does not transfer substantially all the risks and rewards incidental to ownership of an asset to the lessee, are recognized as assets of the lessor. Determining whether the transfer of risks and rewards exists depends on the assessment of essence of the economic substance of the transaction.

PROFESSIONAL JUDGMENT

The Management Board assesses qualifying lease agreements as a finance lease or operating lease based on the analysis of essence of the economic substance of the transaction.

9.4.2.1. Group as a lessee

Operating lease

As at 31 December 2017 and as at 31 December 2016 the Group was a lessee under non-cancellable operating lease agreements (tenancy, rent), which regard mainly the lease of petrol stations, vehicle and computer equipment. Agreements include clauses concerning contingent rent payables. In most cases they can be prolonged.
The total lease payments, resulting from non-cancellable operating lease agreements recognized as expenses in 2017 and in 2016 amounted to PLN (77) million and PLN (79) million, respectively.

Future minimum lease payments under non-cancellable operating lease agreements

	31/12/2017	31/12/2016
up to 1 year	75	83
above 1 to 5 years	199	210
above 5 years	499	544
	773	**837**

Finance lease

As at 31 December 2017 and as at 31 December 2016 the Group was a lessee under finance lease agreements, which relate mainly to the buildings and constructions, machinery and equipment and vehicles.
In concluded lease agreements, the general conditions of finance lease are effective, they do not contain any clauses concerning contingent rent payables, give the possibility to purchase the leased equipment and eventually can be prolonged.

	NOTE	Present value of future minimum lease payments		Value of future minimum lease payments	
		31/12/2017	31/12/2016	31/12/2017	31/12/2016
up to 1 year		32	29	39	35
above 1 to 5 years		68	60	89	79
above 5 years		98	81	126	109
	9.2.6.3, 9.2.9	**198**	**170**	**254**	**223**

Property plant and equipment used on the basis of finance lease agreements

	31/12/2017	31/12/2016
Property, plant and equipment	**190**	**157**
Buildings and constructions	124	92
Machinery and equipment	31	37
Vehicles and other	35	28

9.4.2.2. Group as a lessor

Operating lease

Operating leases relate to the investment property owned by the Group, under lease contracts in most for indefinite period. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to be prolonged.

Non-cancellable undiscounted operating lease receivables

	31/12/2017	31/12/2016
up to 1 year	4	4
from 1 to 5 years	15	15
above 5 years	57	56
	76	**75**

9.4.3. Investment expenditures incurred and future commitments resulting from signed investment contracts

The total amount of investment expenditures together with borrowing costs incurred in 2017 and in 2016 amounted to PLN 4,602 million and PLN 4,673 million, respectively, including PLN 79 million and PLN 89 million of investments relating to environmental protection.

As at 31 December 2017 and as at 31 December 2016 the value of future commitments resulting from contracts signed until this date amounted to PLN 1,538 million and PLN 1,941 million, respectively.

9.4.4. Contingent assets and liabilities

SELECTED ACCOUNTING PRINCIPLES

Contingent assets and liabilities
The Group discloses at the end of reporting period information on contingent assets if the inflow of resources embodying economic benefits is practically probable. If it is practicable the Group estimates the financial impact of contingent assets valuing them according to the principles of valuation provisions.
The Group discloses at the end of reporting period information on contingent liabilities if the outflow of resources embodying economic benefits is probable, unless the possibility of outflow of resources embodying economic benefits is remote.

ESTIMATES

Contingent assets
On the basis of the insurance policies held the Group estimates the value of the compensation related to accident on installation, which took place in the Group entities.

Contingent liabilities
The Group estimates possible future liabilities constituting contingent liabilities based on the value of claims under ongoing proceedings in which the ORLEN Group entities act as the defendant.

9.4.4.1. Contingent assets

On 13 August 2015 the steam cracker unit accident in Unipetrol Group took place. Based on the insurance policies Unipetrol Group expects insurers to cover reconstruction costs of installations lost business profits, which estimated at approximately PLN 2,171 million translated using the exchange rate as at 31 December 2017 (representing CZK 13 300 million).
In 2016 Group recognized in other operating income amounts of partial compensation received from insurers in the amount of PLN 1,280 million and in 2017 in the amount of PLN 442 million. After consideration the above amounts the value of contingent asset as at 31 December 2017 due to described above damage was estimated in the amount of approximately PLN 424 million translated using the exchange rate as at 31 December 2017 (representing CZK 2,600 million).
The final amount of compensation will depend on the final agreement with insurers.
The steam cracker unit resumed work in the 4th quarter of 2016.

9.4.4.2. Contingent liabilities

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

9.4.4.2.1. Proceedings in which the companies of the ORLEN Group act as the defendant

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

Risk connected with the disposal of assets and liabilities related to purchase of Unipetrol shares
The claim regarding the payment of compensation for losses related among others, to alleged unfair competition of PKN ORLEN included in Agrofert Holding a.s. (Agrofert) claim and alleged illegal violation of reputation of Agrofert in relation to purchase by PKN ORLEN of UNIPETROL shares. By judgment of 21 October 2010 the Court of Arbitration in Prague (Czech Republic) dismissed the entire claim of Agrofert against PKN ORLEN regarding the payment of PLN 3,177 million translated using the exchange rate as at 31 December 2017 (representing CZK 19,464 million) with interest and obliged Agrofert to cover the cost of proceedings born by PKN ORLEN. On 3 October 2011 PKN ORLEN received from the upper court in Prague Agrofert's claim which repealed the above judgment. The complaint was dismissed by the court with the ruling of 24 January 2014. On 7 April 2014 Agrofert appealed the above decision. On 7 April 2015 the court of appeals dismissed the appeal of Agrofert. On 4 September 2015 Agrofert appealed to the Czech Supreme Court against the above judgment. In September 2016, the Supreme Court dismissed Agrofert claim. In November 2016 Agrofert appealed to the Czech Constitutional Court against that decision. On 25 April 2017, the Czech Constitutional Court dismissed Agrofert's complaint as unfounded. In the opinion of PKN ORLEN the above proceeding was completed.

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

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 292 million, translated using the exchange rate as at 31 December 2017 (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. Finally the court refused the Company to permission to enter to the case. According to UNIPETROL RPA s.r.o the claim is without merit. At the beginning of February 2018, the court dismissed in entirety claim of the I.P.-95 s.r.o.

Claim of Warter Fuels S.A. (before: OBR S.A.) for compensation
On 5 September 2014, OBR S.A. (currently: Warter Fuels S.A.) filled an action against PKN ORLEN with the District Court in Łódź for a claim for payment in respect of an alleged breach by PKN ORLEN of patent rights: 'The technique of the separation of hydrodesulfurization products of heavy residue after extractive distillation of crude oil'. 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. By the court order from 21 May 2015 the parties were directed to mediation. Mediation proceedings were completed in the 2nd quarter of 2016. The case returned to the District Court in Łódź. The first hearing was held on 19 October 2016. At the hearing on 22 March 2017 witnesses were heard. The hearing scheduled for September 2017 was not held and the next hearing date was not set. In the opinion of PKN ORLEN the above claims are without merit.

(in PLN million)

The dispute between ORLEN Lietuva and Lietuvos Geležinkeliai

On 31 December 2014, ORLEN Lietuva filed a motion for arbitration against the company Lietuvos Gelezinkeliai ("LG") in the court of arbitration in Vilnius. In this proceeding ORLEN Lietuva calls for the conversion of tariffs for rail transport in line with the contract with LG for the period from January 2014. ORLEN Lietuva applied also for the compensation due to an incorrect interpretation of the agreement on rail transport by LG by using incorrect rates. Consideration of the request of ORLEN Lietuva would lead - depending on the interpretation - to save in the amount estimated until October 2016 not less than PLN 171 million translated using the exchange rate as at 31 December 2017 (representing not less than EUR 41 million) or to receive compensation for the use of incorrect rates in the amount of PLN 417 million translated using the exchange rate as at 31 December 2017 (representing EUR 100 million).

By 31 December 2016, seven court proceedings were initiated in which LG demands from ORLEN Lietuva a payment of approximately PLN 156 million translated using the exchange rate as at 31 December 2017 (representing approximately EUR 37.5 million) from fees for rail transport of ORLEN Lietuva products. LG's appeals were considered by the first instance courts, but there have not been made any conclusions on their matter.

On 28 June 2017 ORLEN Lietuva and LG reached an agreement on changes to the rail transport agreement and to resolve the ongoing disputes. Signing the settlement, results in termination of the mutual claims described in the above proceeding.

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') back in 1992 it was located in Lithuanian section of the Druzhba pipeline belonging to ORLEN Lietuva. 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 292 million converted by exchange rate as at 31 December 2017 (representing USD 84 million). The claim also includes a request for procedural interest and litigation cost. ORLEN Lietuva responded to the claim. 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.

9.4.5. Excise tax guarantees

Excise tax guarantees and excise tax on goods and merchandise under the excise tax suspension procedure as at 31 December 2017 and as at 31 December 2016 amounted to PLN 2,577 million and PLN 2,066 million, respectively.

9.4.6. Related party transactions

In 2017 and 2016 and as at 31 December 2017 and as at 31 December 2016 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 2017 and 2016, 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 0.5 million and PLN 0.8 million, respectively.

9.4.6.1. Remuneration paid and due or potentially due to the members of the Management Board, the Supervisory Board of the Parent Company and other members of key executive personnel of the Parent Company and the ORLEN Group companies

	2017	2016
Parent Company		
Short-term employee benefits	**61.1**	**63.6**
Board of Directors	*20.8*	*22.9*
Supervisory Board	*0.8*	*1.4*
Other key executive personnel	*39.5*	*39.3*
Post-employment benefits	**0.3**	**0.7**
Other key executive personnel	*0.3*	*0.7*
Other long term employee benefits	**0.5**	**0.4**
Other key executive personnel	*0.5*	*0.4*
Termination benefits (severance pay and other remuneration)	**2.5**	**6.7**
Board of Directors	*1.4*	*2.7*
Other key executive personnel	*1.1*	*4.0*
Subsidiaries		
Short-term employee benefits	159.2	155.1
Post-employment benefits	0.4	0.8
Other long term employee benefits	0.3	0.3
Termination benefits (severance pay and other remuneration)	4.9	9.3
	229.2	**236.9**

On 24 January 2017 the Extraordinary General Meeting of Shareholders (EGM) at which were adopted resolutions regarding rules of determining PKN ORLEN Management Board and the Supervisory Board remuneration, took place. On 30 June 2017 the General Meeting of Shareholders adopted a resolution introducing a change to the resolution of the EGM regarding rules of determining the Management Board and the Supervisory Board of the ORLEN Group companies' remuneration. The full text of adopted resolutions are available on websites:
http://www.orlen.pl/EN/InvestorRelations/RegulatoryAnnouncements/Pages/Regulatory-announcement-no-14-2017.aspx
http://www.orlen.pl/EN/InvestorRelations/RegulatoryAnnouncements/Pages/Regulatory-announcement-no-89-2017.aspx

Bonus systems for key executive personnel of the ORLEN Group

In 2017 bonus systems for the Management Board Members of PKN ORLEN and of the ORLEN Group companies contracts were adapted to the conditions specified in the Act on the principles of determining the amount of remuneration for people managing certain companies of 9 June 2016 (Official Journal 2016, item 1202).

The bonus regulations applicable to the Management Board of PKN ORLEN, directors directly reporting to the Management Board of PKN ORLEN and other key positions of the ORLEN Group have certain common features. The persons subject to the above mentioned systems are remunerated for the accomplishment of specific goals set at the beginning of the bonus period, by the Supervisory Board for the Management Board Members and by the Management Board for the key executive personnel. The Bonus Systems are consistent with the Concern's Values, so as to promote the cooperation between individual employees in view to achieve the best possible results for the ORLEN Group. The targets set are qualitative as well as quantitative and are settled after the end of the year for which they were set. Moreover, there is a possibility to honour employees, who significantly contribute to generated results.

(in PLN million)

Remuneration regarding non-competition clause and dissolution of the contract as a result of dismissal from the position held

In 2017 the Management Board Members of PKN ORLEN and ORLEN Group companies' contracts in 2017 were adapted to the conditions specified in the Act on the principles of determining the amount of remuneration for people managing certain companies of 9 June 2016 (Official Journal 2016, item 1202).

Pursuant to the contracts, the Management Board Members of PKN ORLEN and the Management Board Members of the ORLEN Group companies are obliged to refrain from competitive activities for a period of 6 months, starting from the date of termination of the contract. During this period, they receive a remuneration of 50% of the six-month basic salary, payable in 6 equal monthly instalments. Non-competition clauses in contracts after termination of the function of the Management Board Member shall enter into force only after 6 months as the Management Board Member.

In addition, contracts provide for the payment of severance pay in the event of termination or cancelation of the contract by the Company, for reasons other than a breach of basic, essential obligations under the contract, provided fulfilling the function of the Management Board Member for a period of at least 12 months. In this case, the severance pay is three times monthly basic salary.

Directors directly reporting to the PKN ORLEN Management Board are normally required from the date of termination of the contract to refrain from competitive activities for a period of 6 months. During this time, they receive a remuneration of 50% of the six-month basic salary, payable in 6 equal monthly instalments. The severance pay for terminating the contract by the Employer is normally six times monthly basic salary.

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

	Sales		Purchases	
	2017	2016	2017	2016
Jointly- controlled entities	2 718	2 148	(142)	(58)
joint ventures	*2 577*	*2 115*	*(42)*	*(35)*
joint operations	*141*	*33*	*(100)*	*(23)*
Associates	40	38	(4)	(5)
	2 758	**2 186**	**(146)**	**(63)**

	Trade and other receivables		Trade and other liabilities	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Jointly- controlled entities	484	430	16	15
joint ventures	*463*	*415*	*8*	*3*
joint operations	*21*	*15*	*8*	*12*
Associates	-	15	-	-
	484	**445**	**16**	**15**

The above transactions with related parties include mainly sales and purchases of refinery and petrochemicals products and of services.
In 2017 and in 2016 there were no related party transactions in the Group concluded on other than an arm's length basis.

9.4.6.3. Transactions with entities related to the State Treasury

As at 31 December 2017 and as at 31 December 2016 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 mainly 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" (Official Journal 2017, item 10, as amended Official Journal 2017, item 205 and item 1164).

In 2017 and in 2016 and as at 31 December 2017 and as at 31 December 2016, the Group identified the following transactions:

	2017	2016 (unaudited)
Sales	1 548	1 121
Purchases	3 589	2 418

	31/12/2017	31/12/2016 (unaudited)
Trade and other receivables	298	218
Trade and other liabilities	559	272

Above transactions were concluded on an arm's length basis and 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.

(in PLN million)

9.4.7. Remuneration arising from the agreement with the entity authorized to conduct audit of the financial statements

	2017	2016
Parent Company	**1.7**	**1.7**
Audit of financial statements	1.0	0.7
Other assurance services	0.7	1.0
reviews of financial statements	*0.5*	*0.3*
other services	*0.2*	*0.7*
Subsidiaries of the Capital Group	**3.9**	**5.0**
Audit of financial statements	3.6	2.7
Other assurance services	0.3	2.3
reviews of financial statements	*0.2*	*1.1*
other services	*0.1*	*1.2*
	5.6	**6.7**

In the period covered by the foregoing consolidated financial statements the entity authorized to conduct audit of the Company's financial statements was Deloitte Polska spółka z ograniczoną odpowiedzialnością spółka komandytowa. Pursuant to the agreement concluded on 21 March 2017 for 2017 and 2018, Deloitte Polska beginning from the 1st quarter of 2017 conduct the interim reviews and audit of separate financial statements of PKN ORLEN and consolidated financial statements of the Group.
In 2016 the interim reviews and audit of separate financial statements of PKN ORLEN and consolidated financial statements of the Group was performed by KPMG Audyt Sp. z o.o.

10. EVENTS AFTER THE END OF THE REPORTING PERIOD

Settlement of transaction in a voluntary tender offer to acquire shares in Unipetrol, a.s.

On 23 February 2018 PKN ORLEN purchased 56,280,592 Unipetrol, a.s. ("Unipetrol") shares which were subscribed for the sale in response to the announcement of a voluntary tender offer. The Unipetrol shares purchased by PKN ORLEN represent 31.04% of the Unipetrol share capital. The price amounted to CZK 380.00 per one Unipetrol share. The total price for the shares purchased amounted to PLN 3,531 million and was covered by PKN ORLEN by cash from own resources and consortium credit line.
As a result of settlement of transaction PKN ORLEN owns in total 170,507,091 shares of Unipetrol, constituting 94.03% of the Unipetrol's share capital and corresponding to 94.03% of votes at the General Meeting of Unipetrol.
The Group will recognize the purchase transaction of additional shares in Unipetrol in the financial statements for the 1st quarter of 2018. The above transaction will result in a decrease in equity of the non-controlling interests in the amount of PLN (2.5) billion and the result on the purchase of additional 31% shares will decrease retained earnings by approximately PLN (1) billion.

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

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. ("Lotos Group") by PKN ORLEN, understood as a purchase by PKN ORLEN directly or indirectly minimum 53% stake in Lotos Group 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 Lotos Group 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 informs that the Transaction model, the schedule and detailed rules of its finalisation require detailed analysis that will be now prepared. 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.
PKN ORLEN indicates that the letter of intent is not a binding commitment to execution of the Transaction. The Issuer will inform about next steps connected with further Transaction process.

After the end of the reporting period, no other events occurred than disclosed in the foregoing consolidated financial statements, which would require recognition or disclosure.

11. STATEMENTS OF THE MANAGEMENT BOARD AND APPROVAL OF THE FINANCIAL STATEMENTS

In respect of the reliability of preparation of consolidated financial statements
The Management Board of PKN ORLEN hereby declares that to the best of its knowledge the foregoing consolidated financial statements and comparative data were prepared in compliance with the accounting principles applicable to the ORLEN Group in force and that they reflect true and fair view on financial position and financial result of the ORLEN Group.

In respect of the entity authorized to conduct audit of financial statements
The Management Board of PKN ORLEN declares that the entity authorized to conduct audit, auditing the annual consolidated financial statements, was selected in compliance with the law and that the entity and auditors conducting the audit met the conditions to issue an independent opinion in compliance with relevant regulations and professional standards.

The foregoing consolidated financial statements were approved by the Management Board of the Parent Company on 15 March 2018.

Daniel Obajtek
President of the Board

Zbigniew Leszczyński
Member of the Board

Krystian Pater
Member of the Board

Wiesław Protasewicz
Member of the Board

Józef Węgrecki
Member of the Supervisory Board
delegated for temporary acting as the
Member of the Board

Signature of a person responsible for keeping accounting books

Rafał Warpechowski
Executive Director
Planning and Reporting

MANAGEMENT BOARD REPORT ON THE OPERATIONS OF ORLEN GROUP AND PKN ORLEN S.A. FOR THE YEAR 2017

2017

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1. THE ORLEN GROUP

1.1. INTRODUCTION

Polski Koncern Naftowy ORLEN S.A. („PKN ORLEN", „the Parent Company", „the Company") together with the companies establishing the Polski Koncern Naftowy ORLEN S.A. Capital Group („the ORLEN Group"; „the Group"; „the Concern") is one of the largest refinery-petrochemical companies in the Central and Eastern Europe.

THE ORLEN GROUP

20.3 thousand
COMMITTED EMPLOYEES

42.4 million tonnes
RECORD-BREAKING SALES

33.2 million tonnes
DIFFEREND TYPES OF CRUDE OIL PROCESSED

153 million boe
CRUDE OIL AND NATURAL GAS RESERVES (2P) IN POLAND AND CANADA

10.4 PLN billion
RECORD-BREAKING EBITDA LIFO RESULT[1]

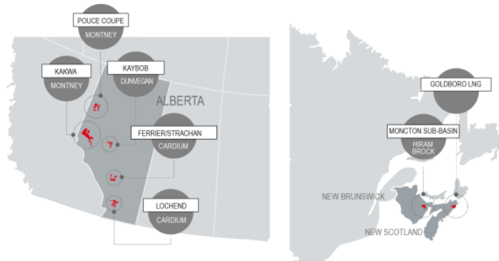
2.8 thousand FUEL STATIONS
THE LARGEST RETAIL NETWORK IN THE CENTRAL AND EASTERN EUROPE

THE OPERATIONAL SEGMENTS OF THE ORLEN GROUP

UPSTREAM

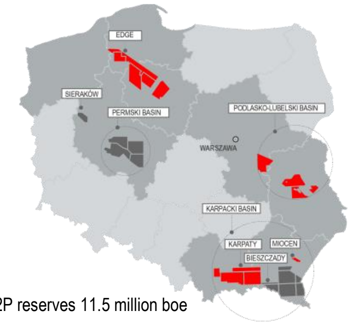
- Exploration and production projects in Poland and Canada.
- **152.6 million boe**[2] of 2P[3] crude oil and natural gas reserves.
- **15.6 thousand boe/d** average extraction in 2017.

CANADA



2P reserves 141.1 million boe

POLAND



2P reserves 11.5 million boe

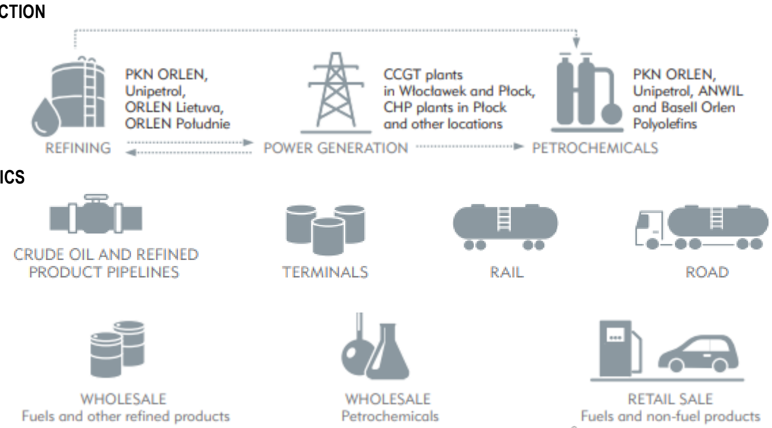
DOWNSTREAM

- Over **35 million tonnes** of production capacities in 6 ORLEN Group refineries[4] in Poland, the Czech Republic and Lithuania.
- **3.8 thousand kilometres** of pipeline network and **47** storage facilities and terminals.
- Main development projects:
  – **Polyethylene** installation in Unipetrol,
  – **Metathesis and Visbreaking** in PKN ORLEN.

PRODUCTION

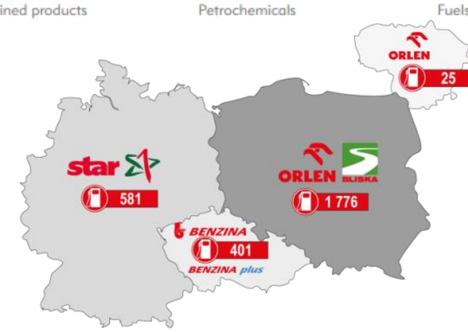
LOGISTICS

SALES



RETAIL

- **2,783** fuel stations.
- Retail market share: **34.0%** in Poland, **6.1%** in Germany, **21.1%** in the Czech Republic and **4.5%** in Lithuania
- **1,793** Stop Cafe and Stop Cafe Bistro locations in Poland, the Czech Republic and Lithuania.



1) Definitions of presented financial indicators are described in „Glossary of selected financial and industry concepts".
2) Barrel of oil equivalent.
3) Proven & probable reserves.
4) Refineries in Płock, Trzebinia, Jedlicze, Mazeikai, Kralupy and Litvinov.

1.2. MANAGEMENT AND SUPERVISORY BOARD OF THE PARENT COMPANY

The Management Board of the Parent Company

Composition of the Management Board as at the date of publication of the Management Board Report:

DANIEL OBAJTEK

President of the Management Board, Chief Executive Officer

Mr Daniel Obajtek is the President of the Management Bard, Chief Executive Officer of PKN ORLEN since February 6th 2018.

Mr Daniel Obajtek is a respected manager, entrepreneur and a seasoned local government activist. From February 2017, he was the CEO of Energa S.A. responsible for finance, corporate governance, audit and control, risk management, security, HR policy, legal policy, image policy, and social dialogue.

With Mr Obajtek at its helm, Energa S.A. closed 2017 with a market capitalisation of PLN 5.3 billion and a 38% growth in its share price on the WSE (outperforming all other Polish energy stocks).

The improved investor confidence was an effect of a number of factors, including investment, stabilisation and restructuring measures. In 2017, the Energa Group reported a growth in power generation volumes by 9%, in power distribution – by 2%, and in retail sales – by 5%. Estimates put its EBITDA at PLN 2,168 million, up 7% year on year. The Group now offers earnings predictability, which boosts confidence among its investors and over three million retail customers.

One of Mr Obajtek's successes was to take on the challenge and solve the problem of long-term contracts for purchase of green certificates, estimated at billions of złoty, which has had important implications for the entire energy sector. Under his management, Energa S.A. placed a strong focus on pursuing projects consistent with its Sustainable Development Strategy.

Before joining Energa S.A., Mr Obajtek was President of the Agency for Restructuring and Modernisation of Agriculture, with a headcount of 11,000 employees and a budget of PLN 27 billion, where he streamlined processes related to the disbursement of billions of złoty worth of EU and national funds, optimised operating costs and reorganised the Agency.

Involved with local government from 2006, he successfully implemented a number of development and infrastructure projects.

KRYSTIAN PATER

Member of the Management Board, Production

Mr Krystian Pater is the Member of the Management Board of PKN ORLEN since March 2007. On June 29th 2017, Mr Krystian Pater was appointed for another term as Member of the PKN ORLEN Management Board, Production.

He is a graduate of the Nicolaus Copernicus University in Toruń, Faculty of Chemistry. Additionally, he has completed post-graduate courses in Chemical Engineering and Equipment at the Warsaw University of Technology, Management and Marketing at the Paweł Włodkowic University College in Płock, Petroleum Sector Management, Enterprise Value Management at the Warsaw School of Economics and Academy of Leadership Psychology at the Warsaw University of Technology Business School. In 1993, he started working for Petrochemia Płock SA and, later on, for PKN ORLEN, where from 2005 to 2007 he served as Executive Director responsible for Refining Production.

Currently he is Member of the Management Board of AB ORLEN Lietuva and Vice Chairman of the Supervisory Board of Unipetrol a.s. and Chairman of the Supervisory Board of Basell Orlen Polyolefins. Additionally, he serves as Member of the Management Board of CONCAWE, Chairman of the Association of Oil Industry Workers in Płock and Vice President of Council of Polish Chamber of Chemical Industry.

ZBIGNIEW LESZCZYŃSKI

Member of the Management Board, Sales

Mr Zbigniew Leszczyński is the Member of the Management Board since 8 February 2016. On June 29th 2017, Mr Zbigniew Leszczyński was appointed for another term as Member of the PKN ORLEN Management Board, Sales.

He is a graduate of the University of Warsaw, Faculty of Accounting and Finance. He also completed postgraduate courses, including EU Business Management at the Warsaw School of Economics, Computer Networks Design and Operation at the Nicolaus Copernicus University in Toruń, and Project Management at the Kozminsky University.

He has extensive managerial experience in the fuels industry. Having worked for the ORLEN Group for almost a decade, he was responsible for various projects, including the construction and development of the service station chain and retail network settlements at ORLEN Paliwa and for supporting and expanding the refining product wholesale business at PKN ORLEN. He also implemented many strategic projects for PKN ORLEN.

He also served as President of the Management Board of Wodociągi i Kanalizacja w Opolu Sp. z o.o., President of the Management Board of Rynex Sp. z o.o., President of the Management Board of Wisła Płock S.A. and Sales and Marketing Director at Kompania Węglowa S.A. He also owned his own business providing project management, supervision and advisory services.

Mr Leszczyński also serves as Chairman of the Supervisory Board of ORLEN Deutschland GmbH, Chairman of the Supervisory Board of Unipetrol and Chairman of the Supervisory Board of ORLEN Paliwa.

WIESŁAW TOMASZ PROTASEWICZ

Member of the Management Board, Chief Financial Officer

On July 1th 2017, Mr Wiesław Protasewicz was appointed Member of the PKN ORLEN Management Board.

He graduated from the Faculty of Production Economics at the Central School of Planning and Statistics in Warsaw (currently the Warsaw School of Economics). He completed post-graduate studies in the field of accounting at the Kozminski University in Warsaw. He is a qualified provider of commercial bookkeeping services, based on a certificate issued by the Minister of Finance.

In 1982−1990, he was employed at Mostostal Siedlce, where he was involved in production planning and then exports. From 1990 to 1994, he worked at the Siedlce Provincial Authority as Head of the Economic Development Department, and from 1993 was the Siedlce Province Governor. In 1994, he joined commercial companies in Warsaw as Chief Financial Officer. In 1998, he was appointed to the Management Board of PKP and then of PKP S.A., where he served as Vice President of the Management Board responsible for Finance. From 2003, he sat on the Management Board of Miejskie Zakłady Autobusowe Sp. z o.o. of Warsaw and was in charge of the finance division, marketing, and implementation of IT projects. In late 2007, he was appointed Vice President of the Management Board of Polskie Sieci Elektroenergetyczne Operator S.A. of Warsaw.

In 2010, he limited his professional activities and focused on providing consultancy on economics.

In 1992−2009, he sat on the supervisory boards of many commercial companies, including Hydrobudowa-6 S.A. of Warsaw, WARS S.A. of Warsaw, PKP Przewozy Regionalne Sp. z o.o. of Warsaw, and PSE Centrum S.A. of Warsaw, mainly in the capacity of Chairman. From June 3rd 2016 to June 29th 2017, Mr Protasewicz was a member of the Supervisory Board of PKN ORLEN S.A.

JÓZEF WĘGRECKI

Supervisory Board Member delegated to temporarily stand in for Management Board Member, Investment and Procurement

On February 5th 2017, Mr Józef Węgrecki was delegated to temporarily stand in for the PKN ORLEN Management Board Member, Investment and Procurement.

Graduated from the Stanisław Staszic AGH University of Science and Technology in Kraków (the Faculty of Mining and Metallurgical Machines). He is qualified to serve as a member of supervisory boards of state-owned companies.

In 1978–1990, he worked at Zakład Remontowy Energetyki Kraków and in 1990–1993 at the employee-owned company Remak Opole as its Vice President. From April 1993 to June 2017, he was President and a Member of the Management Board of Remak-Krak Sp. z o.o.

Since 2017 until present, he has held the position of Vice-President of the Management Board of Energa Wytwarzanie S.A. responsible for the management of water and wind turbine operation, photovoltaic farms, cogeneration and coal-fired power plants, innovation, heating asset acquisitions and setting development directions.

He is interested in monitoring and analysing the latest technical solutions in the field of power generation, alternative energy sources and their potential industrial applications.

Awards: the Galicia Construction Grand Award for his contribution to the advancement of the construction industry; a Badge of Merit for exceptional services to the construction industry; a Gold Medal for long service; an Honoris Gratia badge for charity and community service.

Composition of the Management Board as at December 31st 2017:

- Wojciech Jasiński − President of the Management Board, Chief Executive Officer
- Mirosław Kochalski – Vice President of the Management Board
- Krystian Pater – Member of the Management Board, Production
- Zbigniew Leszczyński − Member of the Management Board, Sales
- Wiesław Tomasz Protasewicz – Member of the Management Board, Finance
- Maria Sosnowska – Member of the Management Board, Investments and Procurement.

Changes in the composition of the PKN ORLEN Management Board

Date	Change
June 26th 2017	The PKN ORLEN Supervisory Board appointed Wojciech Jasiński as President of the Management Board for a joint three-year term of office starting on the day following the date of the PKN ORLEN Annual General Meeting approving the financial statements for 2016.
June 26th 2017	Sławomir Jędrzejczyk, Vice President of the Management Board, CFO, and Piotr Chełmiński, Member of the Management Board for Development and Power Generation, announced they would not seek reappointment to the PKN ORLEN Management Board.
June 29th 2017	The PKN ORLEN Supervisory Board appointed the following persons to the Management Board: – Mirosław Kochalski, as Vice President of the Management Board, – Zbigniew Leszczyński, as Member of the Management Board, – Krystian Pater, as Member of the Management Board, – Wiesław Protasewicz, as Member of the Management Board, – Maria Sosnowska, as Member of the Management Board, for a joint three-year term of office starting on the day following expiry of the then current term of office, i.e. on the day following the date of the PKN ORLEN Annual General Meeting approving the financial statements for 2016.
February 5th 2018	The PKN ORLEN Supervisory Board removed the following persons from the Management Board, with effect as of February 5th 2018: – Wojciech Jasiński, President of the Management Board, – Mirosław Kochalski, Vice President of the Management Board, – Maria Sosnowska, Member of the Management Board, Investments and Procurement.
February 5th 2018	At the request of the Minister of Energy, the Supervisory Board appointed Daniel Obajtek as President of the PKN ORLEN Management Board, with effect as of February 6th 2018. The Supervisory Board also decided to delegate Józef Węgrecki to temporarily (for up to three months) perform the duties of a member of the Management Board responsible for Investments and Procurement, with effect as of February 5th 2018.

Supervisory Board of the Parent Company

Composition of the Supervisory Board as at the date of publication of the Management Board Report:

IZABELA FELCZAK-POTURNICKA

Chairman of the Supervisory Board

Ms Felczak-Poturnicka graduated from the Faculty of International Trade and the Faculty of Global Economics of the Łazarski University in Warsaw and holds a PhD studies in Management and Finance at the Warsaw School of Economics. She also completed post-graduate studies in company valuation methods at the Warsaw School of Economics. Since 2005, she is a member of the Centre of Information and Organization of Research on Public Finances and Tax Law in the Countries of Central and Eastern Europe by the Department of Law of the University of Białystok. She is also an author and a co-author of science publications in economics. Ms Felczak-Poturnicka is a certified internal auditor of ISO 9001 quality management systems.

At present, she is Deputy Head of the State Treasury Department at the Chancellery of the Prime Minister. From January 2017, she served as adviser to the Minister, coordinating the work of the Ownership Policy Team at the Ministry of Energy. In 2005–2016, she held various positions at the Ministry of State Treasury. In 2016, she was acting President of the Management Board of Polski Holding Nieruchomości S.A. She is the Chairperson of the Supervisory Board of Polski Holding Nieruchomości S.A. As a representative of the State Treasury, she served on the Supervisory Boards of Jastrzębska Spółka Węglowa S.A., ZEW Niedzica S.A., MERAZET S.A., Z.Ch. ZACHEM S.A., and MERITUM BANK ICB S.A.

She has extensive experience in corporate governance of strategic companies. She participated in the execution of numerous transactions on the capital market, including floatation of GPW S.A., JSW S.A. and PZU S.A. on the Warsaw Stock Exchange. She is experienced in corporate governance, implementation of restructuring plans and assessment of investment project effectiveness.

RADOSŁAW LESZEK KWAŚNICKI

Vice-chairman, Independent Member of the Supervisory Board

He holds a Ph.D. degree in law and is a legal counsel. He specialises in companies law, capital market law, M&A transactions and court proceeding. He completed the AMP course at the IESE Business School of the University of Navarra and a programme for Supervisory Board members 'Value Creation Through Effective Boards' at Harvard Business School and IESE Business School.

In 2014, he was appointed to the Supervisory Board of PKN ORLEN S.A. and currently is Chairman of the Strategy and Development Committee and Member of the following Committees: Audit, Corporate Governance and CSR.

He also serves as member of the Supervisory Board of SFINKS POLSKA S.A. In the past, he sat on the supervisory boards of among others: Agencja Rozwoju Przemysłu S.A., PGE Energia S.A., BBI Capital NFI S.A., MAGO S.A., Elektrownia Turów S.A. and Polskie Koleje Państwowe S.A.

He received the prestigious recommendation of Global Law Experts in the field of corporate law. He was also awarded by European Legal Experts and Legal 500. He is the winner of the Forbes Professionals − Professions of Public Trust competition.

He was President of the Permanent Arbitration Court at the Regional Chamber of Legal Counsels in Warsaw (currently serving as an arbitrator of that Court). He adjudicates or adjudicated also in the Court of Arbitration at the Polish Chamber of Commerce, the Court of Arbitration at the Lewiatan Confederation, the International Court of Arbitration at the International Chamber of Commerce in Paris, and the Conciliatory (Arbitration) Court affiliated with the Polish Bank Association.

He participated in legislative work on commercial law. Editor and author (co-author) several textbooks and commentaries, as well as other publications concerned with commercial law. He is a member of the Programme Board of the Monitor Prawa Handlowego magazine.

He is editor-in-chief of blog Prawo Biznesu - Law in Action. He is a member of teaching staff of National School of Judiciary and Public Prosecution. He is fluent in English and German.

MATEUSZ HENRYK BOCHACIK

Secretary, Independent Member of the Supervisory Board

He graduated from the law and history at the Jagiellonian University in Cracow. In 2013 he passed advocate exam and was entered on the list of advocates conducted by the Regional Council of Advocates in Cracow.

He is an advocate and conducts his own legal office in Cracow specializing in civil, economic and administrative law. During his practice he represented public persons as well as private ones, among others commercial companies, local government units and journalists. In total he was a representative in numerous lawsuits at the common and administrative courts as well as at the Supreme Court.

Mr Bochacik was also an assistant of the Minister-Coordinator of the Special Services and Deputy of the Polish Member of Parliament Zbigniew Wassermann as well as a director of his Deputy office (2007-2010). In years 2010-2013 he was an assistant of Deputy of the European Parliament Member Mr Paweł Kowal.

MAŁGORZATA NIEZGODA

Member of the Supervisory Board

Ms Małgorzata Niezgoda is a graduate of the Environmental Engineering Faculty of the Warsaw University of Life Sciences (SGGW).

She has worked in the public administration for 21 years, including as civil servant since 2005. Currently, she heads the Ownership Supervision and Policy Department at the Ministry of Energy, which supervises key state-owned companies operating in the oil, gas and energy sectors. From February to December 2015, she worked for the Ministry of the State Treasury, first as Deputy Director in the Restructuring and State Aid Department, and then at the Key Companies Department, where she was responsible for the supervision of restructuring processes in the hard coal mining sector. From November 2014 to February 2015, she headed the Mining Department of the Ministry of Economy.

From 1996 to 2014, Ms Niezgoda worked for the Ministry of the State Treasury, from 2008 at the departments responsible for owner supervision of state-owned companies, including as Division Head (Second Owner Supervision Department, Key Companies Department, Strategic Projects Department) from 2009. She supervised mainly energy companies (TAURON Polska Energia S.A., ENERGA S.A., ENEA S.A., and PGE Polska Grupa Energetyczna S.A.), but also construction, metal, shipbuilding, publishing and printing companies, as well as Mennica Polska S.A., KGHM Polska Miedź S.A. , ARP S.A., and PWPW S.A. She was responsible for oversight of all economic and legal aspects of exercising rights attached to shares held in these entities, including for document analysis and preparation of recommendations and decisions concerning ownership of the companies.

After graduation in 1996, she was employed at the Ministry of Ownership Transformation.

From 2001, she served on the supervisory boards of the following state-owned companies: ENEA S.A. (chairperson), Kompania Węglowa S.A. (chairperson), RADIO GDAŃSK S.A. of Gdańsk (deputy chairperson), Zespół Elektrowni Wodnych Niedzica S.A., PERN S.A., Lurgi Bipronaft S.A., Wydawnictwo Poznańskie Sp. z o.o. (deputy chairperson).

Currently, she is a member of the Supervisory Board of PGE TFI S.A.

WOJCIECH KRYŃSKI

Independent Member of the Supervisory Board

Mr Wojciech Kryński graduated from the University of Lodz, Finance and Banking, as well as post-graduate studies in Accounting and Financial Management (University of Lodz) and holds a certificate of ACCA (Association of Chartered Certified Accountants).

Mr Wojciech Kryński has many years of experience in the application of international and American accounting principles. He has been related with international accounting since 1998. He led numerous projects in Poland, Ukraine, Croatia, Greece, Romania, Ghana and Nigeria.

In the past, he worked in the international auditing company and in the financial departments of international companies.

At Ground Frost Mr Wojciech Kryński coordinates consulting in accounting according to the IFRS and US GAAP, financial modeling, and relationships with key clients. On daily basis Mr Kryński deals with business valuations, estimation of fair value of intangible assets, share-based payments and financial instruments. He participated in advisory projects aimed at creating accounting structures and accounting procedures for hedge accounting in Polish and Romanian companies.

He is responsible for formulating of the accounting policies of listed companies and also participates in preparation of agreements that are later reflected in accounting. Mr Wojciech Kryński also participates in the transactions of mergers and acquisitions, in which he overviews valuations, the processes of due diligence and preparation of share purchase agreements (SPA). He is a regular advisor to many listed companies.

JADWIGA LESISZ

Independent Member of the Supervisory Board

She graduated in Foreign Trade from the Faculty of International Relations of the Wrocław University of Economics. She also completed a postgraduate course in Real Estate Management at the Wrocław University of Technology and a Master of Business Administration programme run by the WSB University of Wrocław in partnership with Franklin University, USA.

Ms Jadwiga Lesisz has over 20 years of professional experience, including extensive practical experience in creating and organising business processes for the SME sector. In 2012–2016, at PKO Bank Polski S.A. she was in charge of real estate operations, supervised negotiations and was a business controller of the branch network optimisation project. In 2016–2017, she was Director of the Project Management Department and member of the Audit Committee at the Polish Ministry of Development. She was tasked with implementing a project management methodology and culture, as well as monitoring and coordinating the execution of key projects. Currently, she serves as Vice President of the Polish Agency for Enterprise Development, responsible for the supervision of business innovation and start-up support projects, public procurement processes and management of the Agency's assets and IT resources.

AGNIESZKA BIERNAT-WIATRAK

Member of the Supervisory Board

She studied at the University of Warsaw's Faculty of Management (where she obtained both MA and postgraduate diplomas), and at Universite Libre de Bruxelles (Solvay Business School).

Competent Manager with 15 years of professional experience in business process optimisation, team management and strategic client relationships. Her key area of expertise is in modern technologies. She has comprehensively run a number of IT projects, both in Poland and elsewhere in Europe.

She has served as a supervisory board member at state-controlled companies. She is a professional negotiator and leader, actively supporting business growth by developing effective sales, marketing and investment strategies. She has command of three foreign languages: English, French and Spanish. She has authored a number of specialist publications, particularly on business process support with dedicated IT solutions.

JÓZEF WĘGRECKI

Supervisory Board Member delegated to temporarily stand in for Management Board Member, Investment and Procurement

Graduated from the Stanisław Staszic AGH University of Science and Technology in Kraków (the Faculty of Mining and Metallurgical Machines). He is qualified to serve as a member of supervisory boards of state-owned companies.

In 1978–1990, he worked at Zakład Remontowy Energetyki Kraków and in 1990–1993 at the employee-owned company Remak Opole as its Vice President. From April 1993 to June 2017, he was President and a Member of the Management Board of Remak-Krak Sp. z o.o.

Since 2017 until present, he has held the position of Vice-President of the Management Board of Energa Wytwarzanie S.A. responsible for the management of water and wind turbine operation, photovoltaic farms, cogeneration and coal-fired power plants, innovation, heating asset acquisitions and setting development directions.

He is interested in monitoring and analysing the latest technical solutions in the field of power generation, alternative energy sources and their potential industrial applications.

Awards: the Galicia Construction Grand Award for his contribution to the advancement of the construction industry; a Badge of Merit for exceptional services to the construction industry; a Gold Medal for long service; an Honoris Gratia badge for charity and community service.

Composition of the Supervisory Board as at December 31st 2017:
- Angelina Anna Sarota – Chairwoman of the Supervisory Board
- Radosław Leszek Kwaśnicki – Deputy Chairman of the Supervisory Board
- Mateusz Henryk Bochacik – Secretary of the Supervisory Board
- Izabela Felczak-Poturnicka – Member of the Supervisory Board
- Agnieszka Krzętowska – Independent Member of the Supervisory Board
- Adrian Dworzyński − Independent Member of the Supervisory Board
- Wojciech Kryński – Independent Member of the Supervisory Board.

Changes in the composition of the PKN ORLEN Supervisory Board

Date	Change
June 29th 2017	Wiesław Protasewicz tendered his resignation as Member of the PKN ORLEN Supervisory Board with effect as of June 29th 2017, citing his being a candidate to the PKN ORLEN Management Board.
June 30th 2017	The PKN ORLEN Annual General Meeting appointed the following persons to the Supervisory Board: – Izabela Felczak-Poturnicka, – Wojciech Kryński.
July 13th 2017	Artur Gabor tendered his resignation as Member of the PKN ORLEN Supervisory Board with effect as of September 1st 2017.
January 5th 2018	On behalf of the State Treasury, the Minister of Energy, acting pursuant to Art. 8.2.1 of the Company's Articles of Association, appointed Małgorzata Niezgoda to the PKN ORLEN Supervisory Board. On February 1st 2018, Małgorzata Niezgoda tendered her resignation as Member of the PKN ORLEN Supervisory Board.
February 2nd 2018	The PKN ORLEN Extraoridnary General Meeting removed the following persons from the Supervisory Board: – Agnieszka Krzętowska, – Angelina Sarota, and – Adrian Dworzyński, and appointed the following persons to the Supervisory Board: – Izabela Felczak-Poturnicka, as Chairwoman of the Supervisory Board, – Agnieszka Biernat-Wiatrak, – Jadwiga Lesisz, – Małgorzata Niezgoda.
February 5th 2018	On behalf of the State Treasury, the Minister of Energy, acting pursuant to Art. 8.2.1 of the Company's Articles of Association, appointed Józef Węgrecki to the PKN ORLEN Supervisory Board.

1.3. ORGANISATION AND DEVELOPMENT POLICY

The ORLEN Group companies are engaged in the following types of activity:

- production and trade: crude oil processing, production of refining, petrochemical and chemical products and semi-products, wholesale and retail sale of fuels and other products,
- services: crude oil and fuels storage, transport, maintenance and repair services, laboratory, security, design, administrative, insurance and finance services,
- exploration for and extraction of hydrocarbons, production, transmission and distribution of and trade in electrical and heat energy.

For management purposes, the ORLEN Group's business is divided into three operating segments of Downstream, Retail, Upstream, as well as Corporate Functions.

For description of these segments, see section 3.2, and for the segments' financial results – section 4.2.

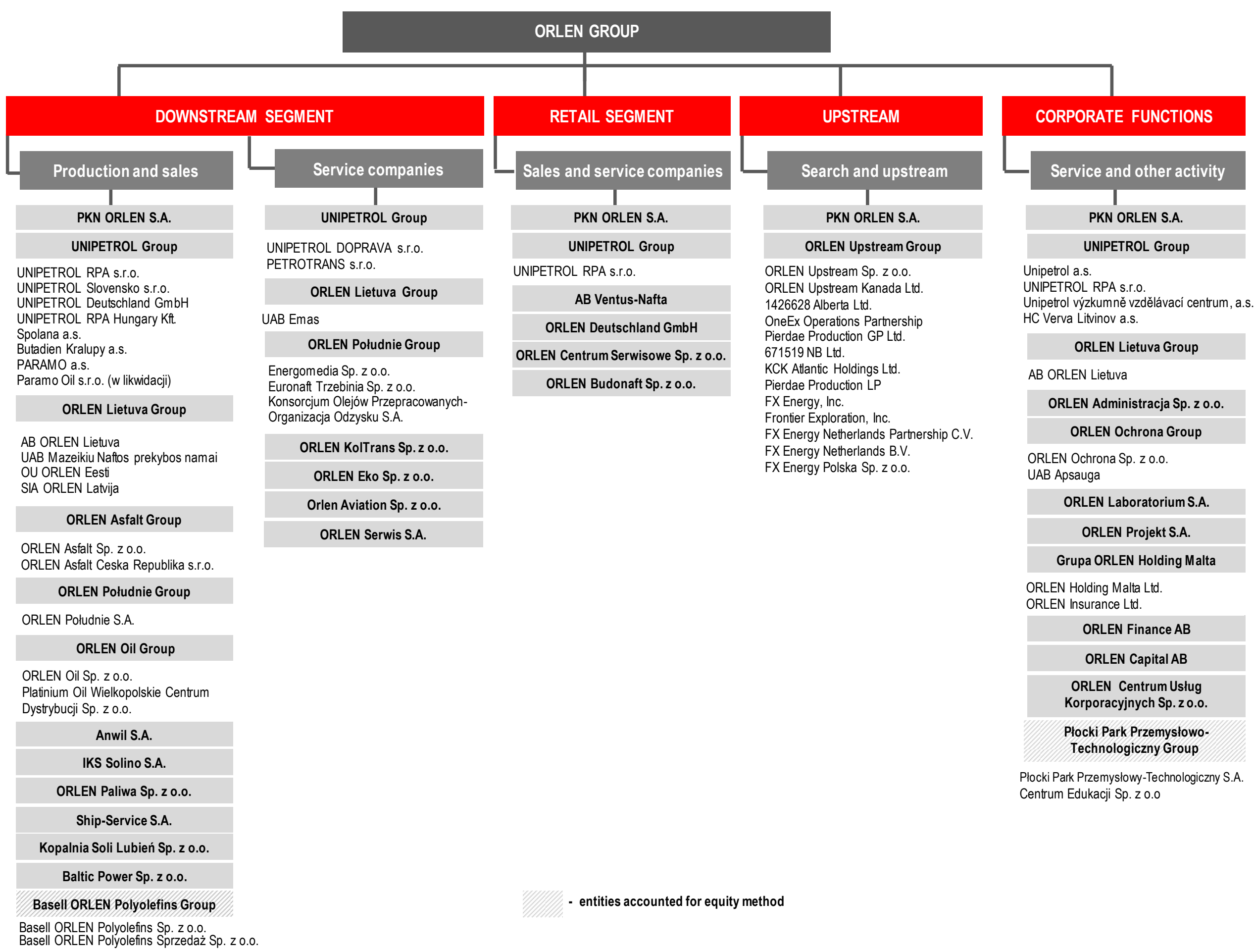
The ORLEN Group comprises PKN ORLEN, the Group's Parent, and entities operating in Poland, Germany, the Czech Republic, Lithuania, Malta, Sweden, the Netherlands, Slovakia, Hungary, Estonia, Latvia, the US and Canada.

As at December, 31st 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. For the shareholding structure in PKN ORLEN see section 5.1.

As at December, 31st 2017, the ORLEN Group consisted of 69 companies, including 59 subsidiaries.

For description of the organisational and cross-equity links between the Parent and the ORLEN Group companies, and the applied consolidation methods, see section 6.1 of the Consolidated Financial Statements for 2017.

SCHEME 1. Allocation of the Parent Company and the ORLEN Group companies to the operating segments and corporate functions as at 31 December 2017.



The Parent's policy with respect to the ORLEN Group companies focuses on strengthening the position of the core-business companies, developing power generation and the Upstream segment, as well as improving management, consolidating owned assets, and divesting non-core assets.

The purpose of these measures is to increase the market value of the ORLEN Group, to strengthen its position on home markets, and to expand its product offering and geographical reach. The Group's key development investments are aimed at further expanding the product portfolio, deeper conversion, construction of new electricity generating capacities, and continuation of the hydrocarbon exploration and production projects. To ensure effective management, holding management policies have been developed and comprise solutions designed to implement Parent-defined shared goals across the ORLEN Group.

The policies are based on the ORLEN Group Constitution which stipulates three key regulations: the Cooperation Agreement, the Group Rules, and provisions of respective articles of association of the ORLEN Group companies.

The Constitution provides for uniform information exchange standards and effective monitoring of key business decisions. It also defines the legal basis for establishing a coherent strategy for the ORLEN Group. PKN ORLEN's effective corporate supervision relies on formal and legal supervision as well as on supervision of the companies' operating and finance activities.

1.3.1. Changes in the Parent's and the ORLEN Group's principles of organisation and management

The division of powers and responsibilities between members of the PKN ORLEN Management Board as at the date of issue of this Report is presented below:

SCHEME 2. Responsibility areas of Members of the PKN ORLEN Management Board as at date of the Report compilation.

PRESIDENT OF THE MANAGEMENT BOARD, CHIEF EXECUTIVE OFFICER DANIEL OBAJTEK	MEMBER OF THE MANAGEMENT BOARD, CHIEF FINANCIAL OFFICER WIESŁAW PROTASEWICZ	MEMBER OF THE MANAGEMENT BOARD, SALES ZBIGNIEW LESZCZYŃSKI	MEMBER OF THE MANAGEMENT BOARD, PRODUCTION KRYSTIAN PATER	MEMBER OF THE MANAGEMENT BOARD, INVESTMENTS AND PROCUREMENT JÓZEF WĘGRECKI
Strategy	Planning and Reporting	Wholesale of Refinery Products	Refinery Production	Implementation of Investments
Human Resources	Business Controlling	Sale of Petrochemical Products	Petrochemical Production	Procurement
Trade of Crude Oil and Gas	Finance Management	Retail Sale	Power Engineering	Development and Technology
Marketing	Taxes	Logistics	Production Efficiency and Optimisation	Health and Safety
Corporate Communication	Supply Chain Management	Efficiency and Development of Sale	Technics	Environmental Protection
Management Board Office	Investor Relations	IT	Water and Wastewater Management	Administration
Control and Security	Security of Infrastructure and Data Supervision Office, Critical Infrastructure Protection Officer			Innovation
Audit, Financial Control and Enterprise Risk Management				
Legal				
Corporate				
Regulatory Risk Management				
External Relations				

As at December 31st 2017, the powers and responsibilities of members of the PKN ORLEN Management Board were as follows:

- **Wojciech Jasiński − President of the Management Board, Chief Executive Officer:** Strategy, Human Resources, Oil and Gas Trading, Marketing, Corporate Communication, Management Board Office, Security Office, Audit, Enterprise Risk Management and Control, Innovation Office, Supervision of Infrastructure and Information Security, Regulatory Risk Management
- **Mirosław Kochalski – Vice President of the Management Board, Corporate Affairs:** Supply Chain Management, IT, Investor Relations, Legal Office, Corporate Office, Organisation and Management Systems
- **Wiesław Protasewicz – Member of the Management Board, Finance:** Planning and Reporting, Business Controlling, Financial Management, Taxes
- **Zbigniew Leszczyński − Member of the Management Board, Sales** Refining Product Wholesale, Petrochemical Sales, Retail Sales, Logistics, Sales Efficiency and Development at the ORLEN Group
- **Krystian Pater – Member of the Management Board, Production:** Refining Production, Petrochemical Production, Power Generation, Production Efficiency and Optimisation, Technology, Water and Wastewater Management
- **Maria Sosnowska – Member of the Management Board, Investments and Procurement:** Investments, Procurement, Development and Technology, Occupational Health and Safety, Environmental Protection, Administration Office.

Below are described the main changes in the organisation of **the Parent** effected in 2017:

- a new Investments and Procurement division was established, with the areas of responsibility of the Executive Director for Investment, Development and Technology, Occupational Health and Safety, and Environmental Protection (previously in the Development and Power Generation division) transferred to the new unit. Other organisational units transferred to the division were the Office of the Executive Director for Procurement (from the division of Vice-President of the Management Board), and the Administration Office (from the Finance division);
- the Office of the Executive Director for Power Generation and the Water and Wastewater Management Office (the latter separated from the Environmental Protection Office) were transferred to the Production division. Previously, the two offices were part of the area overseen by the Management Board Member for Development and Power Generation;
- the Development and Power Generation division was closed down, with its subordinate units transferred elsewhere within the organisation, as described above;
- the Office of the Executive Director for Supply Chain Management, the Office of the Executive Director for IT, the Equity Investments Office, and the Investor Relations Office were transferred from the Finance division to the division of Vice-President of the Management Board;
- the Office of the Executive Director for Human Resources and the Regulatory Risk Management Office were transferred from the division of Vice-President of the Management Board to the division of President of the Management Board;
- the Equity Investments Office was transferred to the division of the Executive Director for Strategy.

For description of changes in the composition of the Management and Supervisory Boards in 2017 and until the date of this Report, see section 1.2 above.

There were no material changes in the organisation and management policies of the **other ORLEN Group companies** in 2017.

Support functions

In 2017, projects designed to further centralise the accounting, payroll and HR services within the ORLEN Group were continued. The centralised accounting and finance functions were extended to cover Anwil S.A. At the end of 2017, ORLEN Centrum Usług Korporacyjnych Sp. z o.o. provided comprehensive accounting services and HR/payroll services to, respectively, 21 and 26 ORLEN Group companies.

1.3.2. Changes in cross-equity links

For description of changes in cross-equity links in 2017, see section 6.2 of the Consolidated Financial Statements for 2017.

1.4. SELECTED OPERATING AND FINANCIAL DATA

TABLE 1. Selected operation and financial data for the years 2013-2017.

Item	Unit	2017	2016	2015	2014	2013
I. MACROECONOMIC DATA (average value for the period)						
Brent oil	USD/bbl	54.2	43.7	52.4	98.9	108.7
Ural oil	USD/bbl	52.8	41.7	51.0	97.2	107.4
WTI oil	USD/bbl	50.8	43.5	48.8	94.0	99.0
Brent/URAL differential[1]	USD/bbl	1.4	2.5	1.8	1.7	1.0
Model Downstream margin[1 2]	USD/bbl	12.8	11.7	13.8	11.4	10.8
Model refining margin[1]	USD/bbl	6.4	5.3	8.2	3.4	3.4
Model petrochemical margin [1]	EUR/t	933	960	968	781	730
Average exchange rate USD/PLN	PLN	3.78	3.94	3.77	3.15	3.16
Average exchange rate EUR/PLN	PLN	4.26	4.36	4.18	4.18	4.20
Average exchange rate EUR/USD	USD	1.13	1.11	1.11	1.33	1.33
II. OPERATING ACTIVITY						
Sales of products and goods, including:	**‘000 tonnes**	**42 382**	**39 453**	**38 676**	**35 740**	**35 909**
Downstream	‘000 tonnes	32 925	30 708	30 380	27 706	28 376
Retail	‘000 tonnes	8 819	8 187	7 986	7 776	7 516
Upstream	‘000 tonnes	638	558	310	258	17
Crude oil throughput ORLEN Group, of which:	**‘000 tonnes**	**33 228**	**30 147**	**30 908**	**27 276**	**28 216**
Crude oil throughput in PKN ORLEN	‘000 tonnes	15 220	15 130	15 674	14 278	15 182
Crude oil throughput in Unipetrol Group	‘000 tonnes	7 894	5 422	6 495	5 130	3 607
Crude oil throughput in ORLEN Lietuva Group	‘000 tonnes	9 821	9 323	8 486	7 497	9 010
III. FINANCIAL ACTIVITY						
3.1. Consolidated statement of profit or loss and other comprehensive income						
Sales revenues	**PLN million**	**95 364**	**79 553**	**88 336**	**106 832**	**113 597**
Profit from operations under LIFO[3] increased by depreciation and amortization (“EBITDA LIFO”) before impairment allowances[4], including:	**PLN million**	**10 448**	**9 412**	**8 738**	**5 213**	**3 086**
Downstream	PLN million	8 720	8 107	7 776	4 210	2 407
Retail	PLN million	2 049	1 801	1 539	1 416	1 268
Upstream	PLN million	293	255	44	152	(32)
Corporate Functions	PLN million	(614)	(751)	(621)	(565)	(557)
Profit from operations under LIFO increased by depreciation and amortization, including:	**PLN million**	**10 279**	**9 557**	**7 745**	**(147)**	**3 086**
LIFO correction[3]	**PLN million**	**799**	**85**	**(1 510)**	**(2 573)**	**(668)**
Profit from operations increased by depreciation and amortization (“EBITDA[3]”), including:	**PLN million**	**11 078**	**9 642**	**6 235**	**(2 720)**	**2 418**
Amortisation	**PLN million**	**2 421**	**2 110**	**1 895**	**1 991**	**2 111**
Profit / (loss) from operations (“EBIT[3]”)	**PLN million**	**8 657**	**7 532**	**4 340**	**(4 711)**	**307**
Net profit / (loss)	**PLN million**	**7 173**	**5 740**	**3 233**	**(5 828)**	**90**
3.2. Balance sheet data						
Total assets	PLN million	60 664	55 559	48 137	46 725	51 352
Equity capital	PLN million	35 211	29 285	24 244	20 386	27 551
Net debt[3]	PLN million	761	3 363	6 810	6 720	4 668
3.3. Consolidated cash flow statement						
Net cash from operating activities	PLN million	8 050	9 331	5 354	3 187	5 540
Net cash (used in) investing activities, including:	PLN million	(3 925)	(4 436)	(4 096)	(4 020)	(2 441)
Capital expenditures (“CAPEX[3]”)	PLN million	4 602	4 673	3 183	3 788	2 484
Free cash flow[5]	**PLN million**	**4 125**	**4 895**	**1 258**	**(833)**	**3 099**
Net cash from / (used in) financing activities	PLN million	(2 832)	(2 210)	(2 866)	2 083	(2 438)
Dividends paid	PLN million	(1 384)	(912)	(706)	(617)	(642)
3.4. Key indicators						
Return on capital employed (ROACE) [3]	%	20.8	18.8	14.9	1.8	0.7
Return on capital employed LIFO (ROACE LIFO)[3]	%	19.0	18.6	19.1	8.8	2.3
Net financial gearing[3]	%	2.2	11.5	28.1	33.0	16.9
Profit/(Loss) attributable to shareholders of the Parent Company per share (EPS[3])	PLN/share	15.56	12.30	6.63	(13.59)	0.41

1) The method of calculating the margin is placed at the end of this report, in „Glossary of selected financial and industry concepts”.
2) Due to changes in the method of management in the field of refining, petrochemical and energy in the ORLEN Group and the creation of an integrated Downstream Segment in 2014 has begun calculation of the Downstream Margin Model. In addition, the value of margin mentioned above was presented for year 2013.
3) The definitions of applied parameters and financial indicators as well as LIFO method of inventories valuation are presented in „Glossary of selected financial and industry concepts”.
4) The results from operations for the years 2014, 2015, 2016 and 2017 include write-downs for impairment of assets in the amount of: PLN (5,360) million, PLN (993) million, PLN 145 million and PLN (169) million.
5) Free cash flow = net cash from operating activities + net cash from / (used in) investment activities.

1.5. THE MOST SIGNIFICANT EVENTS, AWARDS AND HONOURS

2017 year

APRIL

Moody's Investors Service upgraded PKN ORLEN's credit assessment
On 13 April 2017 Moody's Investors Service upgraded issuer rating of PKN ORLEN from the level of Baa3 to Baa2 and also upgraded the baseline credit assessment from ba1 to baa3.
Concurrently, the Agency also upgraded the rating, from the level of Baa3 to Baa2, of two Eurobonds programme:
- EUR 500 million due 2021 and
- EUR 750 million due 2023

issued by ORLEN Capital AB and guaranteed by PKN ORLEN.
The outlook on all of upgraded ratings is stable. Regulatory announcement no. 49/2017.

Consent of the Supervisory Board of PKN ORLEN for public issue of bonds
On 26 April 2017 the Supervisory Board of PKN ORLEN gave consent for issue by PKN ORLEN bonds within the second retail bond issue programme. The bond issue programme assumes the issue of several bond series up to the total amount of PLN 1 billion during 12 months. The bonds will be offered in a public offering. PKN ORLEN plans to introduce the bonds to trading on the Catalyst regulated market. The parameters of each issue will be determined based on the current market environment and PKN ORLEN needs.
The public offering within the second retail bond issue programme requires the prior approval of the prospectus relating to this offer by the Polish Financial Supervision Authority. Regulatory announcement no. 58/2017.

MAY

Submission of the prospectus relating to bond issue programme to the Polish Financial Supervision Authority
On 24 May 2017 PKN ORLEN submitted to the Polish Financial Supervision Authority the prospectus relating to the public bond issue programme approved by the Company's Supervisory Board. Regulatory announcement no. 69/2017.

JUNE

Realisation of the Power plant in Wloclawek investment completed
On 19 June 2017 PKN ORLEN signed with the consortium of companies (General Electric International Inc. acting via General Electric International S.A., office in Poland and SNC-LAVALIN POLSKA sp. z o.o.) a certificate on the base of which the realisation of investment of the Power plant in Wloclawek building was completed. Regulatory announcement no. 80/2017.

Changes in the composition of the PKN ORLEN Management Board
On 26 June 2017 the Supervisory Board of PKN ORLEN appointed Mr Wojciech Jasiński to the position of the President of the PKN ORLEN Management Board, for the common three year term of office, starting from the day coming after the day of the Ordinary Shareholders Meeting of PKN ORLEN approving financial statements for 2016.
At the same time Mr Sławomir Jędrzejczyk, Vice-President of the PKN ORLEN Management Board, Chief Financial Officer and Mr Piotr Chełmiński, Member of PKN ORLEN Management Board, Business Development/Power and Heat Generation Officer submitted a statements that they will not stand for re-election for the position of Member of the PKN ORLEN Management Board.
On 29 June 2017 the Supervisory Board of PKN ORLEN appointed Mr. Wiesław Protasewicz to serve as a Member of the Management Board of PKN ORLEN and Ms. Maria Sosnowska to serve as a Member of the Management Board of PKN ORLEN. Regulatory announcement no. 84/2017. Regulatory announcement no. 88/2017.

Changes in the composition of the Supervisory Board of PKN ORLEN
On 29 June 2017 Mr Wiesław Protasewicz submitted a statement of resignation from the position of the PKN ORLEN Supervisory Board Member with the effect from 29 June 2017, justified his decision with a fact that he candidates to the PKN ORLEN Management Board.
On 30 June 2017 the Ordinary General Meeting of Shareholders of PKN ORLEN appointed to the Supervisory Board Ms Izabela Felczak-Poturnicka and Mr Wojciech Kryński.
Regulatory announcement no. 87/2017. Regulatory announcement no. 91/2017.

Decision of the Ordinary General Meeting regarding the distribution of profit for 2016
On 30 June 2017 the Ordinary General Meeting of Shareholders of PKN ORLEN S.A., having previously examined the motion of the Management Board, decided to divide PKN ORLEN's net profit for 2016 in the amount of PLN 5,364,455,552.64 in the following way:
- the amount of PLN 1,283,127,183.00 - for the dividend payment (PLN 3.00 per share),
- the remaining amount of PLN 4,081,328,369.64 - for the Company's supplementary capital. Regulatory announcement no. 90/2017.

JULY

Fitch Ratings assigned provisional rating to planned bond issue programme
On 5 July 2017 a credit rating agency Fitch Ratings assigned an expected A(pol)(EXP) rating to the planned by PKN ORLEN retail bond issue programme. Regulatory announcement no. 93/2017.

Mr Artur Gabor resigned from the position of the PKN ORLEN Supervisory Board Member with the effect from 1 September 2017
On 13 July 2017 Mr Artur Gabor submitted a statement of resignation from the position of the PKN ORLEN Supervisory Board Member with the effect from 1 September 2017. Regulatory announcement no. 97/2017.

Polish Financial Supervision Authority approved the prospectus relating to bond issue programme
On 20 July 2017 the Polish Financial Supervision Authority approved the prospectus relating to the bond issue programme directed to the individual investor. The bond issue programme assumes the issue of several bond series up to the total amount of PLN 1 billion during 12 months. The bonds will be offered in a public offering. PKN ORLEN plans to introduce the bonds to trading on the Catalyst regulated market. Regulatory announcement no. 98/2017.

Fitch Ratings assigned final rating to the bond issue programme
On 21 July 2017 Fitch Ratings assigned final A(pol) rating to the PKN ORLEN bond issue programme directed to the individual investor. Regulatory announcement no. 101/2017.

SEPTEMBER

Decision on the issue of PKN ORLEN S.A. bonds

On 4 September 2017 the Company's Management Board decided to launch the issue of A Series of bearer bonds within the bond issue programme directed to the individual investors ("Programme"), included in the prospectus approved by the Polish Financial Supervision Authority on 20 July 2017.

Terms and conditions of issue:

1. Expected bond issue date: 6 October 2017
2. Redemption date: 19 September 2021
3. Number of A Series bonds issued: up to 2,000,000
4. The total nominal value of A Series bonds: up to PLN 200,000,000
5. Interest rate: variable
6. Margin for variable rate bonds: 1%
7. Base rate for variable rate bonds: 6M WIBOR
8. Rating to the bond issue programme: A (pol)

The subscriptions were conducted from 6 September 2017 to 15 September 2017. The offer was not divided into tranches. The allocation of the Bonds was made on 19 September 2017. Regulatory announcement no. 116/2017.

OCTOBER

Registration of PKN ORLEN bonds

On 4 October 2017 the Management Board of the Central Securities Depository of Poland adopted a resolution regarding registration on 6 October 2017 of 2,000,000 A Series bonds, with the unit nominal value of PLN 100, issued within the public bond issue programme. Regulatory announcement no. 130/2017.

Admission of bonds to exchange trading

On 9 October 2017 the Management Board of the Warsaw Stock Exchange adopted a resolution regarding admission of 2,000,000 A series bonds to exchange trading on the Catalyst regulated market. Regulatory announcement no. 133/2017.

First day of trading of PKN ORLEN series A bonds

On 16 October 2017 the Management Board of the Warsaw Stock Exchange adopted a resolution determining the first day of trading of PKN ORLEN A series bonds on 19 October 2017. Regulatory announcement no. 135/2017.

NOVEMBER

The issue of PKN ORLEN B series bonds

On 15 November 2017 the Company's Management Board decided to launch the issue of B series of bearer bonds within the bond issue programme directed to the individual investors, included in the prospectus approved by the Polish Financial Supervision Authority on 20 July 2017.

Terms and conditions of issue:

1. Subscription period: from 22 November 2017 to 6 December 2017
2. Date of bonds allocation: 8 December 2017
3. Expected bonds issue date: 20 December 2017
4. Final redemption date: 8 December 2022
5. Number of B series bonds issued: up to 2,000,000
6. The total nominal value of B series bonds: up to PLN 200,000,000
7. Interest rate: variable
8. Margin for variable rate bonds: 1 %
9. Base for variable rate bonds: 6M WIBOR
10. Rating to the bond issue programme: A (pol)

The subscriptions were conducted from 22 November 2017 to 6 December 2017. The offer was not divided into tranches. The allocation of the Bonds was made on 8 December 2017. Regulatory announcement no. 147/2017.

DECEMBER

Start of the procedure of the announcement of a voluntary tender offer to acquire shares in Unipetrol a.s.

PKN ORLEN S.A. informed that on 12 December 2017 started the procedure of announcement of a voluntary tender offer to acquire shares of Unipetrol, a.s ("Unipetrol").

Moreover, the Company informed that, it intends to conduct the Offer, inter alia, on terms and conditions described below:

- the Offer is announced under the condition, which is PKN ORLEN reaching the threshold of at least 90% of the shares in the Unipetrol's share capital,
- PKN ORLEN is entitled to withdraw from the condition described above,
- the Offer will only take effect if the above-mentioned condition or withdrawal by PKN ORLEN from this condition,
- the Offer will concern the acquisition by PKN ORLEN all other (not owned by PKN ORLEN) shares of Unipetrol, the price per one Unipetrol's share in the Offer will amount to CZK 380,
- the subscription period under the Offer will run from the day of publication of the Tender Document to 30 January 2018 and may be extended by PKN ORLEN at the latest two business days prior to its expiry,
- the settlement of the transactions executed under the Offer is scheduled as of 23 February 2018,
- the Offer shall be commenced with an intent to potential delisting of Unipetrol's shares from trading at the Prague Stock Exchange (Burza cenných papírů Praha, a.s) and potential squeeze out of the minority shareholders of Unipetrol.

PKN ORLEN owns 114,226,499 shares of the Unipetrol, constituting 62.99% of the Unipetrol's share capital and corresponding to 62.99% of votes at the General Meeting of Unipetrol.

The terms and conditions of the Offer were described in detail in the Tender Offer Document, that was published on the corporate website of Unipetrol (www.unipetrol.cz), on www.patria.cz, on website of a broker house conducting the Offer and the Czech commercial gazette (Obchodní věstník). Regulatory announcement no. 160/2017.

Registration of PKN ORLEN B series bonds

On 18 December 2017 the Management Board of the Central Securities Depository of Poland ("KDPW") adopted a resolution regarding registration on 20 December 2017 of 2,000,000 B series bonds, with the unit nominal value of PLN 100. Regulatory announcement no. 162/2017.

Information on the build CCGT in Płock
PKN ORLEN S.A. informed that the usage permit for CCGT cogen-plant ("Power plant"), located within Production plant in Płock ("Production plant") is planned to be obtained in the 1st quarter of 2018.
After successful synchronization of the Power plant with the Polish Power System in September 2017 and reaching the maximum power output of ca. 600 MWe in November 2017, the Power plant delivered steam to the Production plant for the first time in December 2017. Currently a number of activities are conducted in order to obtain the usage permit for the Power plant. Regulatory announcement no. 165/2017.

Admission of bonds to exchange trading
On 22 December 2017 the Management Board of the Warsaw Stock Exchange adopted a resolution regarding admission of 2,000,000 B series bonds to exchange trading on the Catalyst regulated market. Regulatory announcement no. 167/2017.

First day of trading of PKN ORLEN series B bonds
On 27 December 2017 the Management Board of the Warsaw Stock Exchange adopted a resolution determining the first day of trading of PKN ORLEN B series bonds on 29 December 2017. Regulatory announcement no. 168/2017.

2018 year until publication of the Management Board Report.

JANUARY

Convening of the Extraordinary General Meeting of PKN ORLEN
On 4 January the Management Board of PKN ORLEN S.A., 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 convenes for 2 February 2018 the Extraordinary General Meeting of PKN ORLEN. Regulatory announcement no. 1/2018.

Changes in the composition of the Supervisory Board of PKN ORLEN
On 5 January 2018 the Minister of Energy 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 Małgorzata Niezgoda to the PKN ORLEN S.A. Supervisory Board. Regulatory announcement no. 3/2018.

Approval by the Polish Financial Supervision Authority of an annex to the prospectus relating to bond issue programme
On 12 January 2018 the Polish Financial Supervision Authority approved the annex to the prospectus relating to the public bond issue programme 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 S.A. Regulatory announcement no. 7/2018.

FEBRUARY

Changes in PKN ORLEN Supervisory Board
On 2 February 2018 the 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 Regulatory announcement no. 14/2018.

Mr Józef Węgrecki has been appointed to the Supervisory Board of PKN ORLEN S.A.
On 5 February 2018 the Minister of Energy acting on behalf of the shareholder the State Treasury, according to § 8 item 2 point 1 of the Company's Articles of Association appointed Mr Józef Węgrecki to the PKN ORLEN S.A. Supervisory Board. Regulatory announcement no. 16/2018.

Changes in PKN ORLEN S.A. Management Board
On 5 February 2018 the Supervisory Board of PKN ORLEN S.A. has dismissed following persons from the Company's Management Board with the effect from 5 February 2018:
- Mr Wojciech Jasiński, President of the PKN ORLEN S.A. Management Board,
- Mr Mirosław Kochalski, Vice-president of the PKN ORLEN S.A. Management Board,
- Ms Maria Sosnowska, Member of the PKN ORLEN S.A. Management Board, Investments and Procurement.

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 S.A. 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 PKN ORLEN S.A. Management Board, Investments and Procurement by the time of appointment of the Management Board Member for that position, providing that no longer than for three months. Regulatory announcement no. 17/2018.

Settlement of transaction in a voluntary tender offer to acquire shares in Unipetrol, a.s.
On 23 February 2018 PKN ORLEN S.A. purchased 56,280,592 Unipetrol, a.s. ("Unipetrol") shares which were subscribed for the sale in response to the announcement of a voluntary tender offer ("Offer"). The Unipetrol shares purchased by PKN ORLEN on 23 February 2018 represent ca. 31.04% of the Unipetrol share capital. The Offer price amounted to CZK 380.00 per one Unipetrol share. The total price for the shares purchased on 23 February 2018 amounted to ca. PLN 3.5 billion and was covered by PKN ORLEN by cash from own resources and consortium credit line. As a result of today settlement of transaction the Company owns in total 170,507,091 shares of Unipetrol, constituting ca. 94.03% of the Unipetrol's share capital and corresponding to ca. 94.03% of votes at the General Meeting of Unipetrol. Regulatory announcement no. 24/2018.

Signing a letter of intent concerning taking capital control over Grupa Lotos S.A. by PKN ORLEN S.A.
On 27 February 2018 PKN ORLEN S.A. signed a letter of intent between PKN ORLEN and the State Treasury concerning taking capital control over Grupa Lotos S.A. ("Lotos Group") by PKN ORLEN, understood as a purchase by PKN ORLEN directly or indirectly minimum 53% stake in Lotos Group share capital ("Transaction"). Regulatory announcement no. 26/2018.

Information on significant agreements are described in section 3.4.

The most important awards and honours

JANUARY

PKN ORLEN has been awarded the title of **Security Technical Leader 2016** for the highest level of technical security, innovation and contribution towards economic growth of Poland.

FEBRUARY

PKN ORLEN for the sixth time in a row joined the elite group of companies awarded with **„Top Employer Polska"** title, confirming its status as the leading employer in Poland.

MARCH

PKN ORLEN for the fourth time in a row was distinguished with a prestigious title of **„The World's Most Ethical Company"** for implementation ethics in the company's daily operations and determination of the standards of ethical leadership.

PKN ORLEN took first place among the companies from WIG 30 index in the category of „Best investor relations among Institutional Investors". The competition was organized on the initiative of Stock exchange and Investors „Parkiet" magazine and Chamber of Brokerage Houses.

APRIL

PKN ORLEN for the fourth time in a row became a leader of **„Most desirable employer in the opinion of specialists and menagers"** ranking in the VII edition of the survey conducted by the recruitment company Antal.

PKN ORLEN became the laureate of the **"Transparent Company of the Year 2016"** ranking organized by the Institute of Accountancy and Taxes in cooperation with Stock exchange and Investors „Parkiet" magazine.

PKN ORLEN for the eighteenth time in a row achieved first place in the prestigious ranking **of the largest Polish companies** published by the Rzeczpospolita. At the same time, the Concern became the leader of the **"Budget Pillars"** plebiscite.

MAY

The ORLEN brand service stations located in Suchorz and Stary Sącz were laureates of the V edition of **GOLDEN STATION** competition, organized by Polska Izba Paliw Płynnych.

JUNE

PKN ORLEN has received the **„IRGiT Rozrachunki 2016"** award for the biggest debut of the last year on Polish Power Exchange.

The FLOTA PKN ORLEN card with the MONITORING GPS service has been the winner in the **FLEET DERBY 2017** plebiscite.

AUGUST

The STAR brand service stations of the ORLEN Group won in the client satisfaction survey **„Fanfocus" 2017**, organized by Forum! GmbH consulting company in Mainz. Clients appreciated both the price policy and other conveniences provided by the service stations.

OCTOBER

The service stations of PKN ORLEN received the highest ratings in Polish nationwide, anonymous survey of experts of independent Polish Institute of Quality Research. The results of the survey also showed that ORLEN's retail sites have the best gastronomic offer and quality of customer service.

In the twelfth edition of **"The Best Annual Report"** competition organized by Institute of Accountancy and Taxes, PKN ORLEN received the title of **"The Best of the Best"** for financial reporting, awarded to companies which managed to obtain the highest distinction in the above competition at least three times. PKN ORLEN received also special awards for the best Online Report and Integrated Report as well as distinction for the high quality of financial reporting.

NOVEMBER

PKN ORLEN was included in **Thomson Reuters** global list of 100 leading energy companies and among the 25 top companies from oil&gas sector.

PKN ORLEN was awarded with **Client Laurel 2017** in the category of convenience stores at service station for the new concept of the O! Shop.

DECEMBER

PKN ORLEN was distinguished as **the best company in the area of currency risk management** in Central and Eastern Europe in the prestigious ranking of the Global Finance magazine.

PKN ORLEN became the leader of the **Rzeczpospolita Top 2000** ranking of the biggest Polish companies.

2. STRATEGY

Daniel Obajtek, CEO and President of the PKN ORLEN Management Board:

"Consistent measures focused on implementation of the ORLEN Group's strategy have proven successful. In 2017, we delivered record-high crude oil throughput, sales volumes and financial results. We continuously work to expand our portfolio of products and services and to improve their quality. In the ever-changing market environment, we are determined to pursue a bold growth strategy that will allow us to effectively build the Company's value in the long term. The key to success is to be prepared for various scenarios, and therefore much of our attention will be focused on analysing potential growth opportunities. In our efforts to identify sources of competitive advantage, we will continue to build a modern, innovation- and technology-driven company. In taking those efforts we wish to maintain positive and open communication with the market, so that all our stakeholders are fully aware of the path we have taken and the objectives we want to achieve".

2.1. STRATEGIC ASSUMPTIONS

2017 was the first full year of implementing the Strategy for 2017−2021, announced on December 15th 2016. Under the Strategy, PKN ORLEN will focus on strengthening its market position, becoming a more customer-oriented organisation and leveraging the integrated value chain, with increasing importance of the petrochemical business and prudent continuation of the upstream projects. The focus on value-creating innovations is an important element of the Strategy. The vision for PKN ORLEN's growth set out in the new strategy fits well with global trends in the use of primary energy sources, technological progress and social processes, which are bound to create new consumer behaviours and expectations. The dynamics of the market environment forces the Group to adjust its planning perspective. For this reason, the strategic directions in individual areas of the business were set for the next five years, while specific financial and operational targets were presented for 2017 and 2018 only, due to the volatility of the macroeconomic parameters.

The pillars of PKN ORLEN's strategy 2017-2021

Value creation	**Integrated assets and a strong market position in Downstream**	• Security of raw materials • Operational excellence • Effective sales
	Offer development and high customer satisfaction in Retail	• Modern sales of fuels network • Unique purchasing experience • Operational excellence
	The strategy of prudent continuation in Upstream	• Increased extraction in Poland and Canada • Prudent continuation
People	**Innovations creating value**	• A culture of innovation • Internal and external innovation
	Concern for the safety and the environment	• Zero accidents at work • Process safety • Caring for environment
	Action on the basis of the ORLEN values	• Responsibility • Progress • People • Energy • Dependability
Financial strength	**Solid foundations**	• Rating on investment level • Financial gearing below 30%
	Secured financing	• Diversified funding • The possibility of inorganic development
	Dividend payment	• Systematic increase in the dividend per share • The level depends on the financial situation

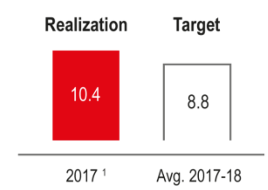
2.2. ACHIVEMENT OF STRATEGIC OBJECTIVES IN 2017

In 2017, PKN ORLEN continued to pursue its strategic objectives. Actual average full-year EBITDA LIFO[1] came in at PLN 10.4 billion, PLN 1.6 billion above the strategic target. PKN ORLEN was once again awarded the title of *The World's Most Ethical Company 2017* and *Top Employer Poland 2017*. Its robust financial position allowed the Group to pursue expansion projects and progressively increase dividend, which in 2017 amounted to PLN 3 per share.

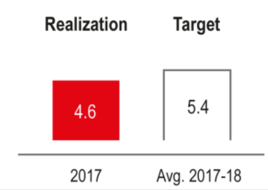
Value creation

- Most valuable Polish brand: PLN 4.7 billion
- EBITDA LIFO PLN 10.4 billion
- Record-high oil throughput: 33.2 million tonnes (94% capacity utilisation)
- Record-high sales volume: 42.4 million tonnes (an increase of 7% y/y)
- Record-high result of the Retail segment: over PLN 2 billion
- Constructive macro backdrop and positive impact of regulations designed to curb grey market in Poland
- Start-up of the CCGT unit in Włocławek and first fire of the CCGT turbine in Płock

EBITDA LIFO[1] [PLN billion]



CAPEX [PLN billion]



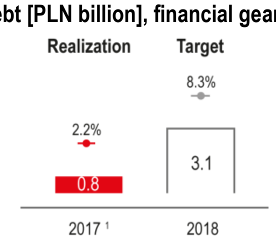
People

- 20.3 thousand committed employees
- *The World's Most Ethical Company 2017*
- *Top Employer Polska 2017*
- PKN ORLEN ranked 43rd in the Platts TOP250 list of the top global energy companies
- Best Annual Report 2016
- PKN ORLEN honoured with the 'Best in Central & Eastern Europe' (for the best investor relations in the region) and 'Best ESG communications' awards by *IR Magazine*
- Advanced technical solutions and 'Safety First' procedures

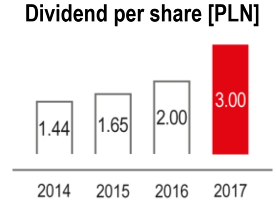
Financial strength

- Record-high dividend (PLN 1.3 billion, or PLN 3.00 per share)
- Operating cash flow: PLN 8.1 billion
- Financial leverage: 2.2%
- Rating upgrade by Moody's (Baa2 with stable outlook)
- PLN 1 billion retail bond programme
- Tender offer for minority shares in Unipetrol

Net debt [PLN billion], financial gearing [%]



Dividend per share [PLN]



1) Before PLN (169) million net impairment of property, plant and equipment recognised in 2017, including primarily PLN (140) million impairment of the ORLEN Upstream Group's exploration assets in Poland.

2.3. DELIVERY OF 2017 STRATEGIC TARGETS BY OPERATING SEGMENTS

DOWNSTREAM

Value levers

Feedstock security
- Diversification of crude oil supplies
- Securing natural gas supplies

Operational excellence
- Integrated management of production assets in Poland, the Czech Republic and Lithuania
- Increasing flexibility to meet market and regulatory challenges by further improving key performance indicators. Increasing conversion rates and high-margin product yields

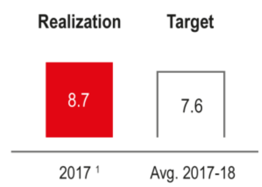
Strong market position
- Increasing share in home markets by providing an attractive product offering
- Expanding infrastructure to reach customers more quickly and to strengthen competitive advantage

Progress in 2017

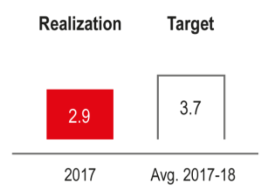
Sales and Logistics
- Leveraging the opportunities offered by the successful curbing of the grey market in Poland – increase of fuel sales by 8.4% (vs PST 17/18)
- Electricity sales: over 4.8 TWh
- Logistics costs: reducing unit cost by over 2%

Production
- Projects underway:
  - Polyethylene III in the Czech Republic
  - Metathesis in Płock
  - CCGT Płock:
    - maximum capacity reached
    - first steam supplied to the Płock Plant
- Preparation of new development investments
  - PPF Splitter in Lithuania
  - Visbreaking in Płock
  - Expansion of fertilizer production capacity at Anwil
- Improvement of key indicators:
  - Crude throughput: increase by 0.8 million tonnes
  - Increase in processing capacity utilisation by 2pp.

Increase of EBITDA LIFO [PLN billion]



CAPEX [PLN billion], on a yearly average



1) Before net impairment losses on property, plant and equipment of PLN (19) million, including PLN (8) million at ORLEN Asfalt and PLN (6) million at the Unipetrol Group.

RETAIL

Value levers

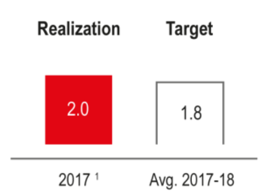
Modern network of fuel stations
- Continued development of the network of own and franchised stations
- Commercial launch of fuels with better parameters thanks to the use of improved fuel additives
- Preparations to launch sales of alternative fuels

Progress in 2017

Modern network of fuel stations
- 84 new locations added to the retail chain
- Opening of 2 hydrogen stations in Germany

Unique shopping experience
- Rapid growth of new format service stations, with 175 Stop Cafe 2.0 and O!Shop outlets (in Poland and the Czech Republic) and 16 StarConnect service stations in Germany
- **0.4% rise in non-fuel revenue**

Increase of EBITDA LIFO [PLN billion]



Unique shopping experience

- Launch of new services and products
- Improving customer satisfaction and further development of the loyalty program

Operational excellence

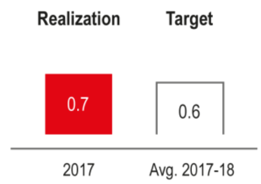
- Consistent improvement of the break-even point
- Use of state-of-the-art technologies

- **Launch of new products and services:**
  - Launch of advanced Efecta 95 and Efecta Diesel fuel products at Czech service stations
  - Launch of own brands: O! in Poland and Star in Germany
  - Launch of car sharing service in Poland
- **Improvements to the fleet programme:**
  - Completion of the first stage of the international fleet card project
  - Launch of innovative Easy fleet cards on the Czech market
  - MFlota mobile app for fleet customers

Operational excellence

- Continuous improvement in cost efficiency of service stations

CAPEX [PLN billion], on a yearly average



1) Before net impairment losses on property, plant and equipment of PLN (11) million, including mainly PLN (7) million at the Unipetrol Group and PLN (3) million at PKN ORLEN.

UPSTREAM

Value levers

Increased hydrocarbon production in Poland and Canada

- Increasing production and 2P reserves
- Focus on quality assets and most profitable projects

Prudent continuation

- Flexible response to changes in the oil and gas market
- Adjusting capital expenditure plans to the macro situation

Operational excellence

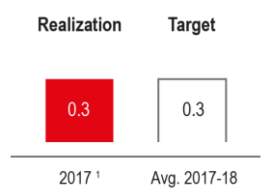
- Continuous improvement of key performance indicators
- Leveraging segment synergies in Poland and Canada

Progress in 2017

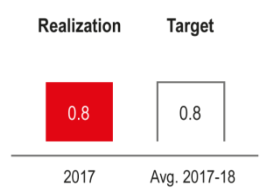
Increased hydrocarbon production in Poland and Canada

- Average production at 15.6 thousand boe/d:
  - Poland: 1.2 thousand boe/d
  - Canada: 14.4 thousand boe/d
- 2P reserves increased to 152.6 million boe (114 million boe at year end 2016)
  - Poland: 11.5 million boe
  - Canada: 141.1 million boe
- Drilling of 17.5 net wells commenced, in line with the strategy of prudent continuation

Increase of EBITDA LIFO [PLN billion]



CAPEX [PLN billion]



1) Before net impairment losses on property, plant and equipment of PLN (140) million, including primarily impairment losses on the ORLEN Upstream Group's exploration assets in Poland.

3. OPERATIONS

3.1. RESEARCH AND TECHNOLOGICAL DEVELOPMENT

Development of the operating segments, commitment to operational excellence, and building value through innovation are the key elements of the ORLEN Group Strategy for 2017–2021.

Significant efforts were put into preparation of the Strategic Plan for Development and New Technologies (SPRINT) for PKN ORLEN and the ORLEN Group, which outlines a long-term (2030+) vision for the development of the Group's production assets.

PKN ORLEN carried out intensive preparatory work towards extending the Downstream segment's value chain.

As part of investment projects, a front-end engineering design was developed and a licence was purchased for construction of a Visbreaking unit to further deepen crude conversion and obtain high-margin fractions from vacuum residue. A procurement procedure was launched to purchase licence and front-end engineering design for a MaxEne unit to optimise refining and petrochemical feedstock management and improve yields of high-margin products. Co-financed under the INNOCHEM Sectoral Programme, the Gassto project was continued to develop a technology for production of motor gasolines intended for long-term storage in salt caverns. INNOCHEM funding was also granted to PKN ORLEN for two other projects: to develop a technology for co-hydrogenation of petroleum fractions with vegetable oils or animal fats to obtain high-quality biocomponents which could be used to meet the NIT; and to implement an integrated corrosion monitoring system, which will help increase process safety and optimise management of anti-corrosion agents.

PKN ORLEN launched the STACJA INNOWACJA platform on which petrol station employees from across Poland can share innovative ideas. The application helps translate the employee's experience and creativity into action, with a view to adjusting the product and service portfolio to customers' needs and to streamlining processes. Stacja Innowacja is the largest platform of its kind in Poland.

R&D projects were continued in partnership with the Industrial Chemistry Research Institute, Warsaw University of Technology, University of Warsaw, Oil and Gas Institute, and Gdańsk University of Technology.

In response to new, more stringent heavy diesel oil standards issued by the International Maritime Organization (IMO), **the ORLEN Lietuva Group** was engaged in research into technologies to reduce volumes of heavy fractions generated in the course of refining processes. Projects aimed at enhancing the efficiency of refining processes were continued; the efforts included upgrade of the fluid catalytic cracking (FCC) unit to produce higher output of high-margin fractions. The ORLEN Lietuva Group was also engaged in a number of environmental projects, including reduction of dust emissions from the FCC unit, reduction of SO_2 and NOx emissions from the on-site CHP plant, and deployment of an emission monitoring system for the FCC, sulphur recovery and hydrogen plants.

The **Unipetrol Group** continued refining-related research projects into motor fuel production processes and deeper refining of heavy fractions from crude processing. Efforts were also made to explore the applicability of available renewables in the refining processes and to identify potential sources of feedstock among alternative materials and refuse generated in motor fuel production. Given the future sulfur content requirements for marine fuels, a project was launched to enable deeper conversion of heavy fractions.

In the petrochemical segment, long-term development plans are focused on improving the quality of the product portfolio and enhancing manufacturing efficiency. The key steps taken included research into manufacturing of new chemicals from naphthalene concentrate, potential applications of pyrolysis by-products, and use of renewable energy sources. Other R&D projects included work on securing high-quality feedstock for polyolefin production, efforts to optimise polyolefin production, and launch of new REACH-compliant catalytic systems (Registration, Evaluation, Authorisation and Restriction of Chemicals).

Anwil continued an R&D project co-financed under the INNOCHEM sectoral programme to develop an innovative production technology for PVC-based ceramic composites for the construction industry which will improve fire resistance of cable and wire sheaths. Funding was also obtained for two projects seeking to develop an innovative catalytic system for ethylene chlorination and ammonia synthesis. The objective of the projects is to increase chemical reaction yields and reduce volumes of the by-products. If laboratory trials are successfully completed, the projects will help improve efficiency of the production processes.

The **ORLEN Południe Group**, having evaluated the front-end engineering design and developed an embodiment design, launched a development project entitled 'Glycerine conversion to 1,2-propylene glycol'. The group also completed a project to increase biodiesel production capacity to 250 thousand tonnes/year, while projects to develop 2nd and 3rd generation biofuels were continued. As part of the INNOCHEM programme, industrial R&D projects were carried out, including 'Biodegradable anti-caking agents for the fertilizer industry' and 'Development of biotechnology-based conversion of organic raw materials into lactic acid using microorganisms'.

ORLEN OIL's key research efforts focused on commercial launch of new products and modification of the existing ones, and the definition of new development directions for the lubricant technology. Manufacturing technologies for 34 new oils and service fluids were developed and implemented, with a further 19 products modified.

ORLEN Upstream continued its R&D projects under the Blue Gas programme, a joint initiative of the National Centre for Research and Development and Agencja Rozwoju Przemysłu S.A. The measures were focused on developing and commercialising exploration and production technologies. In 2017, the consortium reviewed and summarised six projects it had been involved in the previous five years. Patent applications were also compiled, providing basis for patent protection of the developed solutions.

3.2. OPERATING SEGMENTS

3.2.1 Downstream

2017

PRODUCTION

	units	ORLEN Group	Poland	Czech Republic	Lithuania
Maximum processing capacity	**million t**	**35.2**	**16.3**	**8.7**	**10.2**
Utilization of processing capacity	%	94	93	91	96
White product yields	**%**	**78**	**79**	**79**	**75**
Utilization of Olefin installation capacity	%	78	75	83	-
Utilization of PTA installation capacity	%	75	75	-	-

SALES

	units	ORLEN Group	Poland	Czech Republic	Lithuania
TOTAL	**thousand t**	**32 925**	**17 159**	**7 112**	**8 654**
Refinery, including:	**thousand t**	**27 772**	**13 953**	**5 165**	**8 654**
fuels	thousand t	19 161	8 207	4 359	6 595
heavy fractions	thousand t	4 879	2 369	651	1 859
other refinery products	thousand t	3 732	3 377	155	200
Petrochemicals, including:	**thousand t**	**5 153**	**3 206**	**1 947**	**-**
olefins	thousand t	868	716	152	-
polyolefins	thousand t	550	-	550	-
benzene	thousand t	360	178	182	-
plastics	thousand t	391	300	91	-
fertilizers	thousand t	1 081	897	184	-
PTA	thousand t	523	523	-	-
other petrochemical products	thousand t	1 380	592	788	-

LOGISTICS

	units	ORLEN Group	Poland	Czech Republic	Lithuania
Total length of used pipelines	km	3 753	1 888	1 774	91
length of used raw materials pipelines	km	1 695	930	674	91
length of used product pipelines	km	2 058	958	1 100	-

POWER INDUSTRY

	units	Poland[1]	Czech Republic[2]	Lithuania
Electric power installed	MWe	889	112	160
Heating power installed	MWt	2 567	766	1 040
Boiler's efficiency	%	93.0	88.8	92.0
Boiler's availability	%	91.6	75.5	90.5

1) Installed thermal and electrical capacity refers to the CHP plant in Płock and the CCGT plant in Włocławek. Availability and efficiency of boilers at the CHP plant in Płock.
2) Installed thermal and electrical capacity as well as availability and efficiency of boilers at the Litvinov Power Plant.

3.2.1.1. Market trends in the Downstream segment

Adam Czyżewski, Chief Economist:
"While the upward trend, started in the third quarter of 2017, is rooted in the oil market fundamentals, the acceleration of crude oil price increase in the fourth quarter of 2017, continuing in early 2018, came as a result of unexpected factors that limited the growth of current supply and raised the risk premium in oil prices. The price rises are mostly driven by a solid increase in global demand for oil and liquid fuels, driven by the strengthening of economic growth in virtually all regions of the world. Added to that should be the oil output cuts by OPEC countries and Russia in early 2017, to be extended until the end of 2018."

CRUDE OIL PRICES

In 2017, the average price of Brent Crude was USD 54/bbl, an increase of 24% y/y. On London-based ICE Futures, a barrel of oil traded at USD 55/bbl in the opening session of 2017, and at USD 67/bbl in the year's closing session.

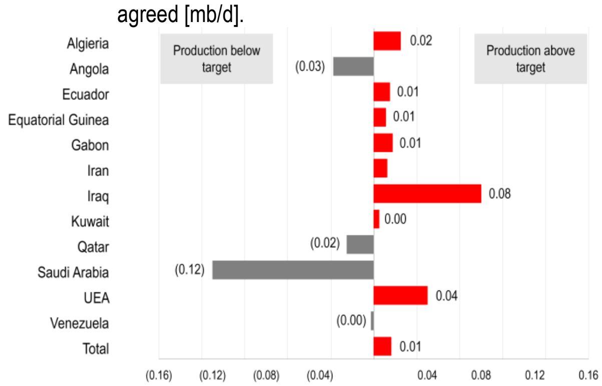
DIAGRAM 1. Changes in crude oil prices [USD/bbl]

Source: Own preparation based on Bloomberg

The main drivers of oil prices in 2017 included:

- The fastest global economic growth in a few years, leading to higher demand for oil – according to preliminary estimates by IHS Markit, the global crude oil consumption in 2017 rose by 1.8% y/y, with the fastest growing Asian markets seeing an increase of approximately 4% (y/y).
- Impact of the production cut agreement reached between OPEC and Russia – also known as the 'Vienna Alliance'. Saudi Arabia and Russia increased their output almost to the maximum level possible before hammering out the arrangement to keep production volumes stable. In 2017, the average annual volume of oil production by the OPEC countries dropped by 0.1 mb/d, and the low crude prices in the first three quarters of 2017 hindered production growth in non-OPEC countries.

DIAGRAM 2. Deviation of OPEC crude oil production from the level agreed [mb/d].



Source: IHS Markit.

- Sustained decrease in oil and fuel stocks in OECD countries since mid-2017. The fall in stock levels was supported by the shale band (oil price range defined by fluctuations in the US output in response to changes in oil prices) and a slowdown in the US production in the first half of 2017. In the following months, output in the US was rising in step with the prices; the latter, however, failed to rise above the upper end of the shale band at USD 60/bbl of Brent crude. This occurred only at the end of October, just before the OPEC summit at which the moratorium on crude production was expanded until the end of 2018 and Libya and Nigeria were included in the agreement.
- Growing political instability and risks, in particular in Iraq and Saudi Arabia – most political risks are not significant, though in the case of Middle Eastern oil markets they affect investors' decisions.
- Backwardation of oil futures (future prices will be lower than current), resulting from temporary undersupply, which creates a strong incentive for financial investors to take long speculative positions on futures markets. In late 2017, long positions substantially outnumbered short positions, supporting oil price increase above levels reflecting the physical fundamentals of the oil market.

Possible directions of oil price changes

As industry analysts and investment banks expect in the first half of 2018, the price of Brent crude may rise close to USD 80/bbl. In the second half of 2018, the upward trend should reverse. According to forecasts by JP Morgan and Goldman Sachs, the average price of Brent crude in the fourth quarter of 2018 is expected to fluctuate between USD 60 and USD 70 per barrel. Projections by IHS Markit, which focus on the supply and demand on physical markets, suggest that oil prices will return to the fundamental level even sooner and that the crude will trade at approximately USD 60/bbl in late 2018. The main drivers of crude prices in 2018 remain the same as in 2017 and include:

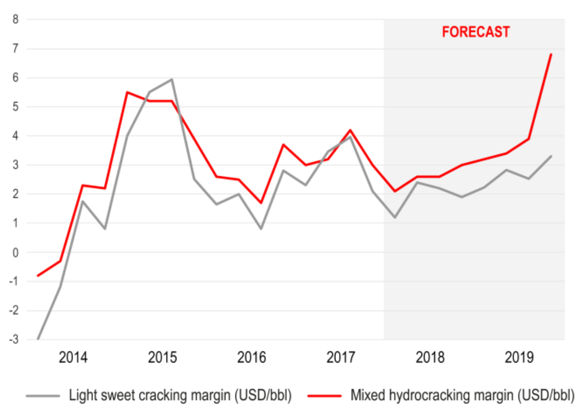
- Strong growth of global demand, which may be disrupted by the reaction of OECD markets (especially the US) to the rising fuel prices and increased demand for fuels in emerging markets (India, Saudi Arabia), in the context of high inflationary pressures and the ongoing reform of the fuel subsidy system.
- Strength of the Vienna Alliance. The current extension of the alliance supports the increase of crude prices. The agreement may be expected to continue at least until the price of Brent crude has remained above USD 70/bbl for some time.
- Potential output increase in the US. With appropriate price signals, the US market may show a significant increase in shale oil output. The extension of the Vienna Alliance and the decline in oil stocks in the US are the main factors driving the potential for growth of shale oil production.

- Increased geopolitical risks. Traditionally, political risks that can push oil prices up exist in Iraq, Kurdistan, Saudi Arabia, Yemen, Qatar, and Lebanon. However, significant risks may soon appear in Venezuela (rising debt and political instability, causing further output decline) and Iran (serious risk of further deterioration of relations between Tehran and Washington and re-imposition of sanctions).
- Fluctuations in the US dollar, which has depreciated against the euro and the currencies of emerging economies in the last year.

DOWNSTREAM – PRODUCTION AND SALES

2017 was another good year (after 2015 and 2016) for the global refining industry. Refining margins in Europe increased year on year, driven mainly by exceptionally extensive unplanned shutdowns of the refining capacities. In 2018, global refining margins are expected to come close to the levels seen in 2016 but below those of 2017.

DIAGRAM 3. Net refining margins in Europe [USD/bbl].



Source: IHS Markit..

In the short- and medium-term perspective, refining margins in Europe will be shaped by competitive pressures. The main drivers include: the advantage of enjoyed by US and Middle East refineries due to low energy cost vs relatively high energy costs in Europe; upgrades of European refineries aimed at deepening crude conversion; and the growing competitiveness of exports from Middle East producers which now supply fuel not only to Asia but also to Europe.
In a longer term, the margins will depend on the demand for refining products as well as on projects to replace and increase oil production capacities (higher risk of impairment of production assets in the future affects the producers' willingness to invest in such assets). Until 2020 and beyond, the key drivers of refining margins will include:

- IMO Regulations concerning sulfur content in bunker fuels, to come into force in 2020 – sulfur content is to be reduced from 3.5% to 0.5% as of January 1st 2020. Both the refining sector and the shipbuilding industry have responded to the requirement only to a limited extent so far, which increases the likelihood of major disruptions in the oil market. Industry analysts predict a significant premium for crude oil and refining products with lower sulfur content.
- Potential decline in fuel supply from Russia by 2020, caused by the IMO regulations. As more stringent bunker fuel standards come into force, prices of high-sulfur fuel oil (HSFO) will fall sharply. This will have a particularly detrimental effect on Russian refineries, as heavy fractions make up a significant part of their output. Major refinery upgrade projects aimed at reducing sulfur content and increasing volumes of gasoline production are delayed and probably will not be completed before January 2020. In order to reduce sulfur content (and HSFO volumes), Russian refineries may have to cut back crude throughput, which may result in lower gasoline volumes being sold on the Russian market and exported.
- New biofuel regulations proposed by the EU. Under the draft regulation, biofuels are to represent 7% of final energy volume used in road and rail transport, while first generation biofuels, which compete with food production and contribute to the shrinking of green areas, are to be taken out of the market.
- Growing impact of electric cars and broadly defined electromobility on demand expectations and investment in future production. Electric vehicles have been gaining traction for years, but 2017 might have been a breakthrough year for the industry. Launch of the next generation electric cars, largest car makers' plans to significantly increase electric car production, and the proposed ban on sales of internal combustion engines in the coming decades, as announced by the governments of China, India, France and the United Kingdom, to name just a few, can have a significant impact on the development of the refining industry and its margins.

In a longer term, the **petrochemical industry** may support demand for crude processing products, thus building refining margins – growing application of modern plastics in the global economy. Central and Eastern Europe is among the fastest-growing markets in terms of demand for the type of petrochemical products produced by the ORLEN Group (polypropylene, ethylene, butadiene, paraxylene PTA and PVC).

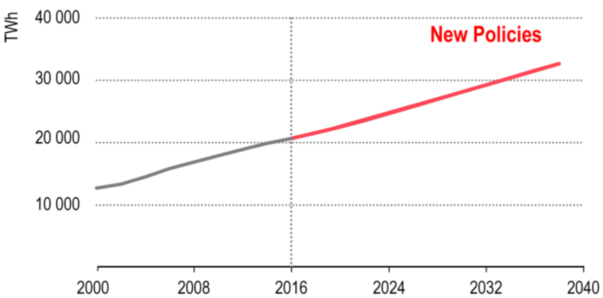
- Olefins (ethylene, propylene, butadiene) – strong pressures of imports from Middle East and North America due to the cost advantage. European production, based on kerosene, has been and will continue to be relatively less competitive if crude oil prices continue to grow.
- Aromatics (benzene, toluene, xylene, paraxylene) – predicted decrease in benzene and toluene production capacities in Western Europe until 2030. Manufacturers of aromatics will seek ways to extend the value chain towards paraxylene and there is a potential risk of rising imports of benzene to Western Europe.
- Plastics (polyethylene, polypropylene, PVC) – the packaging sector is the largest consumer of plastics in Europe (40% of the demand). Forecast price pressure for ethylene derivatives due to the shale revolution in the US. Demand fluctuations may heavily affect manufacturers who are not very innovative and whose margins are mainly volume-driven.

DOWNSTREAM – POWER GENERATION

In the New Policies Scenario presented in the *World Energy Outlook 2017* report released by the International Energy Agency (IEA), global demand for electricity will grow at an average rate of 1.3% a year until 2040 relative to 2016, while the global economy will grow at an annual rate of 3.4%.
In this scenario, which describes the target energy system taking into account the existing regulations and announced changes,

demand for electricity is forecast to increase from the current 21,375 TWh to 34,470 TWh in 2040.

DIAGRAM 4. Global energy consumption [TWh]



Source: International Energy Agency.

According to the IEA, compared with the past twenty-five years, the way that the world meets its growing energy needs will change dramatically. The change will be driven primarily by the need to decarbonise industry and cut emissions from the power sector. Renewables will rise most rapidly, with concurrent improvements in energy efficiency. These improvements will play a huge role in taking the strain off the supply side: without them, the projected rise in final energy use would more than double. Renewable sources of energy will meet 40% of the increase in primary demand and their explosive growth in the power sector will mark the end of the boom years for coal. Coal-fired power generation capacity grew significantly between 2000 and 2016, but the growth will slow markedly by 2040. Renewables will capture two-thirds of global investment in power plants as they become, for many countries, the least-cost source of new generation. Rapid deployment of solar photovoltaics, led by China and India, will help solar become the largest source of low-carbon capacity by 2040. In the European Union, renewables will account for 80% of new capacity and wind power will become the leading source of electricity soon after 2030, due to strong growth both onshore and offshore. China will continue to lead a gradual rise in nuclear power output, overtaking the United States by 2030. According to the IEA forecasts, the share of nuclear energy in the energy mix will slightly increase by 2040.

TABLE 2. Sources of global electric energy production [TWh].

Source	2000	2016	New Policies Scenario	
			2025	2040
Coal	6 005	9 282	9 675	10 086
Oil	1 259	1 004	719	491
Gas	2 753	5 850	6 730	9 181
Nuclear	2 591	2 611	3 217	3 844
Renewables	2 869	6 018	9 316	15 688
Total	**15 477**	**24 765**	**29 657**	**39 290**

Source: International Energy Agency.

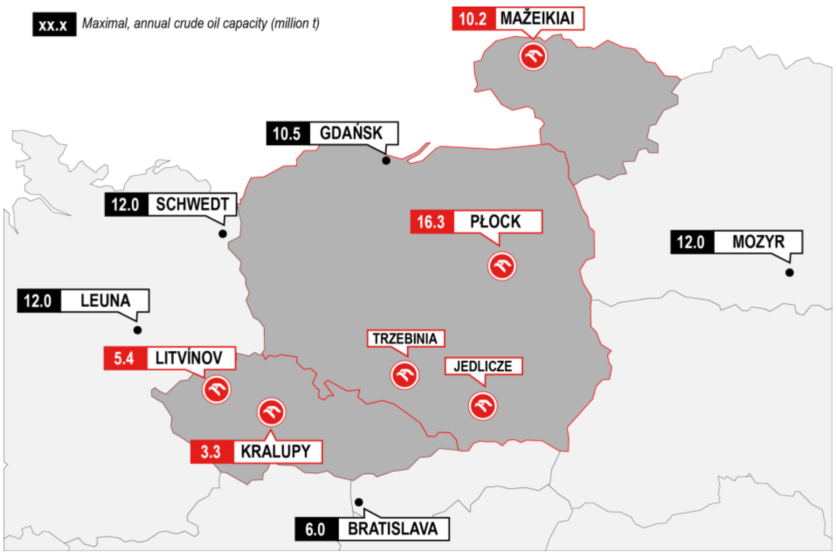
Poland, where in 2010−2016 the demand for energy grew at the CAGR of 1.5%, is the key market for the power generation business of the ORLEN Group's Downstream segment. Until 2020, the CAGR is expected at around 1.7% (according to CERA), and the growth will above all be led by the country's economic development.
The power generation industry in Poland will be largely driven by market trends related to distributed generation, the winter package and capacity market.
Essentially, distributed generation (of electricity, heat, and cold) is based mainly on renewable energy sources (RES). The development of distributed generation provides smaller players with the opportunity to enter the energy market. In particular, the prosumer model, where energy consumers generate electricity for their own needs, is becoming increasingly popular. This trend opens way to more stable electricity supplies to consumers and makes them less exposed to potential changes in market prices of energy.
The winter package, i.e. 'Clean Energy for all Europeans', which is a set of the European Commission's legislative proposals, introduces a number of energy regulations to reorganise the EU energy market towards renewable and consumer-oriented energy economy, to integrate energy markets of individual EU member states, and to ensure energy security through the development of interconnections.
The capacity market, statutorily established in Poland in December 2017, adds capacity as a complementary element of the electricity market. As part of the capacity market, capacity will be offered by power producers at auctions and will help ensure security of the power system. Capacity auctions will be held already in 2018, and first capacity deliveries will take place in 2021.

3.2.1.2. ORLEN Group's market position and competitive environment

Krystian Pater – Member of the PKN ORLEN Management Board, Production:
"In 2017, the volume of crude oil processed by the ORLEN Group was record high, at over 33 million tonnes. We were focused on integrating and utilising our production assets to the largest extent possible, enhancing flexibility in response to the market and regulatory challenges, and increasing high-margin product yields. We seek to secure an optimal structure of oil supplies to optimise costs while ensuring the security of supplies. We carry on with the construction of the Metathesis Unit at PKN ORLEN, and with the Unipetrol Group's key project, i.e. the construction of the Polyethylene III unit. In June 2017, the new CCGT unit came on stream in Włocławek, and a similar CCGT unit is planned to be commissioned in Płock in 2018."

MAIN PRODUCTION ASSETS OF THE ORLEN GROUP

SCHEME 3. Production assets of the ORLEN Group and main competitors in the Central and Easter Europe / production capacity [million t].



Source: Own preparation.

ORLEN GROUP

- The total production capacities of the **ORLEN Group** refineries are 35.2 million tonnes.
- **The refinery in Płock** is one of the most advanced integrated production facilities in Central and Eastern Europe, with a production capacity of 16.3 million tonnes/year. In petrochemicals, the key unit (Olefins) has a maximum production capacity of about 700 thousand tonnes of ethylene and about 380 thousand tonnes of propylene. Monomers manufactured at PKN ORLEN are used as feedstock for the polymer units at Basell Orlen Polyolefins and the PVC unit at ANWIL. PKN ORLEN also operates a modern PX/PTA complex with an annual capacity of around 690 thousand tonnes of terephthalic acid.
- The other Polish refineries, operating as the **ORLEN Południe group in Trzebinia and Jedlicze**, manufacture bio-components, base oils and heating oils, and regenerate spent oils.
- The **ORLEN Lietuva refinery in Mazeikai** has a production capacity of 10.2 million tonnes/year and is the only such facility in the Baltic States (Lithuania, Latvia and Estonia).
- The **Unipetrol Group operates refineries in Kralupy and Litvinov,** with a combined production capacity of 8.7 million tonnes/year. The Unipetrol Group also owns gas petrochemical assets with combined production capacities of approximately 600 thousand tonnes/year, including 320 thousand tonnes of polyethylene and approximately 280 thousand tonnes of polypropylene. Construction of a new Polyethylene III unit, with a capacity of approximately 270 thousand tonnes/year, is under way. Once completed, the unit will allow Unipetrol to increase the use of the Olefins installation and further integrate the petrochemical and refining operations.
- The Włocławek-based **Anwil** is the only manufacturer of polyvinyl chloride (PVC) in Poland and one of the major manufacturers of sodium hydroxide and fertilizers in the country. The annual production capacities are 1,160 thousand tonnes of nitrogen fertilizers, approximately 560 thousand tonnes of PVC and granulates, and approximately 360 thousand tonnes of sodium hydroxide.
- **Basell ORLEN Polyolefins in Płock** operates facilities with a total production capacity of 820 thousand tonnes (420 thousand tonnes of polyethylene and 400 thousand tonnes of polypropylene). Products are marketed both in Poland and in foreign markets.

COMPETITION IN CENTRAL AND EASTERN EUROPE

- The largest **competitors of the ORLEN Group** are:

– LOTOS Group of Gdańsk – Poland's second largest refinery

– Mitteldeutschland Refinery in Leuna/Spergau, located in south-eastern Germany, about 150 km from the Polish-German border, the country's most advanced refinery

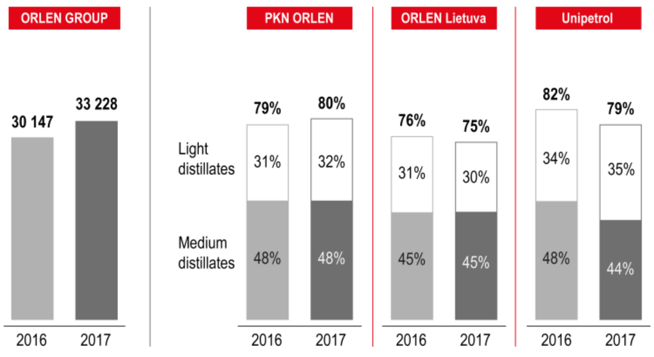
– PCK Refinery in Schwedt, located north-east of Berlin, about 20 km from the Polish-German border

– Slovnaft refinery, an integrated refining and petrochemical group, with a leading position in the Slovak Republic, located near Bratislava

– Mozyr refinery, a leading refinery in Belarus, located close to the Ukrainian border.

KEY OPERATIONAL DATA

DIAGRAM 5. Crude oil throughput and fuel yields.



Source: Own preparation

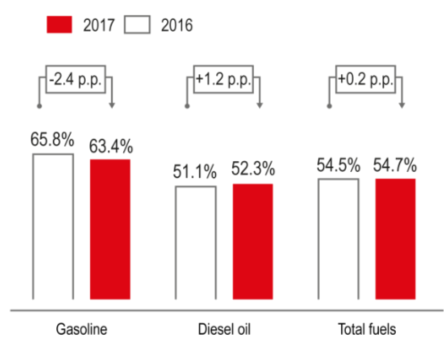
- **Volume of crude processed by** the ORLEN Group in 2017: **33.2 million tonnes, an increase of 10.2% y/y**, including:
  - **in Poland, an increase of 0.6% y/y**, led by stronger demand following the curbing of the grey market, and despite maintenance shutdowns. Higher y/y fuel yields, mainly due to the larger share of low-sulfur crudes in the crude slate;
  - **in the Czech Republic, an increase of 45.6% y/y**, due to the higher y/y availability of the ethylene unit (steam cracker) and the fluid catalytic cracking unit, both of which underwent maintenance shutdowns in the previous period. Lower y/y fuel yields due to unplanned shutdowns and absence of the need to provide additional process load to the refinery units during the emergency shutdown of the steam cracker in 2016;
  - **in Lithuania, an increase of 5.3% y/y**, led by improved market conditions supporting higher product sales. Lower y/y fuel yields resulting from the refinery's scheduled maintenance shutdown in the second quarter 2017.

THE ORLEN GROUP'S MARKET SHARES IN THE DOWNSTREAM SEGMENT

Wholesale of refining products

In 2017, the ORLEN Group was involved in wholesale distribution of refining products in Poland, the Czech Republic, Germany, Slovakia, Hungary, Austria, Latvia, Lithuania, Estonia, Finland and Ukraine, and in Western Europe, where products were delivered to transhipment terminals by sea. The ORLEN Group's home markets are Poland, Lithuania and the Czech Republic. The Group has an extensive portfolio of refining products, including gasoline, diesel oil, A-1 jet fuel, light and heavy heating oil, bitumen, engine oils and a wide range of other refining and petrochemical products.

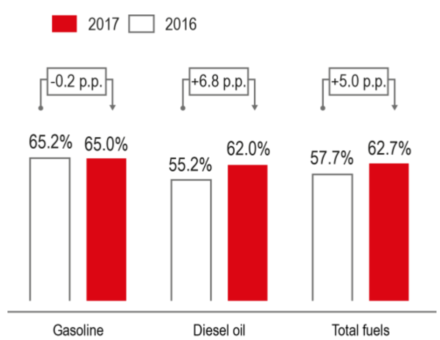
DIAGRAM 6. Market share in Poland.



Source: Own preparation.

- The ORLEN Group remains the leader in fuel sales in Poland.
- A 1.2pp y/y increase in the ORLEN Group's share in total sales of diesel oil in Poland, following delivery of ambitious sales targets and successful implementation of a strategy aimed at taking over fuel sales from the grey market and intensification of import.
- A (2.4)pp decline of the share in total gasoline sales - despite higher volume of gasoline sales, the rate of increase did not match the growth of the market, mainly due to the competitors opting for an aggressive pricing policy stemming from the structural gasoline oversupply in the region.

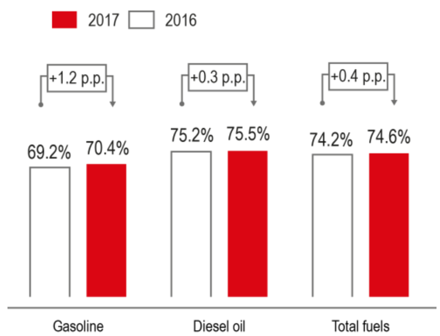
DIAGRAM 7. Market share in the Czech Republic.



Source: Own preparation.

- The ORLEN Group is the leader in fuel sales in the Czech Republic.
- A 6.8pp increase in the Group's share in the diesel oil market on higher availability of the production units.
- A slight (0.2)pp decline of the share in the gasoline market.

DIAGRAM 8. Market share in the Baltic states.



Source: Own preparation.

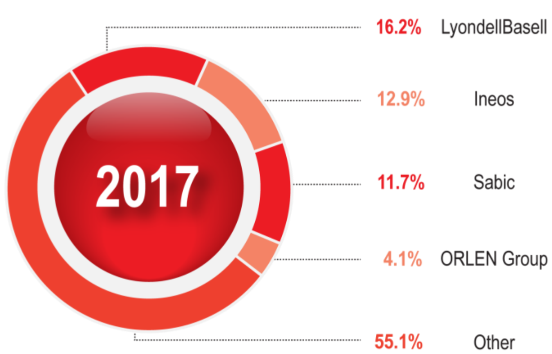
- Consolidation of the Group's position as the market leader in the Baltic States, despite strong price pressures from Finnish, Belarusian and Russian suppliers.
- Increase in the shares in total gasoline and diesel oil sales on the markets, by 1.2pp and 0.4pp, respectively.

For description of the ORLEN Group's sales by product groups, see section 3.2.1.3.

Wholesale of petrochemical products

The ORLEN Group is the largest petrochemical company in Central and Eastern Europe, the only manufacturer of monomers and polymers on the Polish market, and the manufacturer of most of the petrochemical products available on the Czech market.

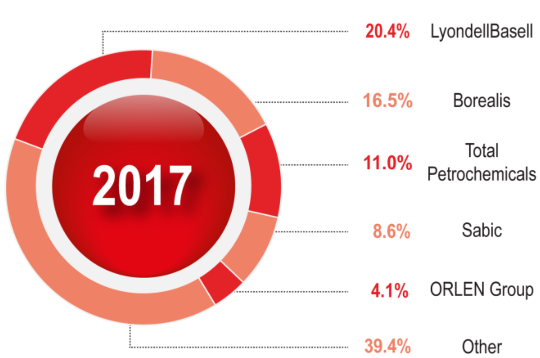
DIAGRAM 9. Polyethylene producers in Europe.



Source: Own preparation based on POLYGLOBE.

- The production capacity of high and low density polyethylene in Europe are at the level of about 13,567 thousand tonnes/year.
- Lyondell Basell Industries – the largest producer of polyethylene which has a production capacity of about 2,195 thousand tonnes/year (including a 50% stake in Basell ORLEN Polyolefins Sp. z o.o. (BOP)). The company has assets located in Germany, France and Poland.
- Ineos Olefins & Polymers Europa with a production capacity of around 1,745 thousand tonnes/year and assets located in Belgium, France, Germany, Italy and Norway and Sabic with a production capacity of about 1,590 thousand tonnes/year and assets located in Germany, the Netherlands and the UK.
- Aggregate production capacities of ORLEN Group with plants in Poland and the Czech Republic (including a 50% stake in BOP) amount to around 555 thousand tonnes/year.
- The ORLEN Group on the Czech market is constructing a new installation of Polyethylene III capable of production capacity of about 270 thousand tonnes/year.

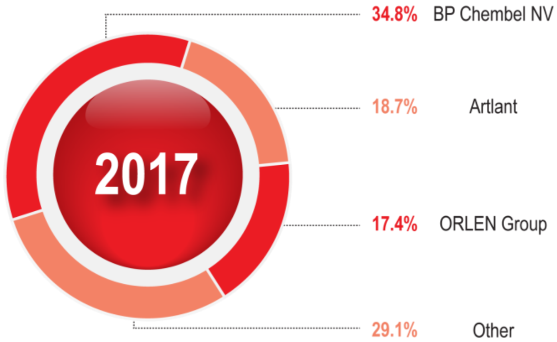
DIAGRAM 10. Polypropylene producers in Europe.



Source: Own preparation based on POLYGLOBE.

- Polypropylene production capacity in Europe is at the level of about 11,609 thousand tonnes/year.
- Lyondell Basell Industries has a production capacity of about 2,365 thousand tonnes/year (including a 50% stake in BOP). The company has assets located in Germany, France, Italy, Spain, the UK and Poland.
- Borealis with a production capacity of around 1,920 thousand tonnes/year and assets located in Belgium, Germany, Austria and Finland and Total Petrochemicals with a production capacity of about 1,280 thousand tonnes/year and assets located in Belgium and France.
- Aggregate production capacities of the ORLEN Group with plants in Poland and the Czech Republic (including a 50% stake in BOP) amounts to about 480 thousand tonnes/year.

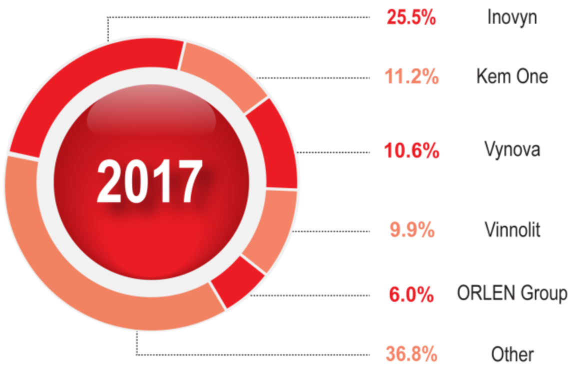
DIAGRAM 11. PTA producers in Europe.



Source: Own preparation based on PCI.

- PTA production in Europe in 2017 amounted to about 2,663 thousand tonnes/year.
- BP Chembel NV – the largest producer of PTA, located in Belgium with nominal capacity of 1,400 thousand tonnes/year.
- Artlant in Portugal with nominal production capacity of 750 thousand tonnes/year – due to prolonged construction of production installations since third quarter of 2014 the volume of production is limited.
- PKN ORLEN as the only one in Europe has PTA manufacturing systems fully integrated with the production of paraxylene and has a production capacity at the level of 690 thousand tonnes/year at disposal.

DIAGRAM 12. PVC producers in Europe.



Source: Own preparation based on Petrochemical Market Dynamics, Vinyl – 2017 Report from October 2017 (Nexant)

- PVC nominal production capacity in Europe is 7,855 thousand tonnes/year.
- The leading manufacturer of PVC in Europe is Inovyn (a company established through the merger of Ineos Chlor and Solvay) and has production capacity of 2,005 thousand tonnes/year.
- The next largest producers are Kem One, Vynova and Vinnolit which have production capacities estimated respectively at 882 thousand tonnes/year, 830 thousand tonnes/year and 780 thousand tonnes/year.
- Karpatneftekhim, with nominal production capacities ca. 300 thousand tonnes/year, resumed production in the middle of 2017 year after five years long stoppage
- The ORLEN Group with installations in Anwil and Spolana and production capacities of 475 thousand tonnes/year is ranked fifth in production capacity on the European market of PVC.
- The Anwil's main competitors in the PVC European market are Inovyn and Vynova and in the PVC domestic market – BorsodChem.

For description of the ORLEN Group's sales by product groups, see section 3.2.1.3.

ORLEN GROUP'S LOGISTICS ASSETS

The logistics infrastructure is one of the key elements of the ORLEN Group's competitive advantage.

The Group operates a network of complementary infrastructure assets: fuel terminals, onshore and offshore handling depots, transmission pipelines, rail transport, and transport by road tankers.

In 2017, pipelines were the primary mode of transport of feedstock and products used by the Group. The total length of product and feedstock pipeline networks, both Group- and third party-owned, used by the ORLEN Group in Poland, the Czech Republic and Lithuania was nearly 3.8 thousand km (including 2.1 thousand km of product pipelines, and 1.7 thousand km of feedstock pipelines).

In **Poland**, PKN ORLEN uses 620 km of pipelines owned by Przedsiębiorstwo Eksploatacji Rurociągów Naftowych S.A., as well as its own transport infrastructure with a total length of 338 km, comprising two sections: Płock – Ostrów Wielkopolski – Wrocław (319 km) and Wielowieś – Góra (19 km). Crude oil is transported mainly via the network of pipelines owned by Przedsiębiorstwo Eksploatacji Rurociągów Naftowych S.A. (total lengths of 887 km), and via the Group's own pipeline (43 km), connecting Góra and Żółwiniec (link to the PERN pipeline).

In 2017, the ORLEN Group used a total of 24 facilities to receive, store, dispatch and handle fuels (Group- and third party-owned fuel terminals). As at the end of 2017, the total storage capacity available to the Group within its own infrastructure and contracted from third parties was over 7 million m^3.

In December 2017, PKN ORLEN S.A. purchased a fuel terminal in Trzebinia from ORLEN Południe S.A., which marked the end of the process of centralising primary logistics assets at PKN ORLEN.

In 2017, the ORLEN Group used 1,774 km of pipelines in **the Czech Republic** (1,100 km of product pipelines operated by ČEPRO, and 674 km of feedstock pipelines operated by MERO), 12 storage and distribution depots owned by state-owned operator ČEPRO, and three terminals owned by the Group.

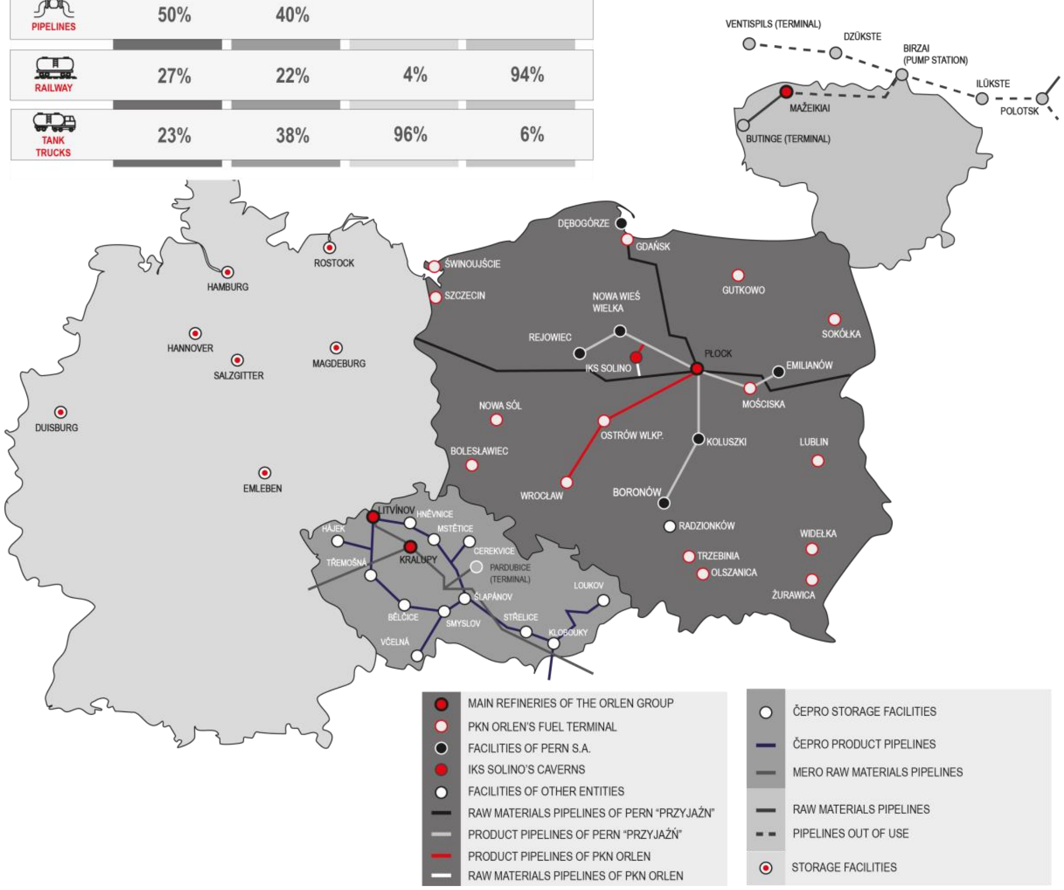
The main component of the logistics infrastructure currently used on **the Lithuanian market** is a 91-km feedstock pipeline linking the Butinge terminal with the Mazeikiai refinery. Both the terminal and the pipeline are owned by ORLEN Lietuva.

On **the German market**, ORLEN Deutschland uses the storage and distribution capacities of seven third party-owned depots. Products are delivered to service stations by road.

SCHEME 4. Transport structure and logistic infrastructure used by the ORLEN Group in Europe.

THE STRUCTURE OF TRANSPORT IN ORLEN GROUP IN 2017

	POLAND	CZECH REPUBLIC	GERMANY	LITHUANIA
PIPELINES	50%	40%		
RAILWAY	27%	22%	4%	94%
TANK TRUCKS	23%	38%	96%	6%



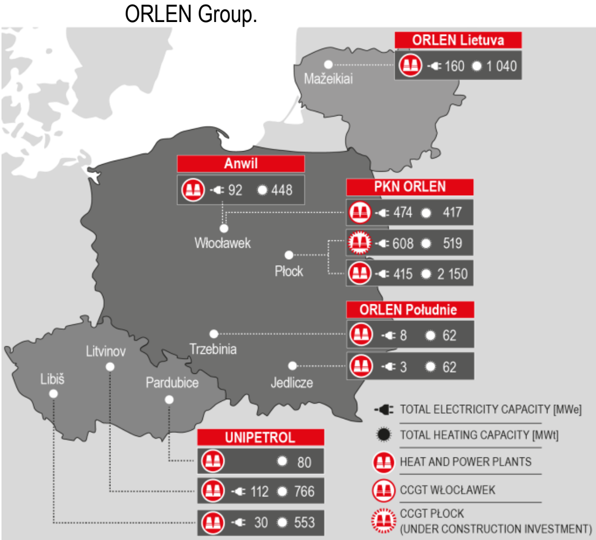
Source: Own preparation

POWER GENERATION

The ORLEN Group is a significant producer of electricity and heat, used in large part to satisfy the Group's own production needs. It is also one of the largest consumers of gas in Poland and an active participant in the process of gas market liberalisation.
In line with its Strategy, the ORLEN Group both upgrades its existing power generation assets and constructs new projects (CCGT units).

The ORLEN Group currently owns power generation assets in three countries. In Poland, they are located in Płock, Włocławek, Jedlicze and Trzebinia; in the Czech Republic – in Litvinov, Spolana, Kolin and Pardubice; and in Lithuania – in Mazeikiai.

SCHEME 5. Energy assets and their technical parameters in the ORLEN Group.



Source: Own preparation

CHP PLANTS

- In terms of installed capacity, **PKN ORLEN's high-efficiency combined heat and power plant in Płock** is the largest industrial power plant in Poland and one of the largest in Europe. The CHP plant is the main supplier of steam heat, heating water and electricity to the Group's production units in Płock and to external customers. The new 70 MW pass-out back-pressure turbine generator was placed in service in November 2017, and with a new TG7 turbogenerator in place, the total installed capacity increased to 415 MW. Boilers of the CHP plant are fired with heavy fuel oil, derived from crude oil distillation, and with natural gas.
- The ORLEN Południe Group's **CHP plant in Trzebinia** fully satisifies the Trzebinia Plant's demand for steam heat and heating water, and partly the demand for electricity. Fine coal is the primary fuel used by the CHP plant.
- The ORLEN Południe Group's **CHP plant in Jedlicze**, fired mainly with fine coal, is the main supplier of process steam to the Jedlicze Plant.
- At present, the **Anwil CHP plant** operates as an auxiliary source of heat and does not produce electricity. For technological purpose, Anwil uses mostly process steam from the Włocławek gas-fired CCGT unit (commissioned in mid-2017) owned by PKN ORLEN.
- The Unipetrol Group's **CHP Plant in Litvínov** uses lignite as the primary fuel; the plant's power generation assets are currently being upgraded.
- **The CHP Plant in Spolana** is fuelled mainly with lignite.
- **The Paramo CHP Plant** comprises two production plants, in Kolin and in Pardubice, both fuelled with natural gas.
- **ORLEN Lietuva's CHP plant** is a source of process steam and is fired mainly with heavy fuel oil and refinery gases.

CCGT plants

- **Włocławek CCGT Plant,** 474 MWe. In 2017, the CCGT plant produced over 2.08 TWh of electricity and supplied almost 1,200,000 GJ of heat to Anwil in the form of process steam. The unit, which cogenerates electricity and heat, not only satisfies the ORLEN Group's own demand for electricity, but has become an active market participant as well and closely cooperates with PSE, the national power grid. The relatively high installed capacity and high flexibility enable the unit to also provide system services to PSE, thus contributing to the grid's stability.
- **Płock CCGT Plant**, 608 MWe. On September 14th, the hot start (first fire) of the CCGT unit commenced, and on September 17th the unit was synchronised with the national grid. In November, the baseload reached approximately 600 MWe. In December, the first steam and electricity was supplied to the Płock Production Plant. To date, the unit has generated ca. 1 TWh of electricity.

Surplus electricity from the new CCGT assets is sold both on the wholesale energy market and to end customers.

3.2.1.3. Sales Volume of Downstream segment

Zbigniew Leszczyński, Member of the PKN ORLEN Management Board, Sales

"The improvement of trading conditions following enactment of the legislation targeting the grey fuel market in Poland, and increased availability of the Unipetrol Group's production capacities following completion of the maintenance shutdowns in 2016 allowed the ORLEN Group to deliver record-high sales volumes.

In aggregate, the ORLEN Group sold more than 42 million tonnes of products and merchandise on the home markets. The volumes of products sold by the Downstream and Retail segments increased by 7.2% y/y, to nearly 33 million tonnes, and by 7.7% y/y, to 8.8 million tonnes, respectively.

Last year, PKN ORLEN stood up to the challenge of satisfying a surge in demand on the Polish market, which required a close cooperation between the Group's marketing and logistics functions.

Our trade expertise – which we continuously develop – allows us to fill shortages in own production volumes. The Group has become an active player on international markets, and now we are able to effectively satisfy the growing demand on home markets with imports, both by sea and by land".

In 2017, the ORLEN Group improved on the 2016 record-high sales volume reported in the Downstream segment. Total sales volume was 32,925 thousand tonnes, an increase of 7.2% y/y, driven by higher refining and petrochemical product volumes, which increased by 5.0% y/y and 20.7% y/y, respectively.

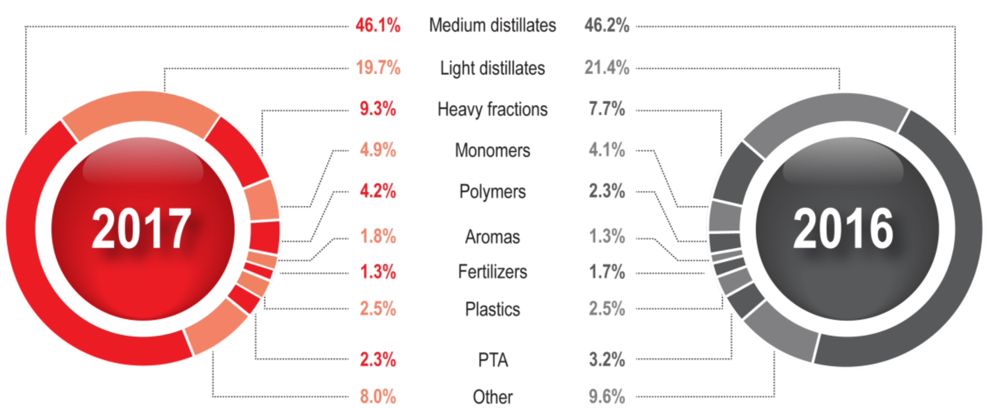
Higher fuel sales in the Downstream segment reflect the sustained favourable market conditions, including the effects of enactment, in August 2016, of the legislative solutions designed to curb the grey fuel market in Poland.
Middle distillates, whose sales increased by 7.1% y/y, were the main contributor to the increase. Stronger sales were led mainly by record-high volumes of diesel oil on the Polish market.
The absence of production constraints, previously caused by the unavailability of the Unipetrol Group's ethylene production unit and the scheduled maintenance shutdown of the olefin unit in 2016, was an important driver of the growing petrochemical sales.
The ORLEN Group also posted higher y/y sales of plastics and comparable y/y volumes of fertilizers despite maintenance shutdowns of the production units.
Lower PTA sales were attributable to the reduction of the unit's output prior to the maintenance shutdown scheduled for 2018.

TABLE 3. The ORLEN Group sales in the Downstream segment (PLN million/thousand tonnes).

Sales	2017		2016		2015		change %	
	Value	Volume	Value	Volume	Value	Volume		
1	2	3	4	5	6	7	8=(2-4)/4	9=(3-5)/5
Light distillates[1)]	12 071	5 818	10 513	5 766	11 528	5 437	14.8%	0.9%
Medium distillates[2)]	28 325	13 343	22 714	12 459	25 062	11 995	24.7%	7.1%
Heavy fractions[3)]	5 691	4 879	3 786	4 334	4 610	4 544	50.3%	12.6%
Monomers[4)]	2 994	868	2 025	681	2 978	878	47.9%	27.5%
Polymers[5)]	2 557	550	1 135	245	2 341	482	125.3%	124.5%
Aromas[6)]	1 100	360	625	248	930	358	76.0%	45.2%
Fertilizers[7)]	805	1 081	821	1 089	1 057	1 146	(1.9%)	(0.7%)
Plastics[8)]	1 466	391	1 218	351	1 492	445	20.4%	11.4%
PTA	1 399	523	1 571	605	1 532	587	(10.9%)	(13.6%)
Other[9)]	5 017	5 112	4 794	4 930	5 457	4 508	4.7%	3.7%
Total	**61 425**	**32 925**	**49 202**	**30 708**	**56 987**	**30 380**	**24.8%**	**7.2%**

1) Gasoline, LPG.
2) Diesel oil, light heating oil, jet fuel.
3) Heavy heating oil, bitumen, oils.
4) Ethylene, propylene.
5) Polyethylene, polypropylene.
6) Benzene, toluene, paraxylene, ortoxylene.
7) Canwil, ammonium sulphate, ammonium nitrate, other fertilizers.
8) PVC, PVC granulate.
9) Other contains mainly: brine, salt base, vacuum distillates, acetone, ammonia, butadiene, phenol, technical gases, glycols, caprolactam, caustic soda and sulphur. Additionally, in value terms revenues from sale of services of the segment and materials.

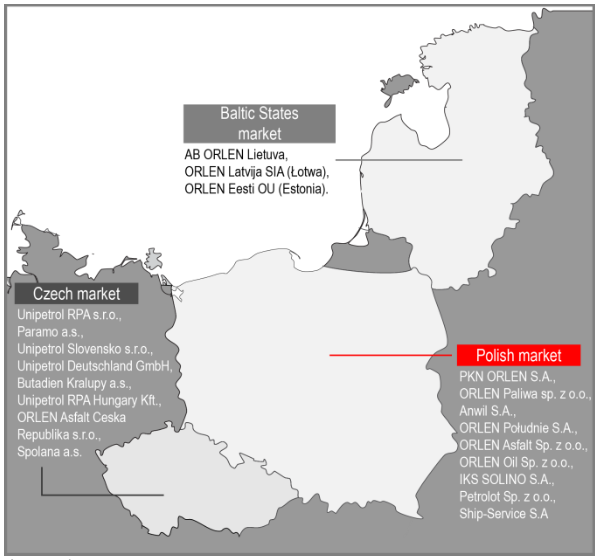
DIAGRAM 13. Sales revenue structure of the ORLEN Group Downstream segment.



In 2017, 2016 and 2015 none of the ORLEN Group's leading customers accounted for 10% or more of the Group's total revenue.

3.2.1.4. Sales markets and market shares

SCHEME 6. Basic domestic markets (by country/headquarter of company carrying out the sales) and wholesale operators.



Source: Own preparation

TABLE 4. Sales volume of the ORLEN Group in the Downstream segment on domestic markets[1)] (in thousands of tonnes).

Sales	2017	2016	2015	change	change %
1	2	3	4	5=(2-3)	6=(2-3)/3
Poland	17 159	15 173	15 192	1 986	13.1%
Baltics states	8 654	9 114	8 462	(460)	(5.0%)
Czech Republic	7 112	6 421	6 726	691	10.8%
Total	**32 925**	**30 708**	**30 380**	**2 217**	**7.2%**

1) by country of headquarter of company carrying out the sales.

Polish market

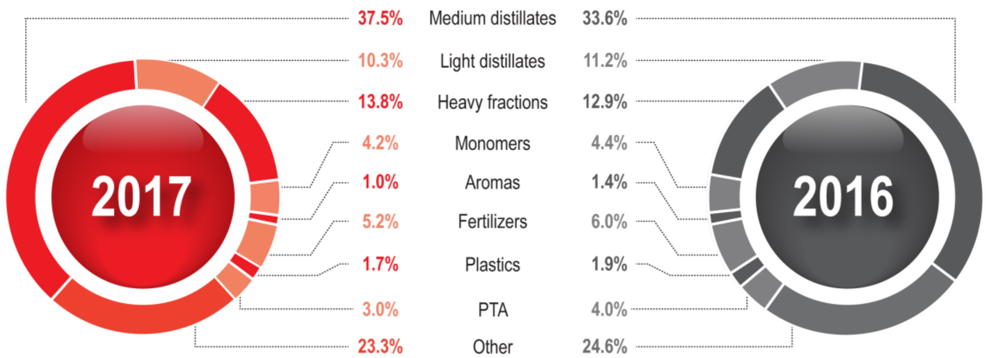
The year 2017 saw considerable strengthening of Poland's economy. According to EUROSTAT data in 2017 the rate of the country's GDP growth increased by 1.7pp y/y, to 4.6%. The sound condition of Polish economy led to higher demand for transport services, which – coupled with a strong labour market, where the unemployment rate fell from 8.2% to the long-unseen 6.6%, and stable inflation – resulted in unprecedented fuel consumption.

According to the Energy Market Agency, in 2017 domestic consumption of gasolines and diesel oil rose by 7.9%y/y and 19.0%y/y, respectively, chiefly thanks to the enactment, in August 2016, of the legislation designed to curb unfair competition on the grey market for fuels.

TABLE 5. Sales volume of the ORLEN Group in the Downstream segment on the Polish market (in thousands of tonnes).

Sales	2017	2016	2015	change	change %
1	2	3	4	5=(2-3)	6=(2-3)/3
Light distillates	1 773	1 704	1 634	69	4.0%
Medium distillates	6 434	5 104	4 980	1 330	26.1%
Heavy fractions	2 369	1 961	2 309	408	20.8%
Monomers	716	661	784	55	8.3%
Aromas	178	212	213	(34)	(16.0%)
Fertilizers	897	914	951	(17)	(1.9%)
Plastics	300	284	339	16	5.6%
PTA	523	605	587	(82)	(13.6%)
Other	3 969	3 728	3 395	241	6.5%
Total	**17 159**	**15 173**	**15 192**	**1 986**	**13.1%**

DIAGRAM 14. Structure of sales volume of the ORLEN Group in the Downstream segment on the Polish market.



In 2017, sales of the ORLEN Group's Downstream segment in Poland increased by 13.1% y/y, to 17,159 thousand tonnes. The largest increase was in sales of middle distillates, with volumes rising by 26.1% y/y, mainly on stronger sales of diesel oil and Jet A-1 aviation fuel by, respectively, 28.2% and 30.7% y/y.
The strong rise in diesel oil consumption in 2016 and 2017 caused a fundamental change in the balance of the Polish fuel market, leading to a significant undersupply of the diesel fuel. In response to the market challenges, the ORLEN Group leveraged manufacturing and product flow synergies. Supplying much higher volumes of diesel oil to the Polish market would not be possible without an appropriate import policy. In 2017, the ORLEN Group imported record-high volumes of diesel oil and became the leading importer of liquid fuels to Poland.

Sales of light distillate increased by 4.0% y/y, driven by higher LPG sales (by 33.1% y/y). Sales of heavy fractions increased by 20.8% y/y on higher volumes of heavy fuel oil and bitumen.

In line with its strategy, the ORLEN Group will seek to solidify its position as the leader on the Polish market, and to increase its market shares.

ORLEN Lietuva's markets

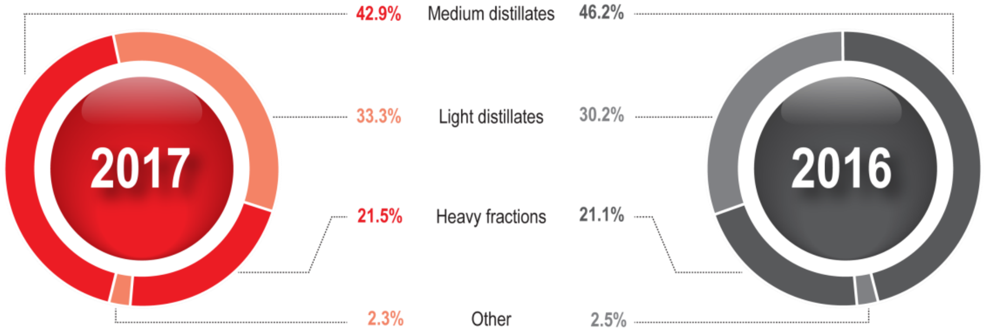
In 2017, the Baltic States' economies grew significantly faster than in 2016. According to EUROSTAT data Lithuania's GDP growth rate increased 1.5pp y/y, to 3.8%, Estonia's – by 2.8pp y/y, to 4.9%, and Latvia's – by 2.4pp to 4.5% y/y. The economic growth led to a markedly higher demand for fuels: in the three markets combined, the demand for gasoline increased by 3.9%, and for diesel oil – by 4.5% y/y.

Consumption of diesel oil in Lithuania and Latvia increased by, respectively, 7.3% y/y and 8.0% y/y, and it fell in Estonia by (6.4)% y/y, mainly due to the country's excise tax policy and the tax having been increased twice, in 2016 and 2017. The demand for gasoline in Estonia grew by 14.5% y/y, while in Lithuania and Latvia declined respectively by (0.3)% and (4.7)% y/y.

TABLE 6. Sales volume of the ORLEN Group in the Downstream segment on the markets serviced by the ORLEN Lietuva Group (thousand tonnes).

Sales	2017	2016	2015	change	change %
1	2	3	4	5=(2-3)	6=(2-3)/3
Light distillates	2 880	2 753	2 480	127	4.6%
Medium distillates	3 715	4 213	4 179	(498)	(11.8%)
Heavy fractions	1 859	1 920	1 635	(61)	(3.2%)
Other	200	228	168	(28)	(12.3%)
Total	**8 654**	**9 114**	**8 462**	**(460)**	**(5.0%)**

DIAGRAM 15. Structure of sales volume of the ORLEN Group in the Downstream segment on the markets serviced by the ORLEN Lietuva Group.



In view of the high fuel consumption on the Polish market and as part of efforts to optimise the product flow management across the ORLEN Group, large volumes of fuels were redirected from the ORLEN Lietuva Group to PKN ORLEN.

Net of nearly 1 million tonnes of diesel oil sold to PKN ORLEN to enable the Parent to satisfy the increased demand and duly perform existing contracts, the volume sales of the ORLEN Lietuva Group decreased by (5.0)% y/y. In the consolidation of sales for the whole ORLEN Group, product volumes redirected between entities are presented in entity which sells the products to external customers. Without the redirected product flows included, the volume of sales reported by the ORLEN Lietuva Group increased by 0.8% y/y, despite the scheduled maintenance shutdown at the Mazeikiai refinery and the aggressive competition from Finnish and Belarusian suppliers.

Other important changes include increased sales of Jet A-1 aviation fuel by 17.2% y/y, and light distillates – by 4.6% y/y.

The Ukrainian economy is gradually recovering from the deep recession of 2014-2015. In 2017, the country's GDP grew by 2% y/y, a rate close to that reported for 2016. Despite improvements in its macroeconomic environment, Ukraine continues to be perceived as an unstable, risk-laden market, which does not encourage new investment with a potential to drive growth in transport needs. Gasoline consumption continued in a downward trend, having declined by (9.9)% y/y, while demand for diesel oil dropped by (0.2)% y/y.
The Ukrainian fuel market also faced strong pressures from Russian and Belarusian exporters offering competitively-priced products. In spite of these adverse conditions, the ORLEN Group reported an over 11% y/y increase in gasoline and diesel oil sales on the Ukrainian market.

Czech market

According to EUROSTAT data, in 2017 Czech GDP grew at 4.3%, i.e. 1.7 pp. faster than in 2016. The favourable macroeconomic climate had a positive effect on consumption of diesel oil, which increased by 3.5% y/y, while consumption of gasoline decreased by (0.2)% y/y.

Favourable market conditions and the bringing the Unipetrol Group's ethylene and FCC units after the 2016 shutdown contributed to a 10.8% y/y growth in total sales by the Group.

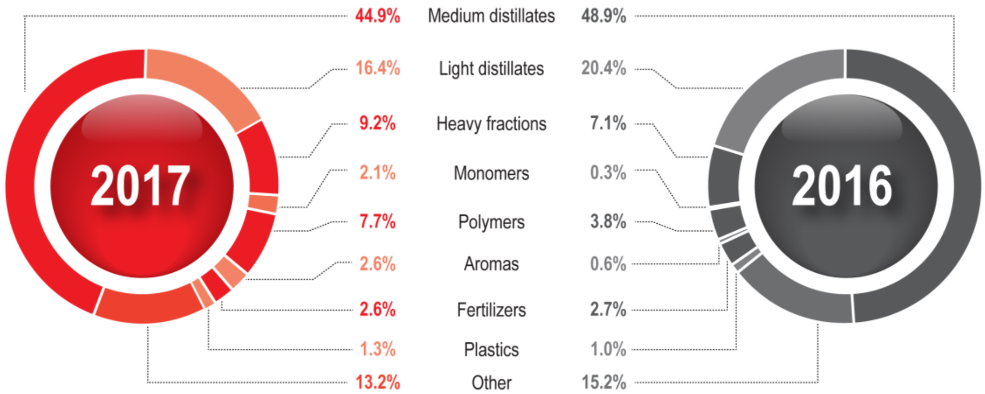
A 67.1% y/y increase in petrochemical sales, partly offset by a (1.7)% y/y decrease in the volume of refining sales caused by the scheduled maintenance shutdown at the Litvínov refinery and an unscheduled stoppage of the POX unit.

In 2017, as part of its strategy to develop Jet A-1 fuel sales, PKN ORLEN commenced operations at the Prague airport, selling fuels manufactured by Unipetrol.

TABLE 7. Sales volume of the ORLEN Group in the Downstream segment on the Czech market (in thousands of tonnes).

Sales	2017	2016	2015	change	change %
1	2	3	4	5=(2-3)	6=(2-3)/3
Light distillates	1 165	1 309	1 323	(144)	(11.0%)
Medium distillates	3 194	3 142	2 836	52	1.7%
Heavy fractions	651	453	600	198	43.7%
Monomers	152	20	94	132	660.0%
Polymers	550	245	482	305	124.5%
Aromas	182	36	145	146	405.6%
Fertilizers	184	175	195	9	5.1%
Plastics	91	67	106	24	35.8%
Other	943	974	945	(31)	(3.2%)
Total	**7 112**	**6 421**	**6 726**	**691**	**10.8%**

DIAGRAM 16. Structure of sales volume of the ORLEN Group in the Downstream segment on the Czech market.



The Unipetrol Group also sold products on foreign markets, including Poland, as part of the optimisation of product flow management across the ORLEN Group.

3.2.1.5. Sources of supply

Crude oil

Crude oil is supplied to PKN ORLEN via the Druzhba pipeline and, where the feedstock is imported by sea, via the Gdańsk-Płock pipeline.
Crude supplies to the ORLEN Lietuva refinery are handled by the Būtingė terminal.
The Unipetrol Group receives the feedstock chiefly through the southern section of the Druzhba pipeline (Litvinov) and via the TAL and IKL pipelines (Kralupy).

In 2017, the following two long-term feedstock supply contracts were in force: with Rosnieft Oil Company and Tatneft Europe AG for crude oil supply via pipeline to the Płock refinery, and with Saudi Arabian Oil Company for crude supply by sea. The contracts accounted for over 80% of PKN ORLEN's total crude oil procurement.
Under separate contracts, PKN ORLEN supplies crude oil to three ORLEN Group refineries, in Litvinov and Kralupy in the Czech Republic, and in Mazeikiai in Lithuania.
In 2017, crude oil supplies from all sources were delivered as planned.

The feedstock for all refineries of the ORLEN Group was procured from oil producers and other companies operating on the international oil market. The crude oil supplied to Płock came primarily from Russia and Saudi Arabia, but was also imported from Kazakhstan, Norway, Iran, the United States, the United Kingdom and Poland. The refineries in the Czech Republic received feedstock from Russia, Algeria, Saudi Arabia, Azerbaijan and Kazakhstan. The Mazeikiai refinery was primarily supplied with Russian oil, with additional deliveries from Saudi Arabia, Norway and Kazakhstan.

In 2017, the share of Rosneft Oil Company in the crude supplies exceeded 10% of the ORLEN Group's total revenue.

Natural gas

Most deliveries of natural gas to the ORLEN Group companies in Poland are made under a five-year contract signed in 2016 by PKN ORLEN and PGNiG, and under additional contracts with major European gas suppliers. Gas is also purchased on the Polish Power Exchange. The ORLEN Group takes steps to ensure stability of supplies and to lower gas procurement costs through such measures as diversification of supply sources, centralisation of gas trading functions and further development of the trading expertise. The current portfolio of gas contracts allows the Group to optimise gas procurement costs by selecting the underlying gas indices and delivery points.

PKN ORLEN has gas transmission contracts with both domestic and foreign operators, which secures full support in natural gas logistics for the Production Plant in Płock, CCGT Włocławek and CCGT Płock.

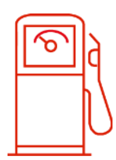
The ORLEN Group is also active on the wholesale natural gas trading market, thus participating in the development and liberalisation of the Polish gas market.
In addition PKN ORLEN has been expanding its natural gas retail sales and wholesale business. The gas offering is tailored to customer needs, and reflects gas consumption profiles as well as delivery points. PKN ORLEN also offers gas portfolio management advisory services and dispatching services, while the ORLEN Group is engaged in a number of exploration and production projects to secure its own sources of natural gas.

In 2017, the value of deliveries by none of the suppliers of natural gas to the ORLEN Group accounted for 10% or more of the ORLEN Group's total revenue.

3.2.2. Retail segment

Zbigniew Leszczyński, Member of the PKN ORLEN Management Board, Sales:
Increased sales volumes across all our markets, supported by strong sales of non-fuel products and services, enabled the ORLEN Group's Retail segment to once again post a record-high EBITDA of more than PLN 2.0 billion.
The growth in sales volumes was driven by a number of factors, including development projects at service stations, increasingly high customer service standards, and economic upturn on the markets that we serve. As part of developing non-fuel services, we launched our first own-label products under the 'O!' retail brand. 2017 was also the time of swift development of our food and beverage services, with the new Stop Cafe 2.0 format launched at 140 PKN ORLEN and 29 Unipetrol service stations.
Service station customers are increasingly looking for new products and services, including those based on new technologies – their expectations are surveyed on an ongoing basis and reflected in our development plans".

2017



RETAIL STATIONS

	units	ORLEN Group	Poland	Germany	Czech Republic	Lithuania
Total sales	thousand t	8 819	5 407	2 594	749	69
Market share	%	15.3	34.0	6.1	21.1	4.5
Number of stations, including:	**number**	**2 783**	**1 776**	**581**	**401**	**25**
Premium	number	1 867	1 665	-	179	23
Economical	number	850	76	563	211	-
Other	number	66	35	18	11	2
CODO/COCO[1]	number	2 229	1 328	484	392	25
DOFO/DODO[1]	number	554	448	97	9	-

CATERING OUTLETS

	units	ORLEN Group	Poland	Germany	Czech Republic	Lithuania
Total, including:	**number**	**1 813**	**1 575**	**16**	**199**	**23**
Stop Cafe	number	1 126	960	-	143	23
Stop Cafe Bistro	number	462	435	-	27	-
Stop Cafe 2.0	number	209	180	-	29	-
Star Connect	number	16	-	16	-	-

1) Abbreviations used for types of fuel stations are described in „Glossary of selected financial and industry concepts".

3.2.2.1. Market trends in the Retail segment

In 2017, favourable macroeconomic conditions prevailed across all of the ORLEN Group's retail markets. The Polish market continued to experience the effects of the legislative changes enacted in 2016 to limit the impact of the grey market. Consumption of premium fuels grew noticeably, with LPG sales shrinking as percentage of total fuel sales. The number of economy service stations decreased steadily, with most operators focusing on developing food services.
Rising wage pressures were seen across all markets.
The leading retail chains in the PKN ORLEN Group's operating markets maintained their respective shares.

According to POPiHN (Polish Organisation of Oil Industry and Trade), at year end 2017, there were more than 6,600 service stations in **Poland**, which represented a decrease of 3% y/y.

Retail chains operated by Polish and foreign fuel companies (PKN ORLEN, LOTOS, BP, Shell) did not undergo any major transformation, with the number of supermarket service stations remaining virtually unchanged year on year. AVIA, a new retail operator with ambitious development plans, entered the market in 2017. It is owned by Avia International, an organisation of 90 companies from 14 European countries which manages more than

3,000 service stations, including 15 in Poland. In 2017, rebranding of the Statoil chain commenced following acquisition of the retail assets by Alimentation Couche-Tard of Canada. All of the stations will operate under the Circle-K brand. The segment of motorway and expressway service stations continued to develop.

On **the Czech market**, the number of fuel stations remained stable in 2017. The structure of the market evolved, however, as some smaller non-public stations (e.g. serving a single company only) became generally accessible. The Unipetrol Group's Benzina chain acquired in 2017 OMV retail assets, thus strengthening its leading position on the Czech fuel market in terms of both the number of owned service stations (an increase of 38 stations y/y) and the volume of fuel sales (up by 21.4% y/y).

There were no major structural changes on **the German market**. Aral and Shell, the market leaders, maintained their respective positions, despite the number of stations in their chains having been in decline for a number of years.
As a result of investment projects implemented for several years, the technical standard of individual chains improved, and each of the networks started to test new formats of stores and food outlets.

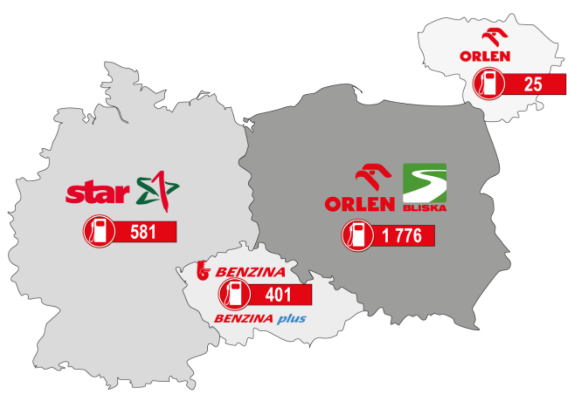
Operation of all German chains has been greatly affected by a retail price monitoring system rolled out a few years ago. The leading premium chains, which had lost sales volumes to their competitors in the economy segment, began to take steps designed to gradually regain their market shares.

On **the Lithuanian market,** the acquisition of the Lukoil chain in 2016 by Amic Energy Management of Austria in partnership with Viada, a major player in the local retail segment, resulted in the emergence of a new leader which manages 115 stations and has a 20% market share. In 2017, rebranding of the Lukoil stations commenced, with approximately 80% of the stations successfully rebranded by the year end. The process also involves thorough upgrades of the key locations to expand and improve their retail stores and food services.
In 2017, Couche-Tard practically completed the rebranding of the Statoil stations acquired in 2012. As in other markets, they now operate under the "Circle-K" brand. Most of the locations were thoroughly upgraded, with retail space rearranged and food services expanded.

3.2.2.2. Market position and environments

The ORLEN Group is the undisputed leader in retail fuel sales in Central Europe and manages a network of 2,783 service stations in the premium and economy segments.

SCHEME 7. The number of the ORLEN Group stations on the markets the Group operates on at the end of 2017.

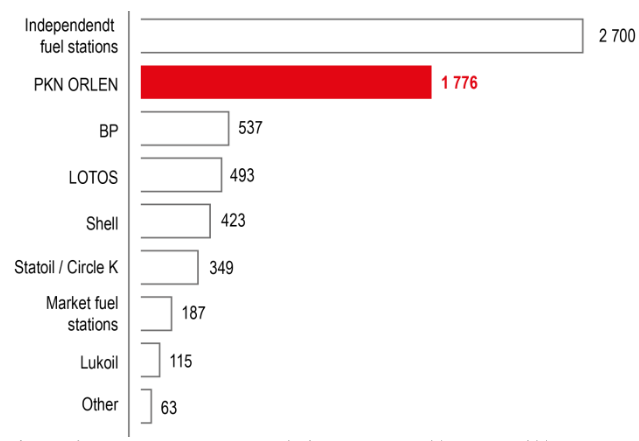


Source: Own preparation

In Poland, our service stations operate under the ORLEN brand in the premium segment and under the Bliska brand in the economy segment. In the Czech Republic, the brands are Benzina Plus, Benzina, Standard and Expres, and in Lithuania – ORLEN (premium segment) On the German market, ORLEN Deutschland operates economy stations under the STAR brand and the network is complemented by more than a dozen of Familia supermarket stations.

Polish market
As at the end of 2017, the ORLEN Group had a network of 1,776 service stations on the Polish market (approximately 27% of all stations in the country).

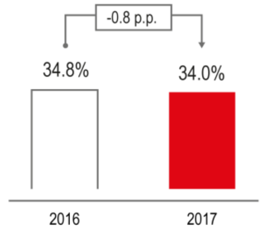
DIAGRAM 17. Fuel station network in Poland



Source: Own preparation on the basis of POPiHN data as at 31 December 2017.

The Group's investments in the Retail segment were focused on construction of new service stations and motorway service areas, as well as on upgrades to the existing stations. Rollout of the new store and food format Stop Cafe 2.0 was an important element of the network development programme. A number of operational initiatives, intensification of selling efforts focused on fleet and institutional customers, and marketing campaigns helped PKN ORLEN generate higher volumes of fuel sales through its retail chains.

DIAGRAM 18. Share of the ORLEN Group in the retail fuel market in Poland.



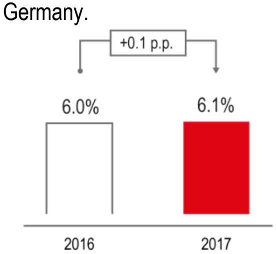
The fluctuations of the market share may have resulted from the abrupt changes in fuel consumption following the successful curbing of the grey market for fuels. PKN ORLEN's main competitors in Poland include such foreign companies as Shell, BP, Circle-K (formerly Statoil) and Lukoil, which in aggregate control approximately 22% of all stations in the country. Total has been gaining ground, but with its 23 stations it has no major impact on the retail segment of the market. The number of AS 24 and IDS self-service stations, also managed by foreign operators, remained virtually the same as in 2016. The number of independent stations fell by more than 6%, while the share of independent networks, such as Moya and Huzar, increased to almost 35%.

The road network development program in Poland had a major impact on the operation of the retail fuel market. Typically, when new sections of expressways and motorways are opened, tenders for lease of **Motorway Service Areas** are called and new fuel stations are launched at these locations. As at the end of 2017, there were 80 Motorway Service Areas at Polish expressways and motorways, including 30 (38%) operated by PKN ORLEN. Currently, the ORLEN Group is engaged in construction of a further seven such facilities.

German market

The ORLEN Group has been present in Germany, considered the largest and most developed fuel market in Europe, since 2003. As at the end of 2017, ORLEN Deutschland GmbH had a network of 581 service stations and its share in the German retail market exceeded 6.0% for the first time.

DIAGRAM 19. Share of the ORLEN Group in the retail fuel market in Germany.

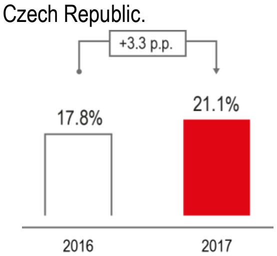


ORLEN Deutschland's main competitors include international networks Aral, Shell, Esso, Total (45% of all stations), and economy chains JET and HEM (almost 9%).

Czech market

The ORLEN Group strengthened its leading position, both in terms of the volume of sales and the network size. In 2017, the Benzina network comprised 401 stations. The launch of new service stations, including the locations acquired from OMV and incorporated into the network, technical upgrades, a consistent retail price management policy, and favourable macroeconomic conditions all contributed to an increase in Benzina's share of the Czech market to 21.1%.

DIAGRAM 20. Share of the ORLEN Group in the retail fuel market in Czech Republic.

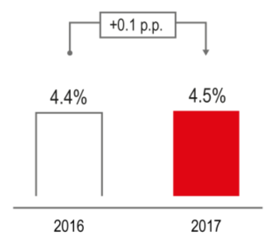


Hungary's MOL, with 306 service stations, was the second largest operator on the Czech market in terms of the network size, but its sales volume represented less than 11% of total sales. Other significant players are Shell, Euro Oil and OMV. TankOno, a private network, has been another important participant of the Czech market in recent years. It has 41 stations and, thanks to its low-price policy, enjoys an almost 16% share of the market.

Lithuanian market

As at the end of 2017, the ORLEN Group in Lithuania owned 25 fuel stations managed by AB Ventus-Nafta, a subsidiary. The ORLEN network increased its market share to 4.5%.

DIAGRAM 21. Share of the ORLEN Group in the retail fuel market in Lithuania 1).



1) In 2017, AB Ventus-Nafta changed the methodology of market shares calculation to unify the method of reporting data from other retail networks. The sales of agrodiesel (which is still sold on the part of fuel stations) was incorporated to the total volume. As a result of this change the reported market share of Ventus network for year 2016 increased by 0.8pp to the level of 4.4%.

Following the acquisition of the Lukoil chain, in 2017 Viada had a total of 115 service stations and became the largest network on the Lithuanian market. Circle-K (formerly Statoil, bought by Canada's Alimentation Couche-Tard) continued as the market leader in terms of the volume of sales, even though it had fewer stations (84). The two companies control over 40% of the market. The third largest player in Lithuania is Neste, with 73 self-service stations.

3.2.2.3. Sales volume of the retail segment

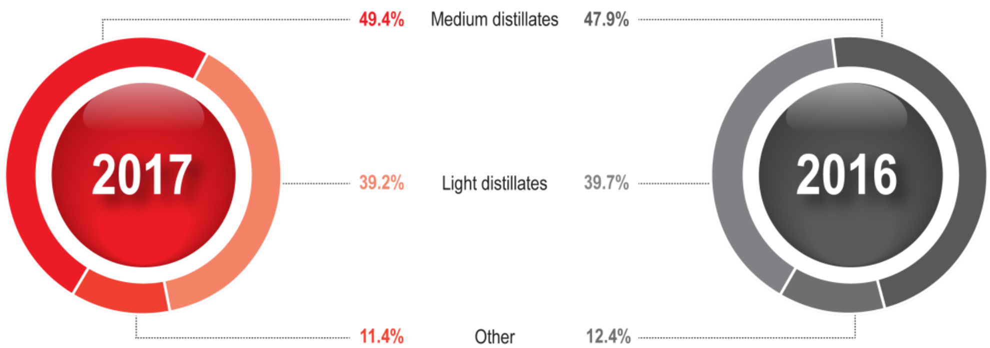
In 2017, the volume of sales in the ORLEN Group's Retail segment increased by 7.7% y/y, to 8,819 thousand tonnes, as a result of improved fuel sales across all markets.

TABLE 8. The ORLEN Group sales in the retail segment (PLN million/thousand tonnes).

Sales	2017		2016		2015		change %	
	Value	Volume	Value	Volume	Value	Volume		
1	2	3	4	5	6	7	8=(2-4)/4	9=(3-5)/5
Light distillates[1)]	13 086	3 339	11 838	3 136	12 084	3 000	10.5%	6.5%
Medium distillates[)]	16 471	5 480	14 305	5 051	15 567	4 986	15.1%	8.5%
Other[3)]	3 793	0	3 698	0	3 401	0	2.6%	-
Total	**33 350**	**8 819**	**29 841**	**8 187**	**31 052**	**7 986**	**11.8%**	**7.7%**

1) Gasoline, LPG.
2) Diesel oil; light heating oil sold by ORLEN Deutschland.
3) Other value – includes revenues from sale of non-fuel goods and services.

DIAGRAM 22. Structure of sales revenue of the ORLEN Group in the retail segment.



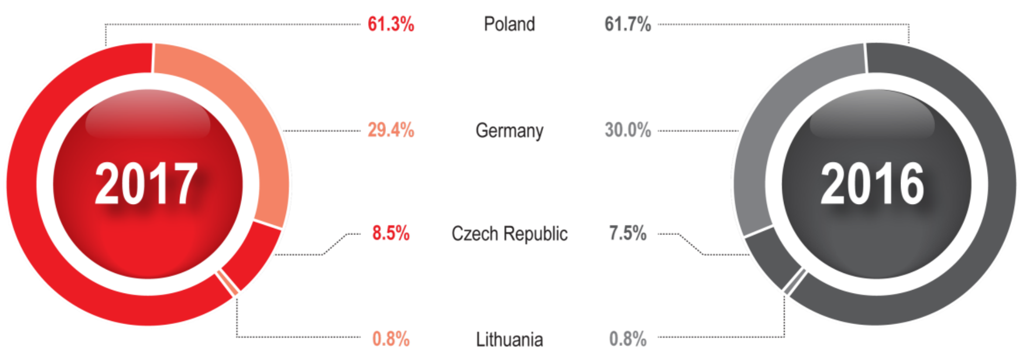
3.2.2.4. Markets

In the Retail segment, the ORLEN Group's home markets include Poland (PKN ORLEN), Germany (ORLEN Deutschland GmbH), the Czech Republic (Benzina) and Lithuania (AB Ventus Nafta).

TABLE 9. Sales volume of the ORLEN Group in the retail segment on domestic markets (thousands of tonnes).

Sales	2017	2016	2015	change	change %
1	2	3	4	5=(2-3)	6=(2-3)/3
Poland	5 407.1	5 052.4	4 784.9	354.7	7.0%
Germany	2 593.6	2 453.6	2 602.0	140.0	5.7%
Czech Republic	749.3	617.4	537.8	131.9	21.4%
Lithuania	69.4	63.2	61.3	6.2	9.9%
Total	**8 819.5**	**8 186.6**	**7 986.0**	**632.9**	**7.7%**

DIAGRAM 23. Structure of sales volume of the ORLEN Group in the retail segment on domestic markets.



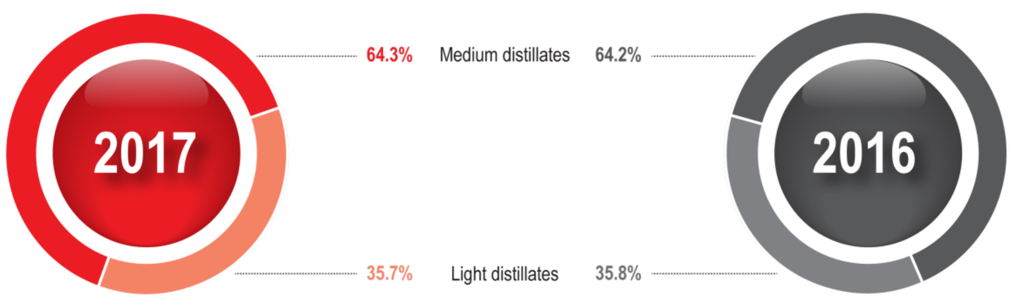
Polish market

In 2017, the volume of fuel sales increased by 7.0% y/y, to 5,407 thousand tonnes. The extensive modernisation programme, addition of new locations with high volume potential, network optimization, launch of the new store and food format, and reduced sales downtime contributed to a 2.5% y/y increase in the average annual volume of fuel sold per station. The increase reported by CODO stations was twice as high (5.1% y/y), with the average volume of 4.5 million litres. Sales of VERVA, a premium fuels, increased by 3% y/y.

TABLE 10. Sales volume of the ORLEN Group in the retail segment on the Polish market (thousands of tonnes).

Sales	2017	2016	2015	change	change %
1	2	3	4	5=(2-3)	6=(2-3)/3
Light distillates	1 931.1	1 809.3	1 686.0	121.8	6.7%
Medium distillates	3 476.0	3 243.1	3 098.9	232.9	7.2%
Total	**5 407.1**	**5 052.4**	**4 784.9**	**354.7**	**7.0%**

DIAGRAM 24. Structure of sales volume of the ORLEN Group in the retail segment on the Polish market.



In 2017, the total number of PKN ORLEN stations increased by 10 locations, to 1,776 at the end of the year.
Number of CODO increased by 11 locations to the level of 1,328. As part of its investment program, PKN ORLEN launched 12 CODO stations (including two Motorway Service Areas at the A1 motorway), acquired two DOFO stations, and closed down three CODO stations. Five service stations were thoroughly upgraded ('knock down and build' projects) and minor upgrades were made to more than 60 locations. In tenders held by the General Directorate for National Roads and Motorways in 2017, PKN ORLEN was awarded contracts to open and operate facilities at another five locations along expressways.
As at the end of 2017, PKN ORLEN had 448 DOFO stations, a decrease by one location y/y. In 2017, 25 new DOFO stations were added to the network, franchise agreements were terminated with 24 stations, and two locations were transferred to the CODO network. More than 350 upgrades were made at the DOFO stations, which markedly raised the technical standard and efficiency of the network.
Rebranding of the Bliska economy stations was continued, with 76 stations remaining to be rebranded into premium as part of future modernisations ('knock down and build' projects).
The rebranding project was also continued in the franchise network (11 stations). The number of premium stations operating under the ORLEN brand increased from 1,616 in 2016 to 1,665 at year end 2017. A total of 76 stations operated under the Bliska brand at year end 2017. The number of other stations (the so-called 'simplified format') decreased from 42 to 35.

In 2017, the ORLEN Group again reported an increase in the volume of fleet sales, by 9.2% y/y, to a record-high of 32.5% of the Retail segment's total fuel sales in Poland – an effect of a 53.0% y/y increase in sales to microenterprises. Sales to large transport companies increased by 17.6% y/y. An important milestone in further development of the fleet sales was completion of the first stage of work on a new international fleet card which would enable Polish customers to access fuel stations in most European countries. Another important project was the implementation of MFlota, a mobile payment application for fleet customers.
In 2017, PKN ORLEN reported record-high non-fuel sales. Revenues at stores increased by 7.7% y/y, and first products marketed under the "O!" private brand (mineral water, crisps, chocolate) were launched. Stop Cafe 2.0, the new food service concept, was rolled out at a further 140 locations, and at year end 2017 the number of ORLEN stations featuring the new format exceeded 180. In total, PKN ORLEN had 1,571 stations offering food services across all formats (Stop Cafe, Stop Cafe Bistro and Stop Cafe 2.0).
In 2017, investing programme including opening of car wash facilities at 9 stations and upgrades of car washing equipment at 13 stations was completed.
In 2017, PKN ORLEN and Traficar launched a pay-by-minute car rental programme in Warsaw, Kraków, Wrocław, Poznań, Gdańsk, Gdynia and Sopot. The Group also partnered with Nextbike Polska to offer bike rental at PKN ORLEN stations in six cities in Poland.

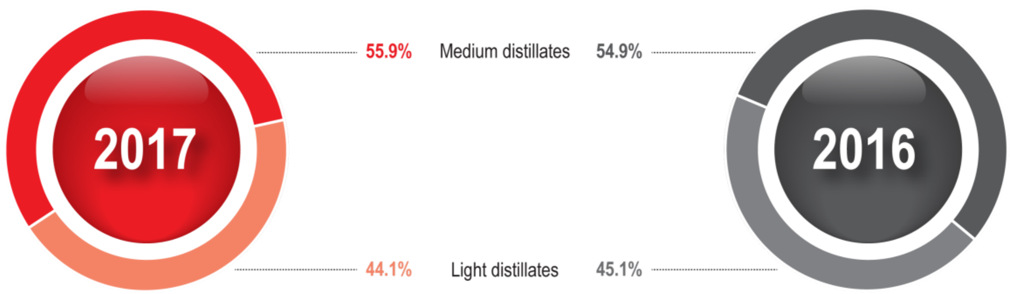
German market

In 2017, the ORLEN Group recorded a 5.7% y/y increase in total fuel sales on the German market. This includes both retail sales at services stations and sales of middle distillates to wholesale customers. The average annual flow per station increased to 4.6 million litres.

TABLE 11. Sales volume of the ORLEN Group in the retail segment on the German market (thousands of tonnes).

Sales	2017	2016	2015	change	change %
1	2	3	4	5=(2-3)	6=(2-3)/3
Light distillates	1 143.1	1 106.3	1 117.0	36.8	3.3%
Medium distillates	1 450.5	1 347.3	1 485.0	103.2	7.7%
Total	**2 593.6**	**2 453.6**	**2 602.0**	**140.0**	**5.7%**

DIAGRAM 25. Structure of sales volume of the ORLEN Group in the retail segment on the German market.



Last year, ORLEN Deutschland expanded its chain by 9 stations (10 new locations were added and one station was closed down as part of the chain optimisation programme). As at the end of 2017, there were 581 facilities operated by the German subsidiary, including 563 stations in the economy segment under the STAR brand, one station of the ORLEN brand located in Hamburg, and 17 supermarket stations. At two STAR stations owned by the ORLEN Group first hydrogen refuelling points were installed.
The German subsidiary commenced a comprehensive upgrade programme – two 'knock down and build' projects were completed, and another eight projects are under way. AdBlue dispensing pumps were installed at 17 service stations. In the coming years, the number of locations offering this product will gradually rise.
2017 was a breakthrough year in non-fuel sales. In May, the first station with the new StarConnect store and food format was opened in Berlin. LED displays are an innovative tool used in marketing and general communication with customers and can be used to manage individual store categories directly from the company's head office. By the end of the year, the new concept was launched at 16 STAR service stations as part of the upgrade programme. More than 60 such displays are planned to be installed by the end of 2018.
As part of the programme of upgrading automatic car washes, conducted in recent years, new car wash equipment was installed at 40 service stations.
All these projects, development of food services, rollout of the STAR brand, and the launch of the Competence Centre designed to improve relationships with station dealers drove up revenues generated by the service station stores by 4.6% y/y.
A major step towards further development of the fleet sales was the start of cooperation with LogPay, a fleet operator owned by Volkswagen Financial Service AG. This strategic partnership will enable further growth of fuel and non-fuel sales by ORLEN Deutschland.

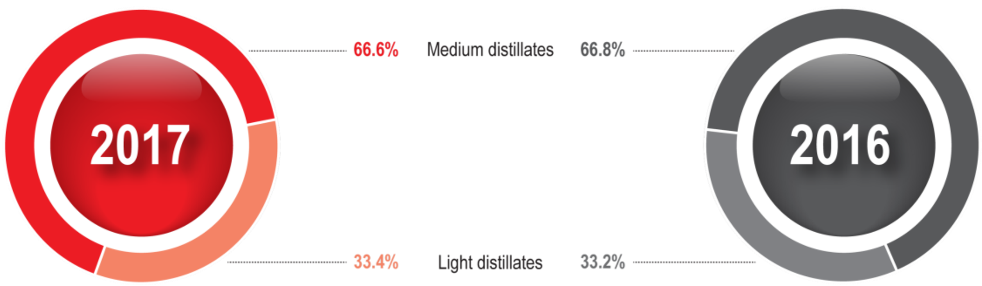
Czech market

In 2017, the volume of fuel sales reported by the Benzina chain increased by 21.4% y/y. The annual average sales per station increased by 9.3% y/y, to 2.3 million litres. Improved availability of VERVA fuels at further Benzina stations, supported by advertising campaigns, translated into a 32.7% y/y increase in sales of premium fuels, with their share in the total sales volume reaching 20.0%. Another significant development was the launch of Efecta 95 and Efecta Diesel, advanced fuels which replaced conventional gasoline and diesel fuel across the entire Benzina chain.

TABLE 12. Sales volume of the ORLEN Group in the retail segment on the Czech market (thousands of tonnes).

Sales	2017	2016	2015	change	change %
1	2	3	4	5=(2-3)	6=(2-3)/3
Light distillates	250.2	205.0	178.6	45.2	22.1%
Medium distillates	499.0	412.4	359.2	86.6	21.0%
Total	**749.3**	**617.4**	**537.8**	**131.9**	**21.4%**

DIAGRAM 26. Structure of sales volume of the ORLEN Group in the retail segment on the Czech market.



As at the end of 2017, the ORLEN Group managed a network of 401 stations in the Czech Republic. New projects included rebranding of 84 service stations. More than 120 modern price pylons were erected, featuring digital displays which can be used for marketing and general communication purposes.
As at the end of 2017, the ORLEN Group's retail stations in the Czech Republic operated under the following brands: Benzina (89 rebranded stations), Benzina Plus (90 stations), Benzina Standard (211 stations), Benzina Expres (5 self-service stations), ORLEN (one station) and five stations operating as simplified brand outlets. Ultimately, the Benzina stations are to become a premium chain, complemented by self-service stations.
In 2017, Benzina continued the process of integrating the 65 stations acquired from OMV in 2015. A total of 56 OMV stations were fully incorporated into the Benzina chain by the end of 2017; the remaining locations will be integrated into the network in 2018. Further, two new DOFO stations joined the network.

The increase in the number of service stations, new forms of cooperation with fleet customers, development of the innovative Easy fleet cards, and improved customer experience (fast refuelling and pay-at-pump facilities) translated into a rapid expansion of fleet sales, by 55.5% y/y, and their share in the total sales volume increased to 21.0%.
As part of trans-border cooperation, rollout of the Stop Cafe 2.0 format, first implemented in Poland, was commenced. A total of 199 food outlets operated at year end 2017 (including 29 Stop Cafe 2.0, 143 Stop Cafe, and 27 Stop Cafe Bistro outlets), an increase of 31 outlets on the year before.
Remodelling of facilities, replacement of some of the catering equipment, review of the offering, and upgrade of the car washes largely contributed to the improvement of non-fuel sales. In 2017, sales volumes reported by the station stores increased by 24.0% y/y, and the total non-fuel revenue (including revenue from additional services) rose by 44% y/y.

Lithuanian market

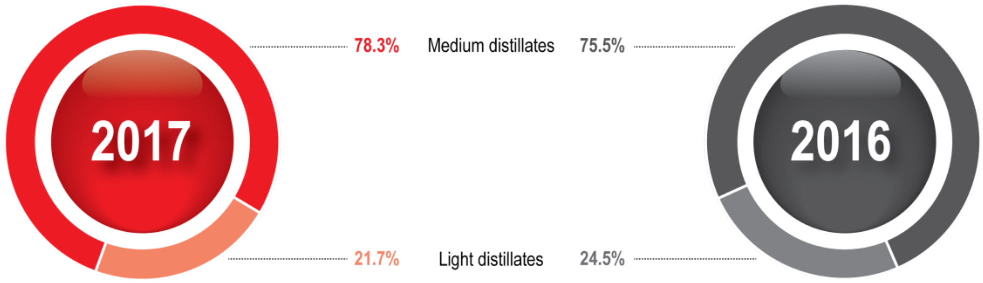
In 2017, the volume of the ORLEN Group's fuel sales in Lithuania increased by 9.9%. Higher revenue from sales of gasoline and diesel oil, by 5.9% y/y and 14% y/y, respectively, was partly offset by lower LPG sales, which declined by (17.8)% y/y. The change in Ventus Nafta's sales structure reflects shifts in fuel consumption in the Baltic States.

The average annual flow per station increased by 8.9% (y/y), to 3.5 million litres.
In 2017, the ORLEN network's sales of VERVA fuels increased by 25.6% y/y, with the share of premium fuels in the total volume rising by 2.3pp y/y, to 21.7%. A significant increase in diesel oil consumption was the key driver behind the higher volume of fleet sales, which increased by 5.8% y/y.

TABLE 13. Sales volume of the ORLEN Group in the retail segment on the Lithuanian market (thousands of tonnes).

Sales	2017	2016	2015	change	change %
1	2	3	4	5=(2-3)	6=(2-3)/3
Light distillates	15.1	15.5	18.0	(0.4)	(2.7%)
Medium distillates	54.4	47.7	43.3	6.7	14.0%
Total	**69.4**	**63.2**	**61.3**	**6.2**	**9.9%**

DIAGRAM 27. Structure of sales volume of the ORLEN Group in the retail segment on the Lithuanian market.



As at December 31st 2017, the ORLEN Group's Lithuanian retail network comprised 25 premium COCO stations operating under the ORLEN brand. In 2017, several technical upgrades were made, including replacement of fuel pumps and introduction of AdBlue to the offering at a larger number of stations.
Ventus Nafta began preparations for chain upgrades, including rollout of the new Stop Cafe 2.0 format.

Higher sales volumes and an effective marketing partnership with a leading Lithuanian retail chain contributed to a 10.0% y/y increase in non-fuel sales. The improvement was also attributable to upgrades of automatic car washes and the launch of coffee machines at the service stations.

3.2.2.5. Supply sources

Most of the fuels sold by the ORLEN Group's retail chains on the Polish, Czech and Lithuanian markets are manufactured by the Group's Downstream segment. As the ORLEN Group has no refining assets in Germany, fuels offered by ORLEN Deutchland are purchased from wholesalers operating on the German market, including in particular BP Europe SE, Shell Deutschland Oil GmbH, Holborn European Marketing Company Limited, Total Deutschland GmbH, and Esso Deutschland GmbH. Another important supplier of fuels to ORLEN Deutschland is Unipetrol RPA s.r.o., an ORLEN Group company based in the Czech Republic.

3.2.3. UPSTREAM SEGMENT

Daniel Obajtek, CEO and President of the PKN ORLEN Management Board:
"The changing macro environment requires us to keep an eye on the market and respond with appropriate operational adjustments – in the Upstream segment, we invested in line with our strategy of prudent continuation. Our consistent efforts led to an increase in 2P oil and gas reserves by 39 million boe, to 153 million boe at the end of 2017. EBITDA, before impairment losses on Polish exploration assets, came in at nearly PLN 300 million, and the average annualized production volume reached 15.6 thousand boe/d.
We have producing assets in the Permian Basin in Poland and in the Ferrier and Kakawa areas in Canada, where we also started work to expand the gas pre-treatment plant, which will significantly increase the capacity of the entire production infrastructure."

2017

OUTPUT AND PRODUCTION

	units	Canada	Poland
Oil and natural gas reserves (2P)	million boe	141.1	11.5
Output	million boe/year	5.3	0.4
Average production	thousand boe/day	14.4	1.2
Output structure (liquid/gas)	%	41/59	-/100
Drillings (net)[1]	number	11.5	6.0[2]
Licences	number	-	26

1) the number corrected with the share of other partners.
2) includes one well made by the ORLEN Upstream Group at the request of PKN ORLEN.

3.2.3.1. Market trends in the Upstream segment

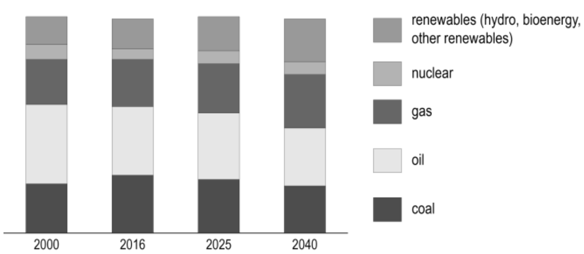
In the New Policies scenario presented in the International Energy Agency's *World Energy Outlook 2017*, until 2040 the global primary energy demand will grow for all major fuels: coal, oil, gas, nuclear energy, and renewables. However, in accordance with the baseline scenario, the growing primary energy needs will mostly be met by natural gas, renewables and energy efficiency efforts. Renewable sources of energy will meet 40% of the increase in primary demand and their explosive growth in the power sector will mark the end of the boom years for coal.

TABLE 14. Global demand for primary energy by fuel type [million toe[1]].

Source	2000	2016	New Policies 2025	New Policies 2040
Coal	2 311	3 755	3 842	3 929
Oil	3 670	4 388	4 633	4 830
Gas	2 071	3 007	3 436	4 356
Nuclear	676	681	839	1 002
Hydro	225	350	413	533
Bioenergy	1 023	1 354	1 530	1 801
Other renewables	59	225	489	1 133
Total	**10 035**	**13 760**	**15 182**	**17 584**

1) toe – ton of oil equivalent
Source: IEA.

DIAGRAM 28. Structure of global demand for primary energy [%].



Source: own preparation based on IEA data.

Until 2025, demand for **crude oil** in transport sector will remain robust, but will markedly slow thereafter as greater efficiency and fuel switching brings down oil use for motor vehicles. Powerful impetus from other sectors will be enough to keep oil demand on a rising trajectory. Oil use to produce petrochemicals will be the largest source of growth, closely followed by rising consumption for trucks, for aviation and for shipping.

Natural gas will grow to account for nearly a quarter of global energy demand by 2040, becoming the second-largest fuel in the global mix after oil, which is projected to meet 27% of the global energy demand in the same year. In the same time horizon, the number of liquefaction sites worldwide will double, with the main additions coming from the United States and Australia, followed by Russia, Qatar, Mozambique and Canada. Price formation will be based increasingly on competition between various sources of gas, rather than indexation to oil. In the long term, a larger and more liquid LNG market may offset the lower agility of the other energy segments. By 2040, demand for natural gas will grow by approximately 45%, with industrial consumption accounting for the largest portion of the overall increase. In addition, 80% of the overall increase will be attributable to developing countries.

In 2017, the activity of oil and gas producers measured as the number of operating wells increased by 27% year on year. The increase was seen primarily in the US and Canada and was correlated with the rise in oil prices. Further, producers in these markets have the ability and means to quickly start economically viable production of hydrocarbons from new resources. The US has already become a net exporter of natural gas and is expected to become a net exporter of oil by late 2020s. North America (i.e. the US, Canada, and Mexico combined) is becoming the largest supplier of additional oil and gas to the global market. The US market has been forecast to see a record-high growth of 630 bcm in shale gas production in the fifteen years from 2008 (the largest increase ever attributed to a single source). Such scale of expansion will have wide implications for all countries in North America, driving investments in the petrochemical industry and other energy-intensive sectors.

3.2.3.2. Position and competitive environment

In line with the Strategy, the ORLEN Group intends to continue its exploration and production efforts to increase output and secure a wider access to own resources of crude oil and natural gas.
Competence building in the Upstream segment required efforts to assemble an international team of experts, capable of building and managing a diversified asset portfolio, and using state-of-the-technology exploration and production methods.
At the end of 2017 in Poland, the ORLEN Group holds independently or with a partner (PGNiG) in 26 licence areas, covering 18,700 km^2 and spread over eight provinces, with 2P reserves of 11.5 million barrel of oil equivalent (boe). The Group holds 100% interests in 13 licences and 49% interests in the other 13 licences.

In Alberta, Canada, the ORLEN Group is a recognised operator and holds production assets covering a total area of 230.7 thousand acres (900 km^2), with total 2P reserves of 141.1 million boe.

3.2.3.3. Operations in Poland

The operations mainly comprised exploration for and production of hydrocarbons. Currently, gas is produced in partnership with PGNiG S.A. In 2017, the average annualised share of the ORLEN Group in production was 1.2 thousand boe/d.

In the **Podlasie-Lublin Basin**, 3D seismic data from two licence areas were processed and interpreted. Data will be analysed in following year. Interpretation of 3D seismic data from Block 255 was also completed. Based on results of the study, prospects for the licence were evaluated, and a decision was made to suspend further exploration activities in the area.

As part of upstream activities in the **Perm Basin**, the drilling of Miłosław-5K/H well was completed and, following successful production tests, field development planning and design works were commenced. In late 2017, work began to drill another exploration well, which will be continued in 2018.
In the fourth quarter of 2017, with gas pre-treatment facilities completed, production was commenced from the Miłosław E field. As part of the development of the Miłosław field, a project was started to construct the Radlin II – Radlin I gas pipeline, which will be continued in 2018.
In 2017, 3D seismic data from four separate areas in the Perm Basin was acquired, processed and interpreted, with more work planned for 2018.

As part of the **Edge** project, an exploratory well was drilled, and in late 2017 work began to drill another well. In addition, in 2017 development plans were made for the field.

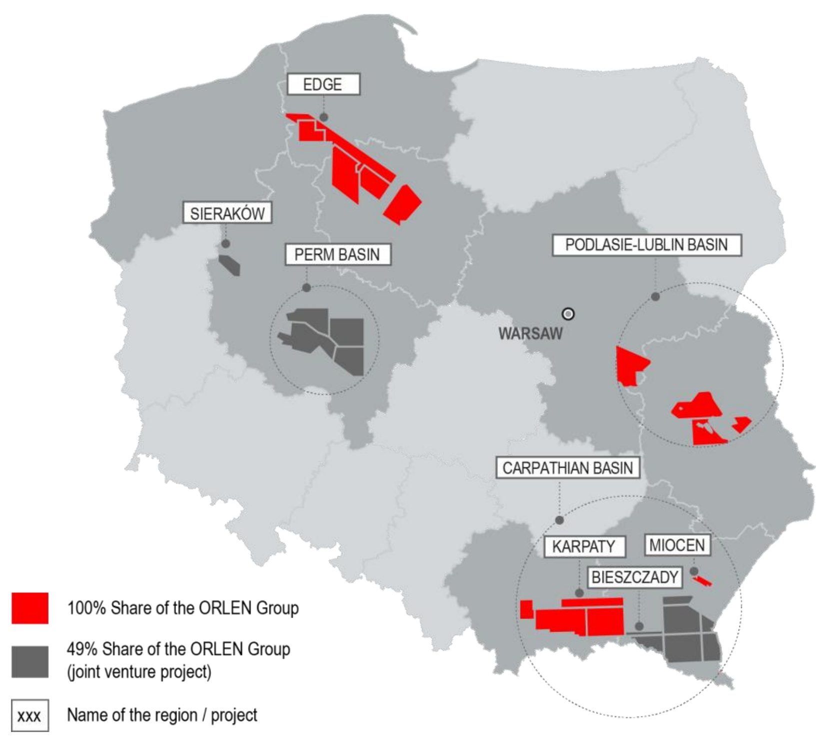
As part of the **Sieraków** project, documentation and preparatory work was continued to enable development of the field.

As part of the **Bieszczady** project in the **Carpathian Basin**, 2D and 3D seismic data acquisition was completed. The data was processed and interpreted, with more work planned for 2018. Two wells were drilled in the Bieszczady area, with no presence of hydrocarbons confirmed. The wells were closed.

In the **Miocen** project, interpretation of previously acquired seismic data was completed. Based on the obtained results, preparations were commenced to drill an exploratory well. The drilling is scheduled for 2018.

As part of the **Karpaty** project, seismic data was acquired, processed and interpreted, with further data analysis to be continued in 2018. In addition, an exploratory well was drilled and data obtained from the well will be analysed in 2018. In late 2017, drilling of another exploratory well was started and will be continued in 2018.

SCHEME 8. Exploration and production projects of the ORLEN Group in Poland.



Source: Own preparation.

3.2.3.4. Operations in Canada

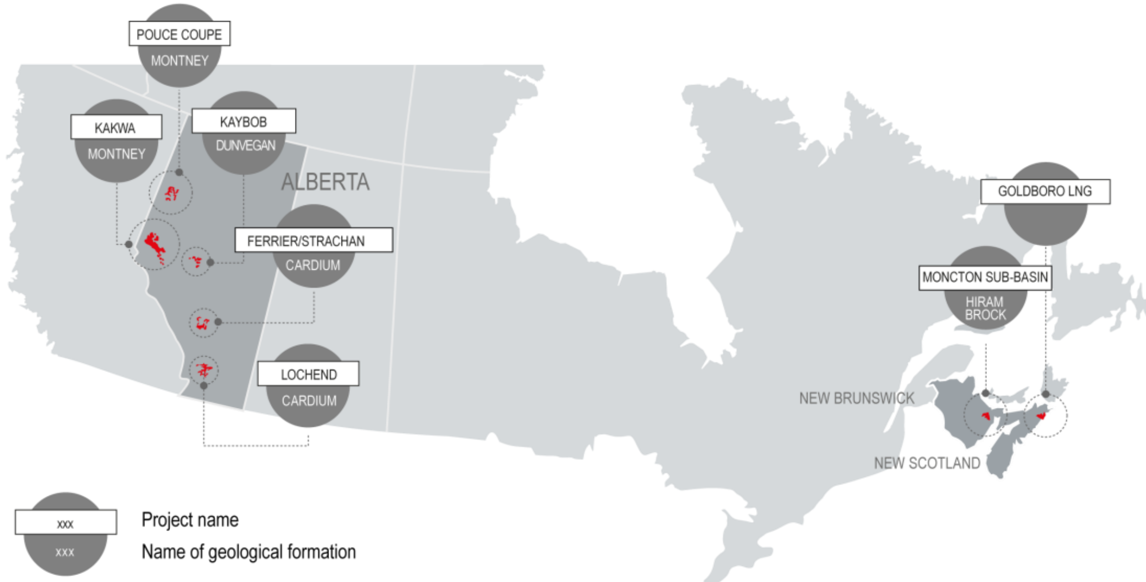
The ORLEN Group, via its subsidiary ORLEN Upstream Canada, conducts production operations in Canada. In 2017, the capital expenditure programme focused on the Ferrier and Kakwa areas in the province of Alberta.
In the **Ferrier** area, drilling of 10 (5.7 net) wells commenced, 15 wells (9.1 net) were fractured, and 13 wells (7.9 net) were brought on stream.
In the **Kakwa** area, drilling of 7 wells (5.8 net) wells commenced, 7 wells (5.6 net) were fractured, and 5 wells (3.8 net) were brought on stream. In the Kakwa area work on the development of sour gas treatment facilities and the construction of tanks for water used in fracturing treatments was completed. Additionally, in 2017 work commenced to expanding the gas pre-treatment and treatment facilities. The purpose of the project is to increase the transmission capacity of the infrastructure to support growing production.

In 2017, the average output was 14.4 thousand boe/d, of which 41% were liquid hydrocarbons (crude oil and condensate).

Good deposit parameters of the assets and their location in a well-surveyed area mitigate the project's operational risks. The Canadian market also offers good access to drilling and well services. Equally important are the stable tax regime and business-friendly regulatory environment.
To ensure optimum use of the Group's technical infrastructure, in 2017 further exploration and production assets were acquired in the Kakwa and Ferrier areas.

The ORLEN Group also holds minor exploration and production assets in New Brunswick, and a 7.4% interest in a company developing an LNG export terminal in Nova Scotia. In 2017, the company continued efforts to obtain administrative permits and environmental decisions required for the project. The target business model and the involvement of individual stakeholders in the project will be determined in 2018, along with the start of preparatory work on the construction site.

SCHEME 9. Assets in Canada.



Source: Own preparation.

3.2.3.5. Sales volume of the Upstream segment

TABLE 15. The ORLEN Group sales volume in the Upstream segment (thousand tonnes).

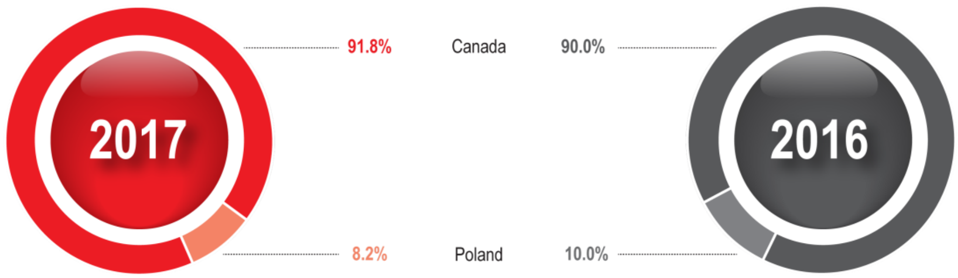
Sales	2017		2016		2015		change %	
	Value	Volume	Value	Volume	Value	Volume		
1	2	3	4	5	6	7	8=(2-4)/4	9=(3-5)/5
Crude oil	62	52	84	76	104	96	(26%)	(32%)
Natural gas	196	439	172	359	68	179	14%	22%
Other[1)]	257	147	186	123	43	35	38%	20%
Total	**515**	**638**	**442**	**558**	**215**	**310**	**17%**	**14%**

1) Other: in volume terms consists mainly of NGL (Natural Gas Liquids), in value terms includes sale of NGL (Natural Gas Liquids) and revenues from sales of services of the segment.

Production and sale of hydrocarbons in Canada were conducted through ORLEN Upstream Canada Ltd., and in Poland – through FX Energy, a subsidiary.

In 2017, the combined volume of sales on the two markets was 638 thousand tonnes, an increase of 14% y/y, achieved mainly due to higher hydrocarbon production in Canada.

DIAGRAM 29. Sales volume structure in the Upstream segment of the ORLEN Group.



3.3. RISK MANAGEMENT

3.3.1. Functioning of the Enterprise Risk Management System

In 2017, the organisation and underlying principles of the Enterprise Risk Management System did not change relative to the previous year. Based on its **Enterprise Risk Management Policy and Procedure**, the ORLEN Group monitors and assesses its risk exposures on an ongoing basis and takes steps to minimise their impact.

As required by these internal regulations, the Audit, Control and Enterprise Risk Management Office was established to coordinate the enterprise risk management (ERM) processes across all levels of the organisation, to provide independent assessment of risk management and internal control systems, and to analyse business processes.

Management boards at each ORLEN Group company, supervised by their respective supervisory boards, are responsible for risk management.

The **Enterprise Risk Management System** is a tool used to support effective delivery of the ORLEN Group's strategic and operational objectives. It ensures identification of strategic risks and control mechanisms as well as their assessment.

SCHEME 10. Key roles in the Corporate Risk Management System.

Management Board PKN ORLEN

- ✓ Monitoring of the Corporate Risk Management System
- ✓ Risk assessment acceptance for the Company / the ORLEN Group

Audit Committee of the Supervisory Board PKN ORLEN

- ✓ Monitoring of the Corporate Risk Management System

Audit, Control and Corporate Risk Management Office

- ✓ Coordination of the process of corporate risk management as well as provision of tools and methodological support for the process participants.

Processes owners

- ✓ Risk assessment on the process level.
- ✓ Coordination of the process of control mechanisms self-assessment.

Risk owners

- ✓ Main risk elements management.

Control owners

- ✓ Supervision over realization of control activities in processes in which they take part.
- ✓ Running self-assessment of control mechanisms.

The ORLEN Group Employees

- ✓ Risk identification.
- ✓ Conveying information about potential risk to the Audit, Control and Corporate Risk Management Office.

The assessment of risk by the business areas in PKN ORLEN and the ORLEN Group companies is carried out every year, as part of the process of self-evaluation, and its purpose is to provide an update of risk assessment which are most significant for the organisation. The process and risk owners are responsible for its performance. The most significant element of the methodology applied involves the comparison of two risk assessments: **gross risk** assessment (value of risk in the absence of control mechanisms

and preventive measures) and **net risk** assessment (value of risk estimated taking into account the efficacy of the control mechanisms and preventive measures for the specific risk that are in place). As a result of periodic assessment of control mechanisms by control owners, plans of corrective actions are defined for the individual risks and controls, which main aim is to achieve an acceptable net risk level. The report on the most significant risks and planned method of their limitation is submitted to the Management Board and the Supervisory Board Audit Committee after completion of risk assessment and control mechanisms testing process.
The adopted methodology allows to identify risks in the ORLEN Group on a basis of a common model and link them with business processes and strategic objectives.

Audit and control tasks are carried on the basis of annual control and audit plans, approved and accepted by the Management Board, Supervisory Board Audit Committee and the Supervisory Board. Ad hoc audits and controls are also commissioned by the Supervisory Board and the Management Board of the Company.
In 2017, the process of risk self-assessment and control mechanism testing carried out in PLN ORLEN encompassed the assessment of **521** risks by testing **1,251** control mechanisms in **83** business processes. In the ORLEN Group companies **1,036** risks and **2,750** control mechanisms in **215** processes were assessed.

In 2017 the ERM system was implemented in the following ORLEN Group companies: PKN ORLEN, Anwil, Grupa ORLEN Lietuva, Grupa Unipetrol, ORLEN Deutshland, ORLEN Paliwa i ORLEN Centrum Usług Korporacyjnych. The implementation was stated also in the ORLEN Południe Group.

As part of the implemented in the ORLEN Group **Corporate Risk Model**, all identified risks are classified according to the following categories:

I. **STRATEGIC RISKS** – risks directly connected with the strategic goals, referring to specific actions and to the degree of their performance. For the purposes of detailed identification of strategic risks, partial strategies are created for the individual areas attributed to the business owners, who perform quarterly risk assessments.

II. **PROJECTS RISKS** – events or circumstances which may have a negative impact on at least one project goal realization, if they occur. They are assessed on a systematic basis during work projects, and in any case at least once a year as part of the self-assessment process.

III. **PROCESS / OPERATIONAL RISKS** - identified within the existing business processes, refer directly to key business goals as well as enable efficient processes management. These risks are assessed annually as part of the self-assessment process by the business owners. The intention of the process is to confirm the effectiveness of the control mechanisms and keeping the net risk at the defined level.

TABLE 16. Risks and processes classification along with control mechanisms within the ERM functioning.

Risks / processes	Risk description	Risk mitigation method
STRATEGIC		
Assumptions	• Inconsistent and unrealistic strategic goals and assumptions • change of strategic goals/assumptions during the process	Systematic review of the key strategic goals to check if they are up to date and their ongoing monitoring against the changing environment (regulations, market, key suppliers, etc.)
Division of competences	• inappropriate division of competences between the organisational units • no decision-making centre	High degree of employee specialization, appropriate assignment of duties and responsibilities by developing precise scopes of tasks.
Internal consistency	• lack of internal consistency between strategic goals within the organisation	Preparation of partial strategies for individual areas for the purpose of specific identification of strategic risks as well as review of their consistency and approval by the Management Board.
New regulations	• entry into force of unfavourable legal regulations • no effective action of the public administration in relation to enforcement of the law	Participation in public consultations for legislative drafts reducing the risk of unfavourable regulations.
Accidents at work and other threats	• insufficient knowledge about work safety among contractors • threats to work safety and fire safety related to the presence of third-party employees on the ORLEN Group's premises	Supervision and management of contractors' work by implementation of tools to monitor work safety. Implementation of uniform requirements for contractors and subcontractors in line with the guidelines set forth in the "ORLEN Group Safety Standard no. 9".
PROJECT		
Budget overrun	• inappropriate estimate of the project implementation costs	Systematic monitoring of the contractor's activities and potential delays in project realization.
Schedule overrun	• inappropriate assumptions concerning the project completion time	Constant supervision over the performance of the work in progress, systematic evaluation of the progress of implementation of successive stages of the project and enforcement of performance of the work.

Project scope modification	• incomplete performance of the project • exceeding the project framework	Systematic analysis of the environment in which the project is being implemented. Depending on the circumstances arising, potential decision to change the scope of its implementation.
Division of competences	• inappropriate division of competences between the organisational units • no decision-making centre	Preparation and implementation of methodology concerning competency division of project team members in order to avoid conflict of interests. Utilisation of dedicated IT tool supporting project implementation.
Systems	• absence of IT systems supporting project implementation	Definition of alternative IT systems at the project planning stage or commencement of testing of other systems allowing project implementation.
PROCESS / OPERATIONAL		
Procurement		
	• supplying crude oil (by land and by sea) in a quantity and of a quality not corresponding to the requirements • planning supplies of crude oil in such a way as to meet the quality requirements	Monitoring of the process of supplies carried out by land and by sea. Using dedicated analytical and statistical tools, analysing industry and news portals. Monitoring of the market of selected crude oil types with regard to their availability and purchase possibility. Confirmation of purchase profitability each time for transactions not covered by contracts.
	• purchase of investment services and biocomponents	Supplier selection process performed in line with the procedures in force and in accordance with the required documents (including market analysis, time schedule, supplier assessment).
	• guarantee of production continuity	Making sure that internal procedures are in place making it possible to react effectively in the case of an emergency by way of purchasing services and raw materials for production directly.
Production		
	• inappropriate planning and management of repairs in the production area	Functional IT system supporting the repair planning process and maintenance at the production plant.
	• Ineffective production balancing	The area responsible for the production balancing process has tools in place making it possible to perform the balancing process in an optimum manner. The procedures and processes in place define responsibility, scope and deadlines for the provision of input data for the production balancing process.
	• failure to achieve the assumed economic benefits resulting from the implementation of the initiatives	Ongoing monitoring and verification of initiatives on the basis of expert knowledge, ensuring the realisation of projects with highest efficiency potential.
Distribution and logistics		
	• environmental pollution as a result of the distribution processes carried out	Periodic checking of levels of fuel products contamination in Oil Terminals.
	• failure to comply with the requirements to physically maintain an appropriate level of mandatory stocks	Systematic monitoring of stock levels.
	• failure of the logistics infrastructure affecting supply of products continuity or risk of their loss	Periodic inspections of the condition of the logistic infrastructure.
Retail		
	• inefficient process of contract conclusion and price negotiations	Pricing policy setting forth the rules of collaboration with contracting parties and implemented systemic mechanisms to prevent irregularities. Checking the correctness of parameters of the contracts with fleet clients before entering them into the system and verifying customers' purchasing potential.
	• failure to apply ethical standards and unfair conduct on the part of employees, fraud on company property and other violations	Checking compliance with the ethical standards in place, as well as observance of the Ethical Code of Conduct; checking for any signs pointing to violations of ethical standards or fraud.
	• failure of the pricing policy to maximize benefits and to develop market potential	Dedicated tools used to manage prices and to ensure the pursuit of an efficient and competitive pricing policy. Checking and monitoring whether changes in retail prices are entered correctly in the systems.

Wholesale		
	• readiness to react quickly with regard to adjustment of sales plans in the case of changes in the value and production chains	Systematic checking of sales and production plan implementation with the participation of the wholesale area and of the supply chain management office.
	• inefficient process of negotiating terms and of concluding commercial contracts	Negotiation of trading conditions and signing agreements in accordance with the scope of authority granted. Formal process in place for the conclusion of contracts and for the issuing of opinions about them.
	• failure of the pricing policy to maximize benefits and to develop market potential	Price formulas approved by the area responsible for pricing policy development. Additional review by the units responsible for product sale.
Finance [1]		
	• commodity risk – related to changes in margins generated from the sales of products, to the Brent/Ural differential, to prices of crude oil and products as well as of CO_2 emission allowances, and to the risk related to prices of commodities in cash-and-carry arbitrage transactions • exchange rate risk – related to the currency exposure of cash inflows and outflows, investments as well as assets and liabilities denominated in foreign currencies • interest rate risk – related to assets and liabilities held, for which the interest revenue and costs depend on variable interest rates	Market risk management policy and hedging strategies defining the rules for measuring individual exposure, parameters and time horizon for the hedging against the specific risk, as well as the use of hedging instruments.
	• liquidity risk – related to an unexpected shortage of cash or lack of cash or access to sources of financing.	Policy for short-term liquidity management, defining the rules of reporting and consolidating liquidity of PKN ORLEN and ORLEN Group companies. The Group pursues a policy of diversifying sources of financing and uses diversified tools for efficient liquidity management.
	• risk of loss of cash and deposits – risk of bankruptcy of domestic or foreign banks in which the ORLEN Group keeps or invests its cash.	Short-term credit rating of the bank. Short-term liquidity management policy and policy of diversifying sources of financing as well as a tool for efficient liquidity management.
	• credit risk – related to the contracting parties' failure to pay trade receivables	Analyses of contracting parties' reliability and solvency. Management based on the procedures and policy adopted with regard to trade credit management and debt recovery.
Applicable law and other regulations [2]		
	• amendments to existing legislation or new regulations significantly influencing the ORLEN Group as well as its financial position and business results.	Monitoring changes in legislation in countries, where the ORLEN Group operates as well as active participation in legislative processes.
Corporate management		
	• insufficient IT system security	A procedure in place in relation to the management of logical access to IT systems, which includes for instance authorization of requests to grant or modify rights, restricted access to the OS layer and databases as well as to the system hardware, and complex level of password security.
	• inappropriately configured operational planning and supply chain optimization model favouring non-optimal business decisions	Periodic analysis and update of models used for operational planning and daily monitoring of operating plan implementation. Standardization of data layout for corporate planning purposes and precise work scheduling.

1) For detailed description of the financial risks as well as the methods applied to measure, manage and hedge the risks, see section 9.3 of the Consolidated Financial Statements for 2017.

2) The principal legislative acts regulating the oil sector include:

***Biofuels** – the Act amending the Act on Biocomponents and Liquid Biofuels and Certain Other Acts of November 24th 2017, which entered into force on January 1st 2018 – the purpose of the amendment is to facilitate the implementation of the National Indicative Target (NIT) by fuel companies and change the structure of its implementation. The regulations essentially remove the quantitative limit on the amount of biocomponents (liquid bio-hydrocarbons, HVO) added to diesel oil; introduce quarterly measurement of the fulfilment of the compulsory blending targets; introduce a mechanism of double counting of 'advanced biocomponents' (mainly derived from waste) in NIT; introduce the possibility of 15% derogation from the NIT in exchange for an emission charge; and lower penalties for failure to meet the NIT.*

***Emergency stocks** – producers and traders must pay a substitute fee for gradual reduction in the amount of physical stocks they are required to maintain. Poland: fulfilment of the physical stocks target – from December 31st 2017: 53 days, the substitute fee maintained at its current level (PLN 43/t of oil equivalent and PLN 99/t of LPG). Czech Republic: emergency stocks are maintained by a state agency for 90 days of net imports of crude oil and are financed from the state budget. Lithuania: maintaining stocks equivalent to the higher of 90 days of average daily net imports or 61 days of average daily domestic consumption. The amount equal to at least 30 days of average daily domestic consumption is collected and maintained by the state agency as earmarked stocks, with the balance maintained by businesses.*

***Regulations on the liquid fuel market and on curbing grey economy in fuel trade** – the Act Amending the Value Added Tax Act and Certain Other Acts (the so-called "fuel package") of July 7th 2016 and the Act Amending the Energy Law and Certain Other Acts (the so-called "energy package") of July 22nd 2016, which introduced a number of changes to the regulation of the liquid fuel market in Poland, including new rules regarding VAT settlements liquid fuel imports to Poland, and linked the requirements with licence requirements.*

Monitoring of road freight transport *– the Act on System of Monitoring Road Freight Transport of March 9th 2017. The purpose of the act is to further curtail the grey economy in fuel trade in Poland, and the legislation supplements the solutions introduced as part of the fuel package and the energy package. The act imposes an obligation to register road transport of goods considered to be sensitive and to establish a system for monitoring such transport.*

Energy and electricity efficiency *– the Act Amending the Energy Law and Certain Other Acts, which regulates such matters as the cogeneration support mechanism (until the end of 2018), revenue from yellow and red certificates, costs of fulfilling the obligation towards end users of electricity (green and purple certificates), and costs of emission charges in the event of a failure to hold the required number of certificates of origin.*

CO_2 *– Maintaining in 2018 free CO_2 emission allocation for the ORLEN Group following designation of its units as exposed to the risk of carbon leakage. Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing a scheme for greenhouse gas emission allowance trading is being reviewed – potential implications go beyond 2018.*

Restricted Sunday Trading *– the Act on Restricted Trading on Sundays and Public Holidays and Certain Other Days of January 10th 2018, which regulates retail trading as from March 2018. The Sunday trade ban will not apply to service stations and shops located at railway stations.*

Natural gas market *– the Act Amending the Energy Law and Certain Other Acts of November 30th 2016, which introduced a roadmap for the deregulation of gas prices in Poland as from October 2017, and imposed on importers the obligation to maintain mandatory stocks of natural gas.*

Taxation of upstream activities in Poland *– tax on production of certain minerals, payable from 2020, calculated individually for each well, at 1.5%–6% of derived revenue, depending on the type of deposits and hydrocarbons. Production royalty, depending on the volume and quality – for natural gas: PLN 5.34–PLN 24.73/1,000 Nm^3; for crude oil: PLN 38.0–PLN 51.5/tonne. Extraction charge – fixed component (determined on a case-by-case basis) and variable component of 50% of the mineral production royalty for the previous year. Special hydrocarbon tax – payable from 2020, at 0%–25% of net cash flows, depending on the ratio of accumulated revenue to accumulated expenses, real property tax of up to 2% of the initial value of property, plant and equipment, CIT at the rate of 19%.*

Taxation of upstream activities in Canada*: royalties – payable on wells spud on or after January 1st 2017. Royalty rate from 5% to 40%, depending on the type of hydrocarbons, market prices, and well output. Exemption on account of incurred costs of drilling and completion – relief in the form of reduced tax liabilities with respect to all new qualifying wells. Royalty of up to 5% on a well's early production until the well's total revenue from all hydrocarbon products equals the drilling and completion cost allowance, CIT at the rate of 27%.*

3.4. SIGNIFICANT CONTRACTS, TRANSACTIONS AND PROCEEDINGS

3.4.1. Significant contracts

Specification of significant contracts published in current announcements.

JANUARY
On 9 January 2017 PKN ORLEN S.A. concluded agreements for the sales of fuels with BP Europa SE Branch in Poland, Shell Polska Sp. z o.o. and AMIC POLSKA Sp. z o.o. (previously under the name Lukoil Polska Sp. z o.o.). On the basis of the signed agreements PKN ORLEN S.A. will deliver gasoline and diesel oil in the period from 1 January 2017 to 31 December 2017 to the customers mentioned above with the total value of PLN 9.3 billion. Regulatory announcement no. 5/2017. On 9 January 2017 PKN ORLEN S.A. concluded an agreement with Polskie Linie Lotnicze LOT („PLL LOT") for the sales of aviation fuel JET-A1. On the basis of the agreement PKN ORLEN S.A. will deliver to PLL LOT aviation fuel JET-A1 in the period from 1 January 2017 to 31 December 2019. Estimated value of the agreement, assuming the maximum possible deliveries, may amount to ca. PLN 1.8 billion. Regulatory announcement no. 6/2017.
APRIL
ON 5 April 2017 PKN ORLEN S.A. signed an agreement with Basell Orlen Polyolefins Sp. z o.o. („BOP") for the sales of propylene. On the base of the Agreement PKN ORLEN S.A. will deliver to BOP a propylene the production of which will commence after start-up of the metathesis unit, currently under construction at the Production Plant in Plock, i.e. in the second half of 2018. The annual value of the Agreement amounts to ca. PLN 350 million. The Agreement has been concluded for the life-time of the Joint Venture which established BOP in 2002. Regulatory announcement no. 43/2017.

Contract with the auditor of financial statements

In accordance with the agreement of 21 March 2017 starting from the 1st quarter of 2017 interim reviews as well as audit of separate financial statements of PKN ORLEN and consolidated financial statements of the Group for particular periods of years 2017 and 2018 are performed by Deloitte Polska spółka z ograniczoną odpowiedzialnością spółka komandytowa.

Further information concerning the agreement mentioned above are described in section 9.4.7 of the Consolidated Financial Statements for the year 2017.

3.4.2. Other transactions and proceedings

Proceedings in which the companies of the ORLEN Group act as the defendant

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

- **Risk connected with the disposal of assets and liabilities related to purchase of Unipetrol shares**

The claim regarding the payment of compensation for losses related among others, to alleged unfair competition of PKN ORLEN included in Agrofert Holding a.s. (Agrofert) claim and alleged illegal violation of reputation of Agrofert in relation to purchase by PKN ORLEN of UNIPETROL shares. By judgment of 21 October 2010 the Court of Arbitration in Prague (Czech Republic) dismissed the entire claim of Agrofert against PKN ORLEN regarding the payment of PLN 3,177 million translated using the exchange rate as at 31 December 2017 (representing CZK 19,464 million) with interest and obliged Agrofert to cover the cost of proceedings born by PKN ORLEN. On 3 October

2011 PKN ORLEN received from the upper court in Prague Agrofert's claim which repealed the above judgment. The complaint was dismissed by the court with the ruling of 24 January 2014. On 7 April 2014 Agrofert appealed the above decision. On 7 April 2015 the court of appeals dismissed the appeal of Agrofert. On 4 September 2015 Agrofert appealed to the Czech Supreme Court against the above judgment. In September 2016, the Supreme Court dismissed Agrofert claim. In November 2016 Agrofert appealed to the Czech Constitutional Court against that decision. On 25 April 2017, the Czech Constitutional Court dismissed Agrofert's complaint as unfounded. In the opinion of PKN ORLEN the above proceeding was completed.

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

- **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 292 million, translated using the exchange rate as at 31 December 2017 (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. Finally the court refused the Company to permission to enter to the case. According to UNIPETROL RPA s.r.o the claim is without merit. At the beginning of February 2018, the court dismissed in entirety claim of the I.P.-95 s.r.o.

- **Claim of Warter Fuels S.A. (before: OBR S.A.) for compensation**

On 5 September 2014, OBR S.A. (currently: Warter Fuels S.A.) filled an action against PKN ORLEN with the District Court in Łódź for a claim for payment in respect of an alleged breach by PKN ORLEN of patent rights: 'The technique of the separation of hydrodesulfurization products of heavy residue after extractive distillation of crude oil'. 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. By the court order from 21 May 2015 the parties were directed to mediation. Mediation proceedings were completed in the 2nd quarter of 2016. The case returned to the District Court in Łódź. The first hearing was held on 19 October 2016. At the hearing on 22 March 2017 witnesses were heard. The hearing scheduled for September 2017 was not held and the next hearing date was not set. In the opinion of PKN ORLEN the above claims are without merit.

- **The dispute between ORLEN Lietuva and Lietuvos Geležinkeliai**

On 31 December 2014, ORLEN Lietuva filed a motion for arbitration against the company Lietuvos Gelezinkeliai ("LG") in the court of arbitration in Vilnius. In this proceeding ORLEN Lietuva calls for the conversion of tariffs for rail transport in line with the contract with LG for the period from January 2014. ORLEN Lietuva applied also for the compensation due to an incorrect interpretation of the agreement on rail transport by LG by using incorrect rates. Consideration of the request of ORLEN Lietuva would lead - depending on the interpretation - to save in the amount estimated until October 2016 not less than PLN 171 million translated using the exchange rate as at 31 December 2017 (representing not less than EUR 41 million) or to receive compensation for the use of incorrect rates in the amount of PLN 417 million translated using the exchange rate as at 31 December 2017 (representing EUR 100 million).
By 31 December 2016, seven court proceedings were initiated in which LG demands from ORLEN Lietuva a payment of approximately PLN 156 million translated using the exchange rate as at 31 December 2017 (representing approximately EUR 37.5 million) from fees for rail transport of ORLEN Lietuva products. LG's appeals were considered by the first instance courts, but there have not been made any conclusions on their matter.
On 28 June 2017 ORLEN Lietuva and LG reached an agreement on changes to the rail transport agreement and to resolve the ongoing disputes. Signing the settlement, results in termination of the mutual claims described in the above proceeding.

- **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') back in 1992 it was located in Lithuanian section of the Druzhba pipeline belonging to Orlen Lietuva. 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 292 million converted by exchange rate as at 31 December 2017 (which corresponds to USD 84 million). The claim also includes a request for procedural interest and litigation cost. ORLEN Lietuva responded to the claim. 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.

Significant transactions in the Group concluded on other than an arm's length basis.

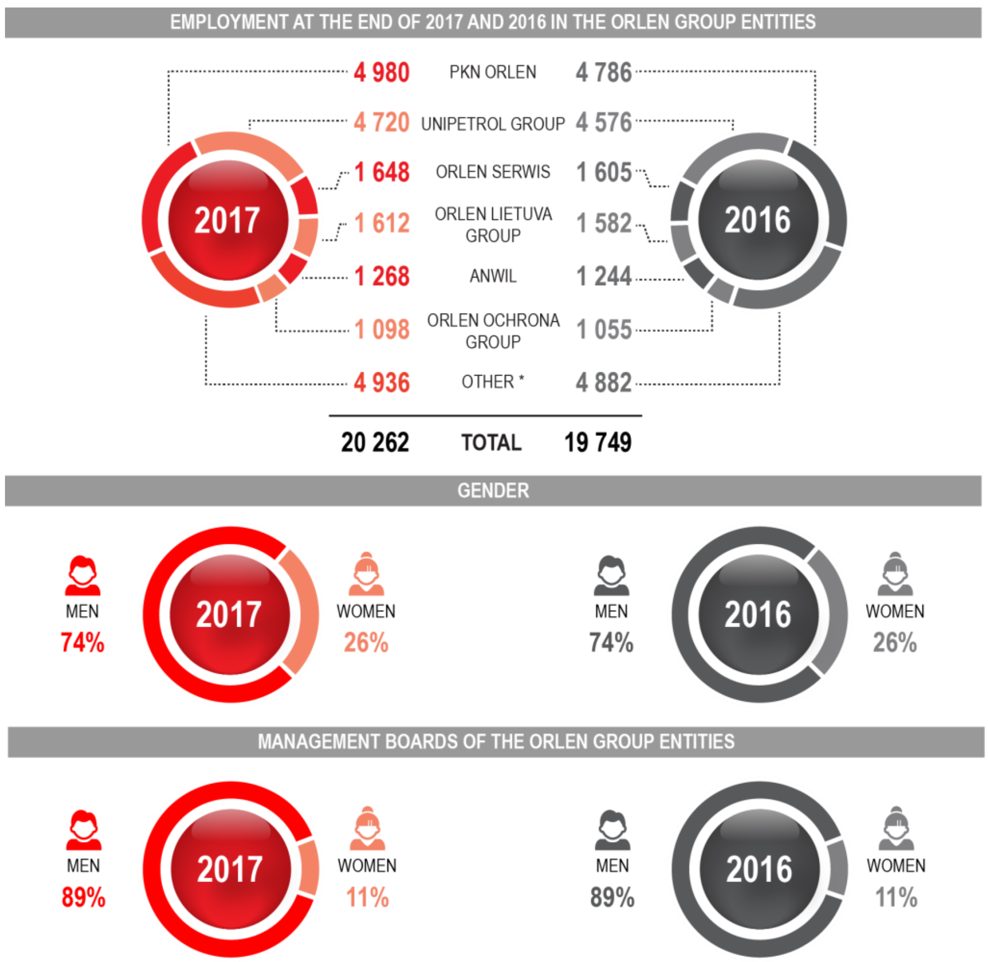
In 2017 and in 2016 there were no related party transactions in the ORLEN Group concluded on other than an arm's length basis. The ORLEN Group companies' transactions and balances of settlements with related parties are presented in the Consolidated Financial Statement for the year 2017 in section 9.4.6.2., while the ORLEN Group companies' transactions with entities related to the State Treasury in section 9.4.6.3.

3.5. EMPLOYMENT AND PERSONNEL PROGRAMMES

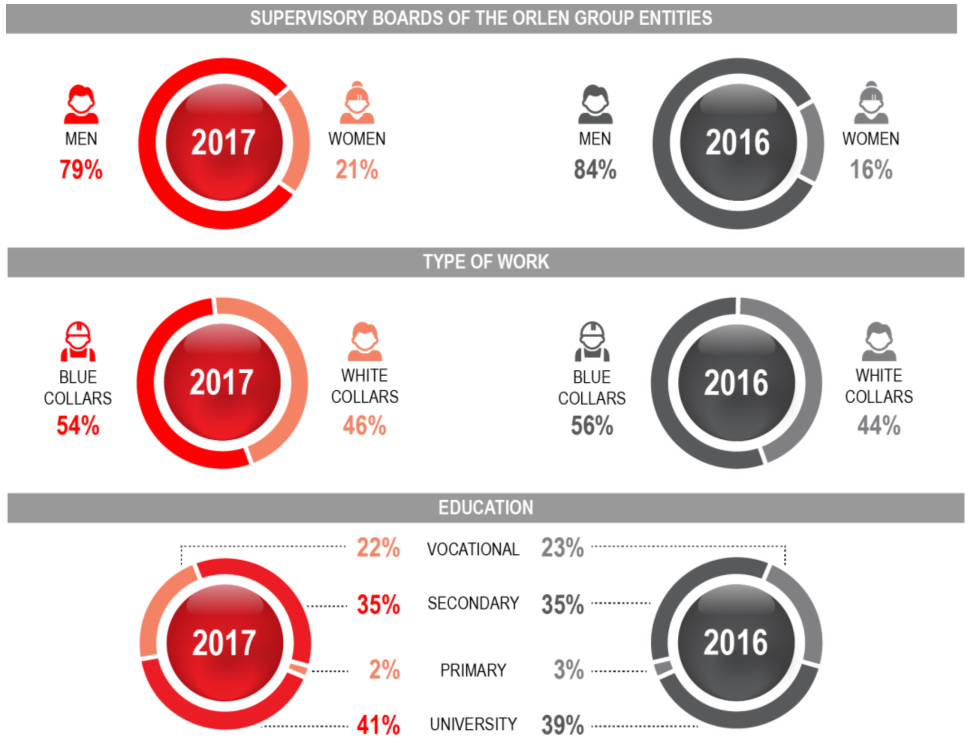
Daniel Obajtek, CEO and President of the PKN ORLEN Management Board:
"People play a very important role both for the ORLEN value and for successful delivery of the Strategy. Changes in the global economy driven by increasing innovation and the development of new business areas make human capital all the more important.
We consistently pursue the best global standards, offer our staff fair terms of employment, create organisational culture, and provide extensive training. The title of Top Employer Polska *we received once again is an evidence that our HR practices and standards are world-class".*

In 2017, the ORLEN Group's hiring policy was focused on recruiting top quality specialists to perform day-to-day operations as well as to execute strategic projects. Expansion of the ORLEN Group's power generation, logistics, procurement, IT, and retail business led to an increase in total workforce by 532 employees y/y, to 20,262.
The average annualized headcount at the ORLEN Group was 20,004, an increase of 255 persons y/y.

DIAGRAM 30. Basic data concerning of the ORLEN Group employment.



* 2017: ORLEN Południe - 716, ORLEN Laboratorium - 614, ORLEN Centrum Usług Korporacyjnych - 455
* 2016: ORLEN Południe - 827, ORLEN Laboratorium - 604, ORLEN Centrum Usług Korporacyjnych - 446



The rules of remuneration are determined by the Corporate Collective Labour Agreement. The basic element of remuneration is the basic salary – specified on the basis of the Remuneration Scale and the Table of Basic Salaries as well as the bonuses. Dependent on the occupied position, the employees are subject to monthly, quarterly, quarterly and annual or annual system of bonuses. Furthermore, the employees are entitled to an additional annual bonus dependent on the realisation of so called the solidarity aim as well as to remuneration allowances due for, among others: shift work, chemical rescue or expatriate allowance. For particular achievements, the employer may award a prize from the Employer's Prize Fund.
In 2017, the PKN ORLEN Corporate Collective Labour Agreement was updated in the range of the Remuneration Scale and the Table of Basic Salaries as well as employment and promotion rules. In 2017 there were no collective labour disputes, terminating, suspension or concluding the collective agreement.
In 2017, the average gross monthly remuneration (including base salary, bonuses, prizes, packages and overtime payment in the ORLEN Group was equal to PLN 7,298.
In 2017, there were no wage agreement signed with the union trades in PKN ORLEN. Therefore, the employer issued the regulation, which assumed discretionary pension increases in the amount of PLN 200 per one employee and one-off prizes in the total amount of PLN 4,600.
In 2017, no collective redundancies were performed.

HR PROGRAMMES

Human resources management policy

People are invariably one of the key pillars of the ORLEN Group's strategy. Important elements of the Group's growth strategy included employee opinion surveys, evaluation of employee needs, as well as initiatives to improve employee satisfaction and engagement. Satisfaction and engagement were surveyed at 17 ORLEN Group companies. The most important of the initiatives included launch of new communication channels (newsletters, information boards, inspirations for managers), communicating employee achievements (recognition boards), development of project management skills (project management trainings, message boards for sharing ideas, project round-up meetings).
In 2017, priority was given to continuous development of employees' knowledge, managers' involvement in team development, and the ORLEN Group's image-building activities.

Recruitment policy

Steps were taken to hire specialists and experts and to engage with academic communities to demonstrate the wide range of opportunities offered to employees of the ORLEN Group.
PKN ORLEN participated in job fairs organised by technical universities and offered internship and traineeship placements for students and graduates. The ORLEN Group companies worked with secondary technical schools and technical universities to align their curricula to the workforce and skills needs of the industry, and to help potential future employees develop necessary skillsets while still at school.
The Group also continued the Adaptation Programme for newly hired employees to become familiar with the ORLEN Group's activities, organisational culture, values and principles of conduct.

Development and training

A crucial ingredient of the training policy in 2017 was to enhance leadership through development of management skills which have an impact on employee engagement. To this end, a management skills development programme was offered to improve managerial skills, develop employee competencies, motivate the workforce and increase engagement.

In 2017, employees attended specialist training programmes (both open and closed), postgraduate courses, MBA programmes, and coaching and mentoring courses. In addition, they were offered opportunities to broaden and share their knowledge of the market and the industry with others through participation in trade conferences and events. They also continued to learn foreign languages as part of the PKN ORLEN Language Academy and summer English courses. A particularly strong focus was placed on fostering a work safety culture. The ORLEN Safe Driving Academy programme was continued to help its employees master safer driving techniques.

Training and development activities were carried out not only on a classroom basis, but also as e-learning courses. In 2017, over 4 thousand employees were trained at PKN ORLEN, and the average number of training hours per employee was 29.

Student internships and work placement programmes

PKN ORLEN cares for the professional development of not only its own employees, but also young people − students, university graduates and school leavers, by providing them with an opportunity to gain their first professional experience as interns and on work placement programmes.

In 2017, among the initiatives undertaken by PKN ORLEN were internship programmes 'Headed for ORLEN' and #Energy for the future, and group internships organised as part of PKN ORLEN's partnership with secondary schools and universities. More than 200 people participated in the internships.

Additionally, educational and informational projects were carried out, including: the ORLEN Knowledge Day (a series of meetings at universities held to present PKN ORLEN's business and innovative projects), PKN ORLEN's participation in career fairs (Job Fair in Płock, Absolvent Talent Days in Warsaw and in Łódź), and in the nationwide Case Week project, during which representatives from the energy, IT and environmental protection areas prepared and held meetings and case study sessions with the students of Warsaw universities.

Development of the HR functions

In 2017, the purpose of cooperation between HR teams within the ORLEN Group was to develop a Group-wide HR Policy – a joint document outlining principles of cooperation on ongoing projects.

As part of the efforts, the HR and payroll solutions as well as IT systems were adjusted to effectively support business processes. Further, all HR and payroll processes for the entire ORLEN Group were optimised at the Transaction Center (CT).

Social dialogue and employee benefits

The principles of social dialogue are founded on internal regulations and generally applicable laws, which facilitates development of constructive and lasting solutions in partnership with employee representatives. The ORLEN Group provides social support in the form of various benefits and allowances, including holiday subsidy, co-financing of sanatorium treatment, child care, leisure time for children and youths, school supplies, financial support for low-income families, recreation and sport activities, cultural and educational activities, non-returnable financial support, funding for rehabilitation, returnable housing loans, and purchase of Christmas gifts for children.

Medical care

Medical services and preventive healthcare programmes, including those going beyond the scope of occupational medicine, were offered in partnership with Centrum Medyczne Medica of Płock and the Military Institute of Medicine of Warsaw. In 2017, workplace preventive examinations were carried out under the 'Prevention Close at Hand' project.

Family Friendly Employer

PKN ORLEN carries out the 'Family-Friendly Employer' programme, offering such benefits as additional two days off to care for a child under three years old, two days off to care for a disabled child under 24 years old, a nursery school for children of ORLEN Group employees, one additional hour for breastfeeding, medical care during pregnancy, baby feeding rooms, gifts for newborn babies, and providing employees on parental/childcare leaves with up-to-date information on developments across the Group.

Awards and certificates

The HR policies and practices of PKN ORLEN were surveyed by independent organisations. The analyses covered basic and additional employee benefits, working conditions, training programmes, professional career development and the Company's organisational culture management were analysed. Following the surveys, the Company was awarded a number of distinctions, including the *Top Employers Poland 2017* certificate, *The World's Most Ethical Company* titles, and *The Most Desired Employer in the Opinion of Professionals and Managers* title in the power, gas, oil and chemical industries category in a survey performed by Antal International, a recruitment firm.

3.6. CORPORATE SOCIAL RESPONSIBILITY („CSR")

The ORLEN Group's CSR strategy is based on the 'Core Values and Standards of Conduct of PKN ORLEN,' which state that "value growth should be aligned with the interests of external stakeholders and rely on sustainable and responsible use of resources". This means that corporate social responsibility principles are applied as early as at the business strategy planning stage.

The CSR strategy identifies three principal areas of activity. In the first one, **Organisation**, the key goal is to build lasting relations with employees based on diversity, sense of security, development opportunities, and combining social and professional roles. In the **Close Environment**, priority is given to developing social conscience and responsibility in trading partners and customers through sharing best practices and knowledge, and implementing most exacting CSR standards. In the **Distant Environment**, PKN ORLEN aspires to implement its strategy, promote innovation and set highest industry standards in business ethics and environmental protection.

The CSR Strategy and the projects implemented within its framework have been a logical consequence and continuation of the ORLEN Group's social commitment practically since its establishment. As early as December 2003, PKN ORLEN joined Global Compact, an initiative proposed by United Nations Secretary General Kofi Annan. We declared that we would work to advance the organisation's principles in the areas of human rights, labour standards, environment, and anti-corruption efforts. The signing of the declaration was tantamount to a public commitment to respect these principles and to subject the Company to public scrutiny. Since 2016, the ORLEN Group has been working towards the 17 Sustainable Development Goals set by the United Nations. PKN ORLEN was also among the signatories of the 'Partnership for implementation of the Sustainable Development Goals (SDGs)' proposed by the Ministry of Development.

The CSR activities include the 'PKN ORLEN Charitable Giving Policy', whose priorities are to improve the quality of life and health, and to promote education and youth development. The Company not only initiates and carries out charity activities, but also partners with other organisations in charitable initiatives. An important role in that area is played by the ORLEN – GIFT FROM THE HEART Foundation established in 2001 to fulfil the social responsibility mission of its founder, PKN ORLEN. The Foundation offers comprehensive support to foster families, promoting this form of childcare as being the most effective means of providing children deprived of natural families with the conditions they need to fully develop their personal potential. Currently, it helps more than 2,500 children in nearly 350 homes. The Foundation also runs a number of scholarship programmes to support education of young people and nurture their aspirations. There is a separate support programme for paralympians. The Foundation also joins initiatives focused on improving safety and healthcare standards, such as the 'NO' TO SMOKE safety awareness campaign or cooperation with PKN ORLEN in a programme to support fire brigades. Last but not least, the Foundation is also involved in local community projects.

Members of the VITAY loyalty scheme actively participate in the CSR initiatives undertaken by PKN ORLEN and the ORLEN – GIFT FROM THE HEART Foundation. There is a growing number of those who donate their VITAY points to social causes, such as support for foster care homes or environmental projects. They were also joined by users of the YANOSIK application.

As part of the broad system of communicating its CSR activity, since 2015 PKN ORLEN has been publishing integrated annual reports, which combine financial statements with CSR reporting, as recommended by the International Integrated Reporting Council. The report also reflects the latest directions in the EU legislation on disclosure of non-financial and diversity information. Pursuant to Art. 49b. 2 of the Polish Accounting Act, PKN ORLEN and the ORLEN Group are required to produce a **non-financial report** for 2017. The report is available at www.orlen.pl.

3.7. ENVIRONMENT PROTECTION

Józef Węgrecki, Member of the PKN Management Board, Investment and Procurement:
"Reduction of the ORLEN Group's environmental footprint is one of our key priorities.
In 2017, we took extensive measures to ensure compliance with the BAT conclusions for refining, which define the best techniques employed in this industry as well as emission limit values, usually more restrictive than currently applicable. PKN ORLEN and the ORLEN Group companies took formal and legal steps (e.g. to obtain environmental permits), as well as investment and organizational activities. They all are to help us meet the new legal requirements that will come into force in the EU on October 28th 2018".

The projects carried out in 2017 chiefly involved adaptation of plant and process units to new environmental requirements and standards defined in the EU regulations. These efforts included administrative work to have the terms of integrated permits for our plants modified, as well as capex projects related to our production plant and equipment. The key initiatives in 2017 included start of work on the implementation of the leakage detection and repair (LDAP) system, optimisation of the fugitive emissions balancing method, and bringing refinery units in line with the more stringent EU requirements for air emissions.

The most important environmental projects put in use in 2017 were: the high-performance and low-emission CCGT plant in Włocławek; assembly of an afterburner at Paramo, a Czech subsidiary, enabling reduction of volatile organic emissions; modernisation of the rolling stock used by ORLEN KolTrans (purchase of locomotives equipped with modern low-emission and economical engines); construction of a sewage treatment plant at ORLEN Południe; and reconstruction of the sewage system and DeNOx unit at Unipetrol.

Several ORLEN Group continued the Responsible Care Programme. In line with principles of the programme, the obligations defined in the Responsible Care Framework Management System were fulfilled and the tasks declared for 2017 were performed. They included the 'Catch the Hare' photo competition, 'I care for the environment' campaign, 'A Tree for a Bottle − the New Edition' project, as well as contests held to celebrate the 25th anniversary of the Responsible Care Programme in Poland.

In 2017, there were no additional charges resulting from failure to correctly calculate the fees for economic use of the environment or to meet the payment deadline. The amount of such fees depends on the type and scale of economic use of the environment, on the type of substances released to the environment (air emission, sewage disposal, water abstraction), and on fee rates, which are set by the Minister of the Environment for annual periods. Because the ORLEN Group operates low-emission production units, the fee amounts have been steadily falling. No additional fees for lack of the required environmental permits were paid in 2017.

The ORLEN Group has in place Integrated Management System, with relevant environmental protection standards implemented. We operate **an ISO 14001 Environmental Management System** certified by Bureau Veritas Certification until September 14th 2018. The certification is a proof of our efforts to achieve a maximum possible environmental neutrality and a reduced environmental impact of our processes. **International Sustainability & Carbon Certification System (ISCC EU)** confirms our compliance with the standards of sustainable use of renewable energy sources. The aim of the ISCC certificate to protect the biosphere, ensure rational land

management, promote sustainable social development, and reduce greenhouse gas emissions.
An **ISO 50001 Energy Management System** is being implemented at the production plant in Płock, PTA plant in Włocławek, office buildings in Płock and Włocławek, terminals and service stations, in order to increase energy efficiency, which will ultimately lead to lower costs and reduced greenhouse gas emissions.

3.8. OCCUPATIONAL HEALTH AND SAFETY („OHS")

Care for health and safety is a natural and inseparable element of the ORLEN Group's business. In practice, this means that the Group does everything it can to prevent hazards, industrial accidents, fire and other unwanted incidents. In 2017, the ORLEN Group focused on continuous improvement of personal and process safety, as provided for in the ORLEN Group's OHS Strategy for 2017−2021. As part of the Safety Plus project, which was started in 2017, 15 highest safety standards for the fuel and energy industry are to be implemented. The project is to be completed in 2020.
One of the priorities was the update and implementation of the OSHA 1910-compliant Process Safety Management System. The system provides a more effective framework for achieving operational excellence, as it guarantees technical safety of the process and storage units, and thus prevents any undesirable events that could affect the safety of staff or processes.

In an effort to enhance accident-free safety culture at the ORLEN Group, we put a strong focus on building the awareness of safe work procedures and on creating proactive attitudes among our employees and contractors. The Employee Support System is one of the programmes pursued to strengthen the culture of personal security. It promotes specific conduct and good OHS practices among employees and contractors. We also ran preventive programmes, incentive schemes and competitions, including: the 'Report a Safety Hazard' initiative, the OHS incentive programme, and the 'Safety First' project. The Occupational Health and Safety Week 2017 was organised at the ORLEN Group to promote work safety and healthy lifestyles.

Thanks to the Group-wide efforts, the total recordable rate (TRR) for employees and contractors was 0.95, and the T1 Process Safety Events Rate (PSER) reached 0.06. These values are comparable to or lower than the industry benchmark.

The method of rate calculation is presented in *"Glossary of selected industry terms"* in the last section of this Report.

4. FINANCIAL RESULTS OF THE ORLEN GROUP

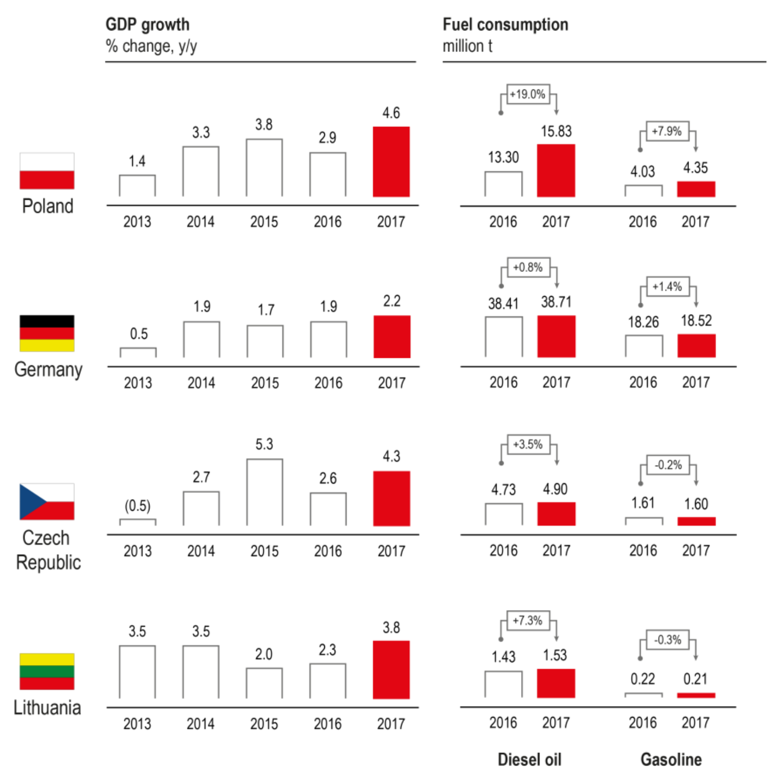
Wiesław Protasewicz – Member of the PKN ORLEN Management Board, Finance:
"In 2017, the ORLEN Group posted a record-high EBITDA LIFO of PLN 10.4 billion before impairment of non-current assets, an increase of over PLN 1.0 billion on the previous year, with only limited impact of the macro factors. We were able to deliver such high EBITDA LIFO primarily due to favourable market climate, including the high rate of economic growth of the countries where the ORLEN Group operates and, additionally, successful measures to curb the grey economy in fuel trade in Poland. The ORLEN Group recorded a 7.2% year-on-year increase in sales volumes despite maintenance shutdowns of its important production units. The record-high result of the Retail segment, of PLN 2.0 billion, has confirmed the correctness of the segment's strategic development directions. High operating profits translated into operating cash flows of PLN 8.1 billion, enabling us to allocate PLN 3.9 billion to capex projects, pay dividend of PLN 3.0 per share, and reduce the Company's net debt by PLN 2.6 billion."

4.1. MACROECONOMIC SITUATION

The ORLEN Group operates within variable macroeconomic environment. Economic situation, labour market and macroeconomic trends have significant impact on the level of the fuel and petrochemical products consumption and consequently on their volume and sales prices.

Basic indicator reflecting economic situation is **GDP index**, which, determined by consumption, capital expenditures and export, allows to assess at which stage the economy is. Changes of GDP ratio are typically correlated with the changes of unemployment rate and **fuel consumption**. An overall condition of the economy, measured among others by GDP, has an influence on the current and future customers behaviour.

DIAGRAM 31.



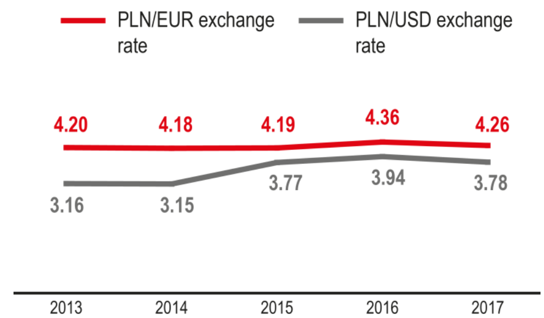
Source: GDP based on EUROSTAT.
Consumption: own preparation based on own estimation, databases from Energy Market Agency, the Lithuanian Statistical Office, the Czech Statistical Office and the German Oil Industry Association.

Prices of refined products and petrochemical products offered by the ORLEN Group are determined in most cases on the basis of their quotations on commodity markets denominated in foreign currencies.

The costs associated with the purchase of basic raw materials, including crude oil and debt service are also primarily denominated in foreign currencies such as USD or EUR.

Consequently fluctuations in **exchange rates** of these currencies against zloty have a significant impact on the financial results of the ORLEN Group

DIAGRAM 32. Average exchange rate.



Source: Based on rates of the National Bank of Poland (NBP).

The indicator used for the directional assessment of the impact of macroeconomic factors on the ORLEN Group's results is the **Model Downstream Margin**, reflecting the base structure of the input basket and of the refinery and petrochemical products obtained from the input material, calculated on the basis of market quotations.

DIAGRAM 33. Model Downstream margin [USD/bbl].

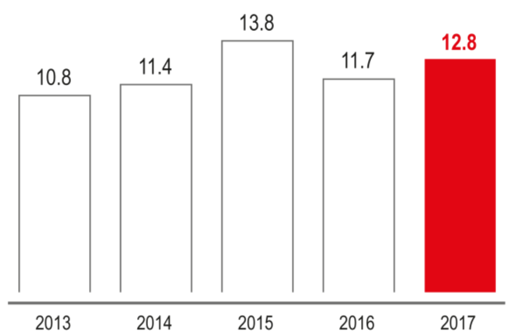


TABLE 17. The Downstream margin product structure – crack margins from quotations for base products.

Product	2017	2016	2015	2014	2013
Refinery products (USD/t)					
Gasoline	151	142	177	167	167
Diesel oil	86	71	108	108	119
Heavy heating oil	(112)	(125)	(142)	(225)	(234)
SN 150	295	139	177	161	131
Petrochemical products (EUR/t)					
Ethylene	653	610	602	589	605
Propylene	477	359	488	543	467
Benzene	398	296	278	432	375
Paraxylene	418	431	416	382	519

In the Downstream segment **Model Refining Margin** and **Model Petrochemical Margin** are also calculated.
The methodology of calculation of model Downstream, refinery and petrochemical margins is presented in the Glossary of selected financial definitions at the end of this report.

The ORLEN Group operating results are largely dependent on the difference between market prices of petroleum products and crude oil prices, as well as other raw materials needed for their manufacturing – so called "cracks". The purchase costs of raw materials and prices at which the ORLEN Group may ultimately sell refined petroleum products depends on many factors which are beyond its control, including:

- changes in the supply / demand for refinery and petrochemical products,
- development of the production capacity of the world refining industry,
- changes in the operating costs associated with technological processes (energy costs, media, modernizations),
- amendments to environmental protection law, and other which might entail significant expenses for the ORLEN Group.

DIAGRAM 34. Refining margins („crack") quotations (USD/t).

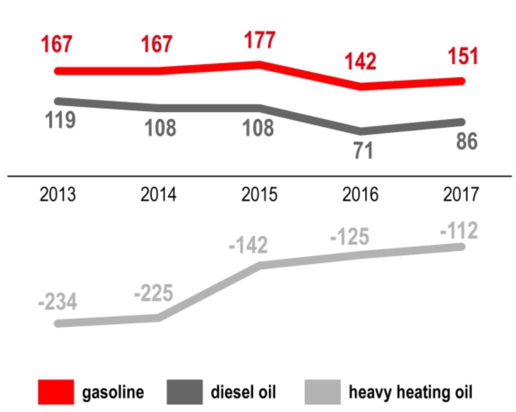
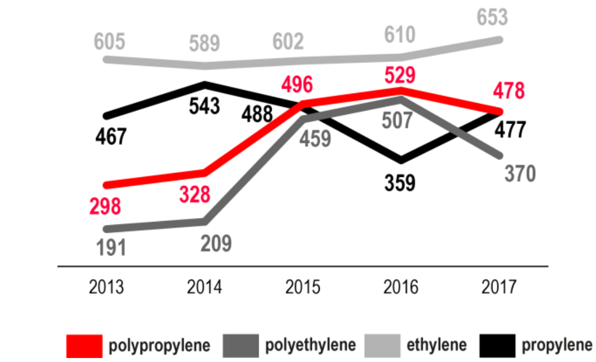


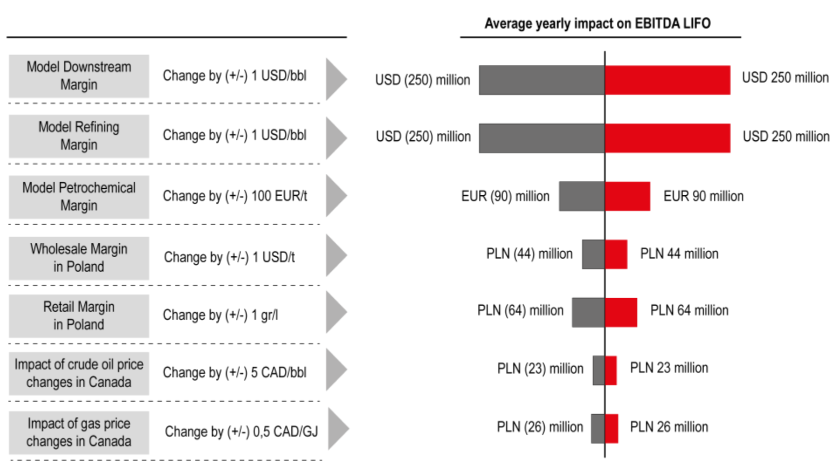
DIAGRAM 35. Petrochemical margins („crack") quotations (EUR/t).



Source: *Own preparation based on Platts and ICIS data.*

Sensitivity analysis

DIAGRAM 36. Sensitivity analysis of the change in the key macroeconomic parameters[1] [USD/EUR/PLN million].



- Estimates of impact of changes in **the model downstream margin and model refining margin** were performed assuming the average yearly processing capacity of crude oil in the ORLEN Group around **250** million bbl.
- Estimates of impact of changes in **the model petrochemical margin** were performed assuming the average yearly sale of polymers in the ORLEN Group at around **900** thousand tonnes per year[2]
- Estimates of the impact of changes in **wholesales margin** were performed assuming the average yearly volume of sales of fuels (gasoline and diesel oil) in Poland approximately **11.6** million tonnes per year.
- Estimates of impact of changes in **retail margin** were performed assuming the average yearly volume of sales of fuel in Poland of approximately **6.4** billion litres per year.
- Estimates of the impact of **changes in hydrocarbon quotations** in Canada were performed assuming the production of crude oil and gas condensate at the level of 1.5 million boe/year and natural gas approximately **17.6 million** GJ / year.

1) The impact of changes in the above mentioned parameters has been estimated with the assumption of the lack of dependence between them and other parameters forming results of the ORLEN Group. The changes of macroeconomic factors may have additional effect on other parameters such as optimization of the structure of products, sales directions or the capacity utilization which can have an additional impact on the presented operating results.

2) It includes about 550 thousand tonnes of polymers from Unipetrol Group and about 349 thousand tonnes from BOP (50% of BOP's volumes consistent with PKN ORLEN share's in BOP).

4.2. FINANCIAL RESULTS

For information on the policies applied in the preparation of the full-year consolidated financial statements, see section 5.2. of the Consolidated Financial Statements for 2017.

4.2.1. Overview of basic economic and financial figures and evaluation of the factors having a significant impact on the financial result achieved.

TABLE 18. Selected data from the consolidated statement of profit or loss and other comprehensive income.

Item, PLN million	2017	2016	2015	change	change %
1	2	3	4	5=(2-3)	6=(2-3)/3
Sales revenues	95 364	79 553	88 336	15 811	19.9%
Profit/(Loss) from operations under LIFO increased by amortisation and depreciation (EBITDA LIFO) before impairment allowances[1)]	**10 448**	**9 412**	**8 738**	**1 036**	**11.0%**
Profit/(Loss) from operations increased by amortisation and depreciation (EBITDA)	11 078	9 642	6 235	1 436	14.9%
Profit/(Loss) from operations (EBIT)	**8 657**	**7 532**	**4 340**	**1 125**	**14.9%**

1) The allowance for impairment of property, plant & equipment and intangible assets:
- *year 2017 in the amount of PLN (169) million – concerns mainly exploration assets of ORLEN Upstream Group in Poland.*
- *year 2016 in the amount of PLN 145 million – concerned mainly reversal of allowance for impairment of Unipetrol Group's refining assets in the amount of PLN 316 million and allowance created for impairment of exploration assets of ORLEN Upstream Group in Poland in the amount of PLN (73) million and assets of ORLEN Oil in the amount of PLN (55) million.*
- *year 2015 in the amount of PLN (993) million – concerned mainly exploration assets of ORLEN Upstream Group in Poland of PLN (429) million, mining assets in Canada of PLN (423) million and petrochemical assets of Unipetrol Group of PLN (111) million due to the failure of ethylene production installation in August 2015.*

As at December 31st 2017, in accordance with IAS 36 *Impairment of Assets*, the Group identified indications of impairment of the ORLEN Upstream Group's exploration assets in Poland. No indications of impairment of the ORLEN Group's other assets were identified – the ORLEN Group's Strategy for 2017−2021 (the "Strategy") remains valid. For description of the methodology of impairment testing and recognition of impairment losses, see section 9.2.5 of the Consolidated Financial Statements for 2017.

For the complete consolidated statement of profit or loss and other comprehensive income, see section 1 of the Consolidated Financial Statements for year 2017.

Sales revenues

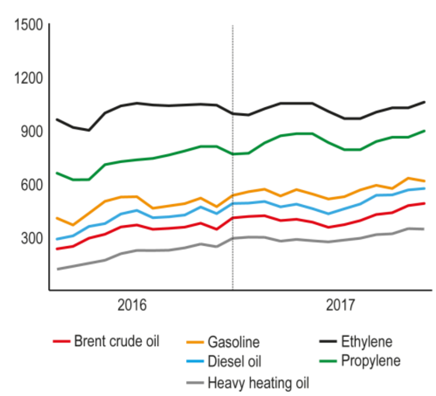
In 2017, the ORLEN Group generated **revenue** of PLN 95,364 million, an increase of 19.9% on the previous year, reflecting rising prices of key ORLEN products, affected by the upward trend both in the price and volumes of crude oil.

- In the **Downstream segment**, revenue increased by 24.8% year on year, driven by higher (by USD 10.5/bbl) market prices of crude oil and petroleum products. Compared with a year earlier, the segment reported a 7.2% y/y increase in sales volumes, to a record-high of 33 million tonnes, mainly as a result of the improved market conditions, stronger economic growth on the home markets, enactment of a package of legislative solutions targeting the grey market for fuels in Poland, and increased availability of production capacities at the Unipetrol Group after placing the ethylene production plant back in operation in 2016.
- Revenue of the **Retail segment** increased by 11.8% y/y, which was chiefly an effect of higher sales volumes of fuels, non-fuel products and services as well as higher prices of fuel sold at the Company's service stations, driven by the upward trend in crude oil prices.

  Revenue generated in the **Upstream segment** increased by 16.5% on 2016, mainly led by higher production of gas, and NGL condensate in Canada.

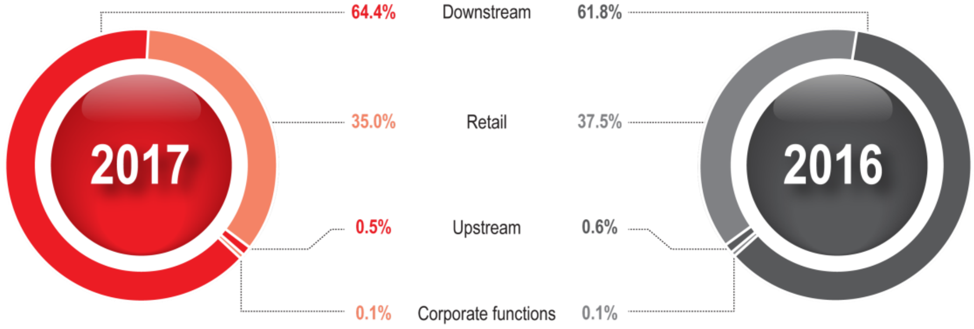
2017 recorded rising prices of key ORLEN products: gasoline (up 19%), diesel oil (up 23%), heavy fuel oil (up 44%), ethylene (up 12%), and propylene (up 28%).

DIAGRAM 37. Quotation of crude oil and main products of the ORLEN Group.



Source: Own preparation based on Platts and ICIS data.

DIAGRAM 38. Revenues from sales of the ORLEN Group by segment.



For description of changes in sales volumes of the operating segments, see section 3.2.

Poland continues to be the ORLEN Group's main market in terms of revenue, with PLN 41,831 million worth of products and services sold, followed by Germany (PLN 16,964 million). In the Czech Republic, the Group earned revenue of PLN 13,085 million, and in the Baltic States – PLN 7,797 million.

Operating expenses

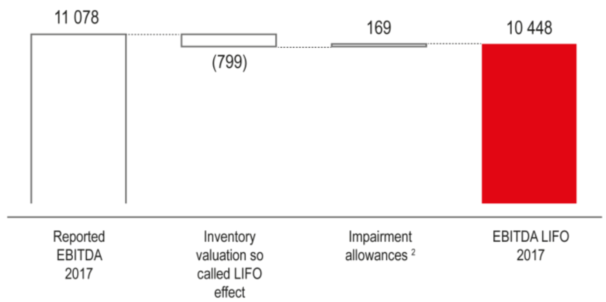
TABLE 19. Cost of goods sold in the ORLEN Group.

Item, PLN million	2017	2016	2015	structure 2017	structure 2016	structure 2015	change %
1	2	3	4	5	6	7	8=(2-3)/3
Materials and energy	(57 277)	(43 512)	(54 542)	64.7%	59.0%	65.8%	(31.6%)
Cost of merchandise and raw materials sold	(20 500)	(20 247)	(18 303)	23.2%	27.4%	22.1%	(1.2%)
External services	(4 218)	(4 073)	(4 352)	4.8%	5.5%	5.3%	(3.6%)
Employee benefits	(2 391)	(2 206)	(2 110)	2.7%	3.0%	2.5%	(8.4%)
Depreciation and amortisation	(2 421)	(2 110)	(1 895)	2.7%	2.9%	2.3%	(14.7%)
Taxes and charges	(1 204)	(1 129)	(1 152)	1.4%	1.5%	1.4%	(6.6%)
Other	(524)	(529)	(481)	0.5%	0.7%	0.6%	0.9%
Cost by nature	**(88 535)**	**(73 806)**	**(82 835)**	**100.0%**	**100.0%**	**100.0%**	**(20.0%)**
Change in inventories	688	(232)	(693)				-
Cost of products and services for own use	217	264	213				(17.8%)
Operating cost	**(87 630)**	**(73 774)**	**(83 315)**				**(18.8%)**
Selling costs	4 327	4 125	3 971				4.9%
General and administrative costs	1 537	1 426	1 552				7.8%
Cost of goods sold	**(81 766)**	**(68 223)**	**(77 792)**				**(19.9%)**

Operating expenses increased by PLN (13,856) million y/y, to PLN (87,630) million. The most important item of operating expenses was raw materials and consumables, mainly crude oil used in technological processes. A 32% y/y increase in the cost of raw materials and consumables was driven mainly by higher (by USD 10.5/bbl y/y) crude oil prices on global markets and 10% y/y increase in crude oil throughput, to 33.2 million tonnes.
In 2017, the share of feedstock and raw material costs increased by 5.7pp y/y, while the share of merchandise purchased on the market decreased by (4.2) pp y/y, mainly on the back of bringing the Unipetrol Group's ethylene and FCC units back on stream after the 2016 shutdown.
Distribution costs rose on higher logistics costs as a result of a 7.4% y/y increase in sales volumes and rising costs of commissions paid to service station operators, driven by high volumes of fuel and non-fuel sales in the Retail segment.
Higher **administrative expenses** attributable to considerable wage pressures from the labour market and an increase in the number of employees (see section 3.5), as well as to higher costs of property insurance and local taxes.

Profit from operations under LIFO[1] increased by amortisation and depreciation before impairment allowances.

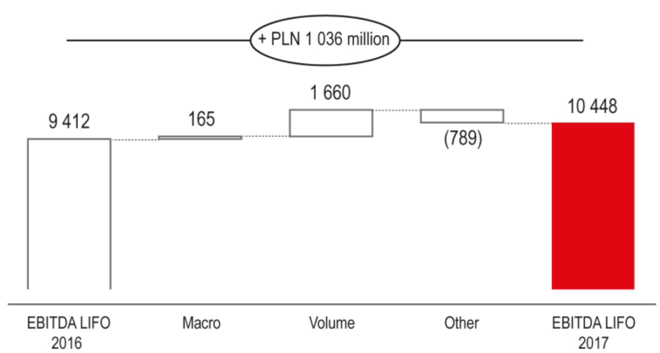
DIAGRAM 39. Reported EBITDA and EBITDA LIFO before impairment allowances [PLN million].



- **The ORLEN Group's record-high EBITDA LIFO** of PLN 10,448 million in 2017, before impairment of non-current assets.
- After accounting for the impairment losses, the EBITDA LIFO in 2017 was PLN 10,279 million.
- The positive impact of changes in oil prices on inventory valuation came in at PLN 799 million.
- As a result, the ORLEN Group's EBITDA for 2017 amounted to PLN 11,078 million.
- Total capital expenditure fell by PLN (71) million y/y, to PLN 4,602 million – for description of the key capital expenditure projects, see section 4.4.

1) The definitions of LIFO method of inventories valuation is presented in „Glossary of selected financial and industry concepts".
2) The allowance for impairment of property, plant & equipment and intangible assets in the amount of PLN (169) million concerned mainly exploration assets of ORLEN Upstream Group in Poland.

DIAGRAM 40. Factors affecting change of EBITDA LIFO (y/y) [PLN million].



The ORLEN Group's EBITDA LIFO before impairment of non-current assets was higher by PLN 1,036 million y/y.

- The positive impact of macroeconomic factors, including in particular stronger margins on refined products, olefins, PTA, aromatics, and plastics, was **PLN 165 million y/y**, with the financial results adversely affected by the negative impact of the Urals/Brent differential, lower margins on polyolefins and fertilizers, and the appreciation of the Polish currency against foreign currencies.
- Favourable market conditions and bringing the Unipetrol Group's ethylene and FCC units back on stream after the 2016 shutdown supported solid growth in sales volumes across all operating segments and, in consequence, a rise in sales volumes by **PLN 1,660 million y/y**.
- The negative impact of other factors was **PLN (789) million y/y** and included mainly:
  - PLN (463) million y/y − change in net other income (expenses), resulting mainly from lower y/y compensation paid by insurers in respect of the failure of the Unipetrol Group's ethylene production unit.
  - PLN (323) million y/y – other factors, including mainly a lower by PLN (446) million y/y impact of net changes in revaluation of inventories to net realizable value.

Net financial revenues / expenses and net result

TABLE 20. Selected data from the consolidated statement of profit or loss and other comprehensive income.

Item, PLN million	2017	2016	2015	change	change %
1	2	3	4	5=(2-3)	6=(2-3)/3
Financial revenues	1 760	248	390	1 512	609.7%
Financial expenses	(1 700)	(893)	(1 032)	(807)	(90.4%)
Net financial revenues and expenses	**60**	**(645)**	**(642)**	**705**	**-**
Profit/(Loss) before tax	**8 717**	**6 887**	**3 698**	**1 830**	**26.6%**
Income tax	(1 544)	(1 147)	(465)	(397)	(34.6%)
Net profit/(Loss)	**7 173**	**5 740**	**3 233**	**1 433**	**25.0%**

In 2017, net finance income were PLN 60 million and included mainly positive net exchange differences of PLN 645 million, net interest expense of PLN (274) million, and PLN (305) million on settlement and valuation of financial instruments. After tax expense of PLN (1,544) million, the ORLEN Group posted a net profit of PLN 7,173 million for 2017, an increase of PLN 1,433 million year on year.

For detailed information on finance income and costs (section 9.1.6) and income tax (section 9.1.7), see the Consolidated Financial Statements for year 2017.

Segments' results of the ORLEN Group

DIAGRAM 41. EBITDA LIFO segments' results [PLN million].

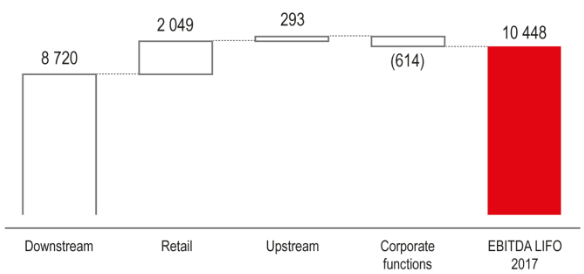
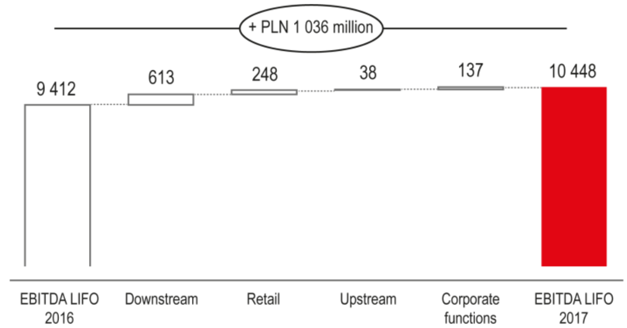


DIAGRAM 42. Change in segments' results [PLN million].



Downstream Segment

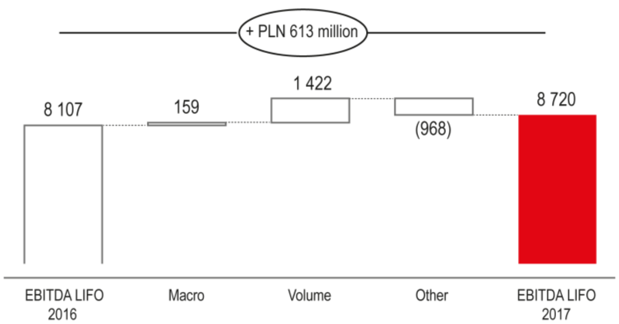
TABLE 21. Basic financial data of the Downstream segment.

Downstream Segment, PLN million	2017	2016	2015	change	change %
1	2	3	4	5=(2-3)	6=(2-3)/3
Segment revenues, including:	75 241	60 094	69 611	15 147	25.2%
Sales revenues from external customers	61 425	49 202	56 987	12 223	24.8%
Sales revenues from transactions with other segments	13 816	10 892	12 624	2 924	26.8%
Segments expenses	(68 410)	(54 939)	(64 963)	(13 471)	(24.5%)
Other operating income/expenses, net	854	1 640	(40)	(786)	(47.9%)
Share in profit from investments accounted for under equity method	247	298	253	(51)	(17.1%)
Profit from operations under LIFO increased by depreciation and amortisation (EBITDA LIFO) before impairment allowances[1)]	**8 720**	**8 107**	**7 776**	**613**	**7.6%**
Profit from operations under LIFO increased by depreciation and amortisation (EBITDA LIFO)	8 701	8 325	7 640	376	4.5%
Profit from operations increased by depreciation and amortisation (EBITDA)	9 500	8 410	6 130	1 090	13.0%
Profit from operations under LIFO (EBIT LIFO)	**7 133**	**7 008**	**6 371**	**125**	**1.8%**
Profit from operations (EBIT)	7 932	7 093	4 861	839	11.8%
CAPEX	2 925	3 533	2 242	(608)	(17.2%)

1) The allowance for impairment of property, plant & equipment and intangible assets:

- *year 2017 in the amount of PLN (19) million – related mainly to allowance created for impairment of assets of ORLEN Asfalt of PLN (8) million and of Unipetrol Group of PLN (6) million.*
- *year 2016 in the amount of PLN 218 million – related mainly to reversal of allowance for impairment of Unipetrol Group's refining assets in the amount of PLN 316 million and allowance created for impairment of assets of ORLEN Oil in the amount of PLN (55) million.*
- *year 2015 in the amount of PLN (136) million – related mainly to petrochemical assets of Unipetrol Group of PLN (111) million due to the failure of ethylene production installation in August 2015 and Baltic Power Sp. z o.o. of PLN (18) million.*

DIAGRAM 43. Downstream Segment – factors impact (y/y) [PLN million].



The Downstream segment's EBITDA LIFO before impairment of non-current assets was PLN 8,720 million in 2017 and was higher by PLN 613 million y/y.

- Positive impact of macroeconomic factors, including in particular stronger margins on refined products, olefins, PTA, aromatics, and plastics, amounted to PLN 159 million y/y, with negative impact of the Urals/Brent differential, lower margins on polyolefins and fertilizers, and the appreciation of PLN against foreign currencies.
- The continuing favourable market conditions (result of the successful measures to curb the grey market in fuel trade in Poland) and the increase in production capacities after the Unipetrol Group's ethylene and FCC units were brought back on stream following the 2016 shutdown led to an increase in sales volumes by 7.2% y/y and had a positive volume-driven effect of PLN 1,422 million y/y.
- The impact of other factors was negative at PLN (968) million y/y and included:
  - PLN (549) million y/y – change in net other income (expenses), resulting mainly from lower y/y compensation paid by insurers in respect of the failure of the Unipetrol Group's ethylene production unit;
  - PLN (419) million y/y – other factors, including mainly a lower by PLN (446) million y/y impact of net changes in revaluation of inventories to net realizable value.
- Taking into account impairment allowances of PLN (19) million, the ORLEN Group's **EBITDA LIFO** for 2017 was PLN 8,701 million.
- The positive effect of changes in crude oil prices on the valuation of inventories was PLN 799 million, and pushed the ORLEN Group's **EBITDA** to PLN 9,500 million in 2017.

The segment's capital expenditure decreased by PLN (608) million y/y, to PLN 2,925 million – the key capital expenditure projects are described in section 4.4.

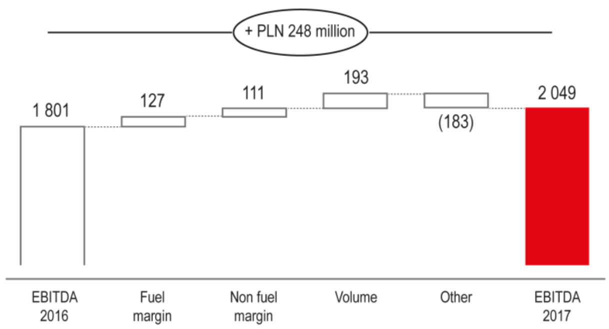
Retail Segment

TABLE 22. Basic financial data for the Retail segment.

Retail Segment, PLN million	2017	2016	2015	change	change %
1	2	3	4	5=(2-3)	6=(2-3)/3
Segment revenues, including:	33 630	30 121	31 122	3 509	11.6%
Sales revenues from external customers	33 350	29 841	31 052	3 509	11.8%
Sales revenues from transactions with other segments	280	280	70	0	0.0%
Segment expenses	(31 986)	(28 681)	(29 934)	(3 305)	(11.5%)
Other operating income/expenses, net	(28)	(38)	(17)	10	26.3%
Profit from operations increased by depreciation and amortisation (EBITDA) before impairment allowances 1)	**2 049**	**1 801**	**1 539**	**248**	**13.8%**
Profit from operations increased by depreciation and amortisation (EBITDA)	2 038	1 794	1 539	244	13.6%
Profit from operations (EBIT)	**1 616**	**1 402**	**1 171**	**214**	**15.3%**
CAPEX	678	479	448	199	41.5%

1) The allowance for impairment of property, plant & equipment and intangible assets:
- *year 2017 in the amount of PLN (11) million – related mainly to Unipetrol Group of PLN (7) million,*
- *year 2016 in the amount of PLN (7) million – related mainly to PKN ORLEN S.A. of PLN (6) million.*

DIAGRAM 44. Retail segment – factors impact (y/y) [PLN million].



In 2017, the Retail segment's EBITDA before impairment of non-current assets reached record level of PLN 2,049 million and was higher by PLN 248 million y/y.

- Improved fuel margins in Poland, the Czech Republic and Lithuania, with margins falling in Germany.
- Margins on non-fuel sales rose y/y in Poland, the Czech Republic and Lithuania, and remained stable year on year in Germany.
- A 7.7% y/y increase in sales volumes on all markets.
- The impact of the other factors related mainly to increased costs of operations of fuel stations resulting from the higher sales volume.
- Taking into account impairment allowances of PLN (11) million, the ORLEN Group's **EBITDA** for 2017 was PLN 2,038 million.

The segment's capital expenditure increased by PLN 199 million y/y, to PLN 678 million – the key capital expenditure projects are described in **section 4.4**.

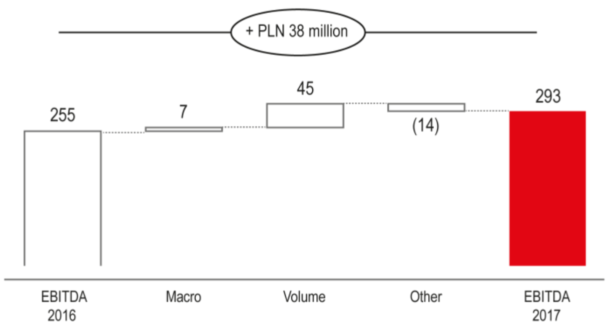
Upstream Segment

TABLE 23. Basic financial data for the Upstream segment.

Upstream segment, PLN million	2017	2016	2015	change	change %
1	2	3	4	5=(2-3)	6=(2-3)/3
Segment revenues, including:	515	442	215	73	16.5%
Sales revenues from external customers	515	442	215	73	16.5%
Sales revenues from transactions with other segments	0	0	0	0	-
Segment expenses	(540)	(537)	(347)	(3)	(0.6%)
Other operating income/expenses, net	(141)	(23)	(849)	(118)	(513.0%)
Share in profit from investments accounted for under equity method	1	(1)	0	2	-
Profit from operations increased by depreciation and amortisation (EBITDA) before impairment allowances[1)]	**293**	**255**	**44**	**38**	**14.9%**
Profit/(Loss) from operations increased by depreciation and amortisation (EBITDA)	153	182	(808)	(29)	(15.9%)
(Loss) from operations (EBIT)	**(165)**	**(119)**	**(981)**	**(46)**	**(38.7%)**
CAPEX	778	525	288	253	48.2%

1) The allowance for impairment of property, plant & equipment and intangible assets:
- *year 2017 in the amount of PLN (140) million – concerns mainly exploration assets of ORLEN Upstream Group in Poland.*
- *year 2016 in the amount of PLN (73) million – concerned mainly allowance created for impairment of exploration assets of ORLEN Upstream Group in Poland.*
- *year 2015 in the amount of PLN (852) million – concerned mainly exploration assets of ORLEN Upstream Group in Poland of PLN (429) million, mining assets in Canada of PLN (423) million.*

DIAGRAM 45. Upstream segment – factors impact (y/y) [PLN million].



The Upstream segment's EBITDA before impairment of non-current assets was PLN 293 million in 2017 and was higher by PLN 38 million y/y.

- Positive impact of macro factors, caused mainly by a year-on-year increase in hydrocarbon prices on the Canadian market.
- Positive impact of a 16.7% y/y increase in hydrocarbon production in Canada.
- Other factors included mainly the negative effect of net other income/(expenses) of PLN (51) million y/y, a result of the absence of positive effect of the adjustment of allocation of FX Energy acquisition price, recognised in 2016.
- Taking into account impairment allowances of PLN (140) million, the ORLEN Group's **EBITDA** for 2017 was PLN 153 million.

The segment's capital expenditure increased by PLN 253 million y/y, to PLN 778 million – the key capital expenditure projects are described in section 4.4.

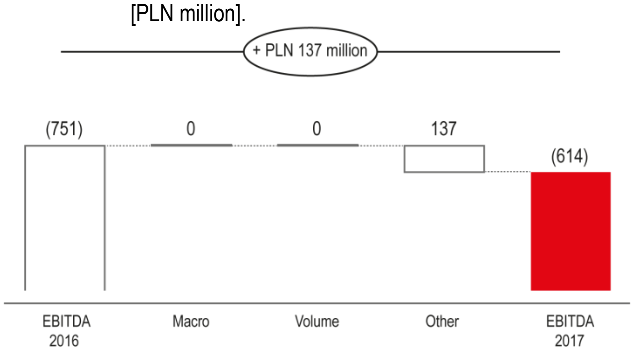
Corporate Functions

TABLE 24. Basic financial data for Corporate Functions.

Corporate Functions segment, PLN million	2017	2016	2015	change	change %
1	2	3	4	5=(2-3)	6=(2-3)/3
Segment revenues, including:	416	351	288	65	18.5%
Sales revenues from external customers	74	68	82	6	8.8%
Sales revenues from transactions with other segments	342	283	206	59	20.8%
Segment expenses	(1 132)	(1 072)	(971)	(60)	(5.6%)
Other operating income/expenses, net	(10)	(123)	(28)	113	91.9%
(Loss) from operations increased by depreciation and amortisation (EBITDA) before impairment allowances1)	**(614)**	**(751)**	**(621)**	**137**	**18.2%**
(Loss) from operations increased by depreciation and amortisation (EBITDA)	(613)	(744)	(626)	131	17.6%
(Loss) from operations (EBIT)	**(726)**	**(844)**	**(711)**	**118**	**14.0%**
CAPEX	221	136	205	85	62.5%

1) The impairment of fixed assets recognized in years 2017, 2016 and 2015 respectively: PLN 1 million, PLN 7 million and PLN (5) million concerning assets of PKN ORLEN.

DIAGRAM 46. Corporate Functions – factors impact (y/y) [PLN million].



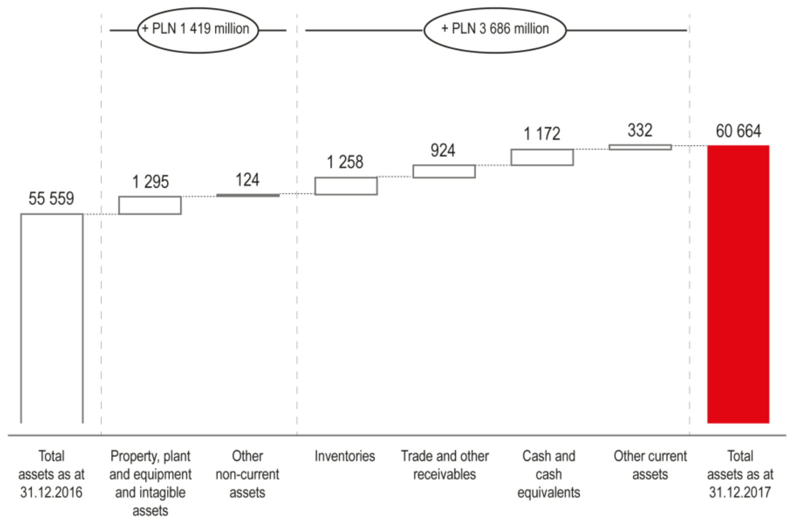
In 2017, EBITDA reported by the Corporate Functions segment was higher PLN 137 million (y/y).

- Positive effect of change in net other income (expenses) of PLN 119 million year on year, mainly due to the absence of the negative effect of remeasurement of provisions in 2016.

The capital expenditure incurred in 2017 as part of corporate functions was PLN 221 million, and is discussed in section 4.4.

4.2.2. Statement of financial position

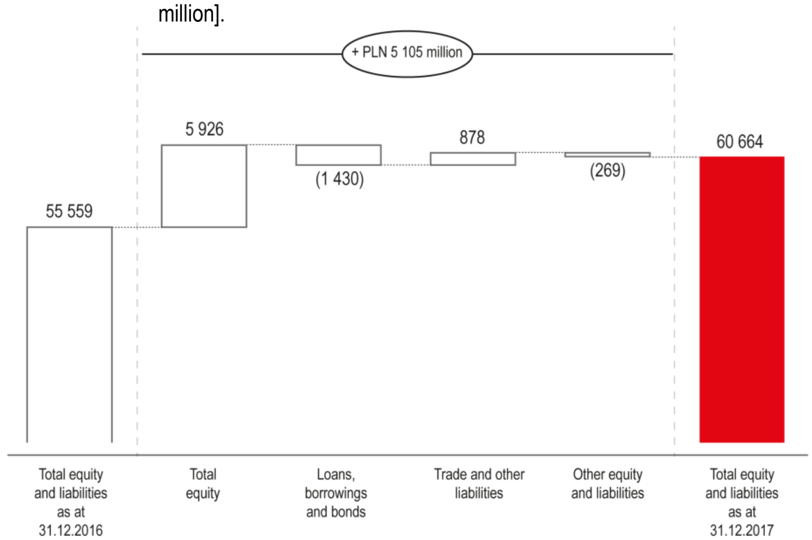
DIAGRAM 47. Changes of selected items from consolidated assets [PLN million].



As at December 31st 2017, the ORLEN Group's total assets grew by PLN 5,105 million compared with the end of 2016.

- This came chiefly as a result of changes in property, plant and equipment and intangible assets, including mainly capital expenditure of PLN 4,602 million incurred chiefly to construct the Polyethylene III in the Unipetrol Group, the CCGT and Metathesis unit in Płock; upstream projects in Canada; depreciation and amortisation of PLN (2,421) million; and a negative effect of translating foreign operations of the ORLEN Group companies of PLN (505) million, resulting from appreciation of the złoty against foreign currencies.
- The key contributors to growth of current assets were an increase in inventories caused by higher prices of raw materials and products, an increase in cash and cash equivalents, and an increase in trade and other receivables driven by the growing sales revenue. The higher amount of other current assets was mainly attributable to measurement of hedging instruments.

DIAGRAM 48. Changes of selected items from consolidated equity and liabilities [PLN million].



ORLEN Group's total equity and liabilities increased by PLN 5,105 million in comparison to December 31st 2016.

- The increase in equity results mainly from recognition of a PLN 7,173 million net profit for 2017, distribution of PLN (1,372) million dividend from retained earnings, the effect of exchange gains/(losses) on translating the subsidiaries' equity expressed in foreign currencies and a positive effect of changes in the hedging reserve of PLN 686 million.
- The Group's debt fell as a result of repayment of PLN (1,119) million under loans, borrowings and bonds, and PLN (311) million net effect of exchange gains on remeasurement and valuation of foreign currency debt.
- The increase of trade and other payables as at the end of 2017 resulted mainly from higher prices of raw materials.

As at December 31st 2017, the area of the ORLEN Group's freehold land was 31.1 million m^2; the Group also held land with an area of 38.8 million m^2 under perpetual usufruct, lease and other arrangements. For information on the surface area of land used by the Upstream segment, see section 3.2.3.2.
The key facilities used for accommodation and social purposes include: the Srebrna Palace near Płock, a commercial hotel and accommodation facilities for employees in Płock, PKN ORLEN's Conference Centre ('Engineer's House') in Płock, the Education Centre Schools in Płock, the ORLEN Club in Płock, the Bóbrka Holiday Resort (Separate Assets), the Sanatorium and Leisure Center in Ustka, and the Holiday Resort in Zarzeczewo.

For the complete consolidated statement of financial position, see section 2 of the Consolidated Financial Statements for 2017.

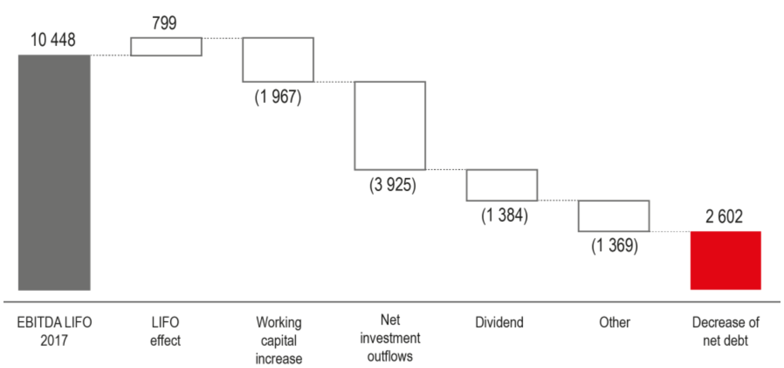
4.2.3. Statement of cash flows

TABLE 25. Consolidated statement of cash flows.

Item, PLN million	2017	2016	2015	change	change %
1	2	3	4	5=(2-3)	6=(2-3)/3
Net cash from operating activities, including:	**8 050**	**9 331**	**5 354**	**(1 281)**	**(13.7%)**
Change in working capital	**(1 967)**	**816**	**(1 320)**	**(2 783)**	**-**
Net cash (used in) investing activities	**(3 925)**	**(4 436)**	**(4 096)**	**511**	**11.5%**
Net cash (used in) financing activities	**(2 832)**	**(2 210)**	**(2 866)**	**(622)**	**(28.1%)**
Net increase/(decrease) in cash and cash equivalents	**1 293**	**2 685**	**(1 608)**	**(1 392)**	**(51.8%)**
Effect of exchange rate changes on cash and cash equivalents	(121)	39	19	(160)	-
Cash and cash equivalents, beginning of the period	5 072	2 348	3 937	2 724	116.0%
Cash and cash equivalents, end of the period	**6 244**	**5 072**	**2 348**	**1 172**	**23.1%**

The cash balance in 2017 increased by PLN 1,172 million, to PLN 6,244 million as at December 31st 2017.

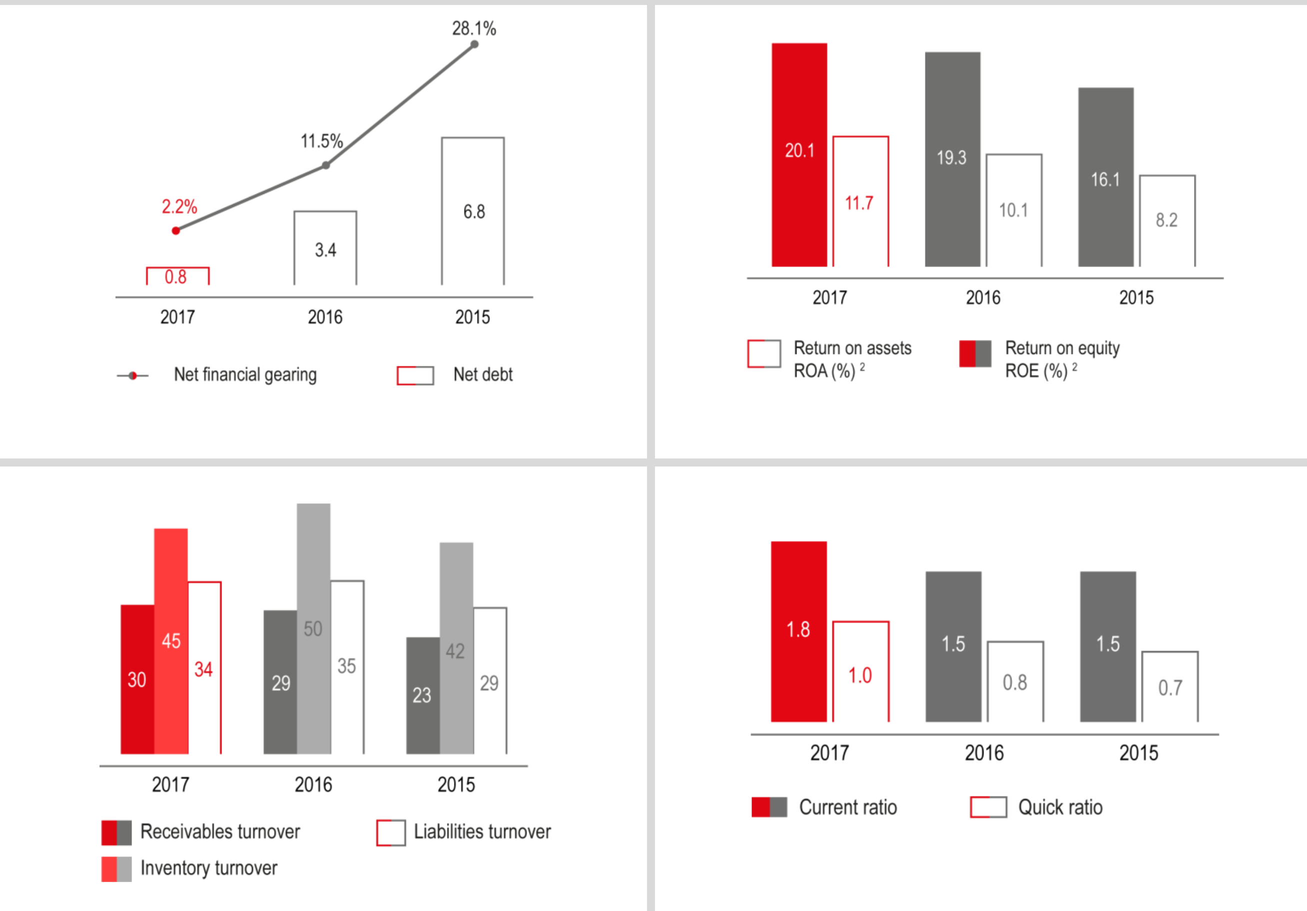
DIAGRAM 49. Free cash flow [PLN million].

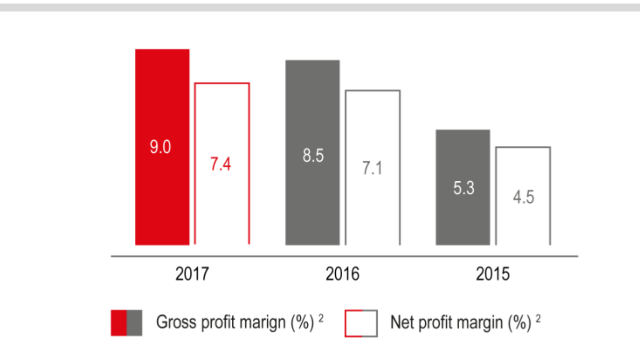


- Negative effect of a PLN (1,967) million increase in net working capital, due mainly to higher balances of inventories, driven by higher prices of crude oil and petroleum products, and trade receivables which increased on the Group's growing revenues.
- Net cash used in investing activities included mainly net expenditure on acquisition of property, plant and equipment, intangible assets and perpetual usufruct of land of PLN (3,934) million, received dividends of PLN 252 million, and other cash used in investing activities of PLN (240) million, including mainly settlement of hedging instruments.
- Dividends paid of PLN (1,384) million, including PLN (1,283) million dividend paid to shareholders of the Parent.
- Other: mainly income tax paid of PLN (1,603) million, compensation of PLN 222 million received by Unipetrol, and other items, including elimination of profits earned by equity-accounted entities, exchange gains/(losses) from operating activities, and interest paid.

4.2.4. Financial ratios

DIAGRAM 50. Financial ratios.[1]





- Presented financial ratios confirm stable financial standing of the ORLEN Group.
- Increase of profitability ratios and safe level of liquidity ratios.
- Reduction of net debt in 2017 (y/y) allowed the decrease of net financial gearing ratio (y/y).

1) The methodology of calculating ratios is presented in Glossary of selected financial terms in the last section of the foregoing Report.
2) Before the impairment allowances of non-current assets.

4.2.5. Differences between financial results disclosed in annual report and previously published forecasts of financial results for the year

The ORLEN Group did not publish any financial forecasts for 2017.

The ORLEN Group operating results for 2017 remained unchanged relative to the data presented in the Q4 2017 report issued on January 25th 2018.

4.3. FINANCIAL RESOURCES MANAGEMENT

4.3.1. General management policies

Liquidity management

The ORLEN Group uses cash-pool arrangements to effectively manage its current liquidity and optimise finance costs. As at the end of 2017, the Group used the following cash pool systems, managed by the Parent:

– two dedicated cash pool systems for Polish companies of the Group, used by 24 companies at the end of 2017,
– an international cash pool system for foreign companies of the Group, used by eight companies at the end of 2017.

As part of liquidity management, PKN ORLEN may issue bonds and notes within predefined limits and may acquire bonds issued by other ORLEN Group companies.

In 2017, the ORLEN Group placed cash in bank deposits. Decisions regarding placement of cash with banks are made with a view to maximising returns and are based on regular reviews of the banks' financial condition. All deposit-taking banks used by the Group are required to have a short-term investment-grade deposit rating.

Working capital management

The ORLEN Group uses a number of tools to optimise and manage its working capital in the volatile macroeconomic environment.

Those tools include non-recourse factoring arrangements whereby short-term trade receivables are sold at a discount before their maturity date and the bank assumes the risk of creditor's default.

The ORLEN Group also uses reverse factoring instruments, whereby its trading partners may receive payments for supplies or services with a discount but before due date specified in the respective sale contracts.

As at the end of 2017, the net working capital was PLN 13,015 million, having increased by PLN 2,221 million on year end 2016, mainly due to an increase in the amount of inventories attributable to higher feedstock prices, and an increase in trade receivables driven by growing revenue.

4.3.2. Loans, borrowings and bonds

The ORLEN Group cooperates with banks that have high credit ratings, enjoy strong market position and offer banking services at attractive prices. This approach ensures access to high quality sources of external financing.

TABLE 26. Sources of financing.

Item, PLN million	2017	2016	2015	change	change %
1	2	3	4	5=(2-3)	6=(2-3)/3
Bank loans	48	939	5 000	(891)	(94.9%)
Borrowings	0	1	3	(1)	-
Debt securities	6 957	7 495	4 155	(538)	(7.2%)
Financial indebtedness[1]	**7 005**	**8 435**	**9 158**	**(1 430)**	**(17.0%)**
By maturity:					
Non-current	6 688	7 446	8 131	(758)	(10.2%)
Current	317	989	1 027	(672)	(67.9%)

1) doesn't include liabilities from finance lease

DIAGRAM 51. The debt structure [%].

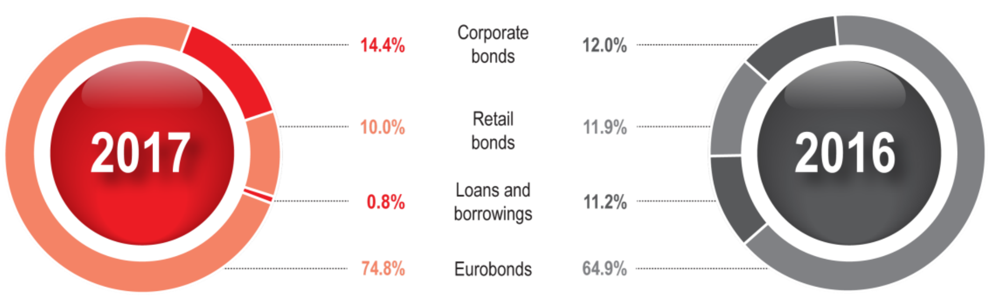


TABLE 27. Credit facilities in force in the ORLEN Group in 2017 (excess PLN 100 million).

Company	Bank name	Loan amount[1]	Agreement date	Payment date	Base costs (interest rate)
PKN ORLEN	Bank consortium (BNP Paribas as agent)	EUR 1 500 million (EUR 6 256 million)	2014	2021	Floating rate + margin
PKN ORLEN	PKO BP	PLN 700 million	2008	Revolving loan	Floating rate + margin
PKN ORLEN	PKO BP	EUR 100 million (PLN 417 million)	2017	Revolving loan	Floating rate + margin
PKN ORLEN	Bank Pekao	PLN 300 million	2007	Revolving loan	Floating rate + margin
PKN ORLEN	Bank Handlowy	PLN 300 million	2016	Revolving loan	Floating rate + margin
Unipetrol Group	ING	CZK 4 000 million (PLN 653 million)	2014	2018	Floating rate + margin
Unipetrol Group	(Česká spořitelna)	CZK 4 000 million (PLN 653 million)	2014	Revolving loan	Floating rate + margin
Unipetrol Group	Commerzbank	CZK 1 000 million (PLN 163 million)	2007	Revolving loan	Floating rate + margin
ORLEN Upstream Group	Citibank, Canadian branch	CAD 70 million (PLN 194 million)	2015	Revolving loan	Floating rate + margin

1) The amounts recalculated to PLN according to the National Bank of Poland rates: EUR/PLN, CZK/PLN, USD/PLN, CAD/PLN from 31 December 2017.

None of the above credit facilities is secured with a pledge, mortgage or transfer of ownership of non-current assets.

ORLEN Group companies are required to maintain certain financial indicators within ranges agreed in their credit facility agreements. In 2017, the financial indicators assessed by the lending banks were maintained at safe levels. The ratio of consolidated net debt to EBITDA before impairment of non-current assets, representing one of the covenants in a credit facility agreement used by PKN ORLEN, was 0.07.

The Group's financial indicators reported for 2017 and presented in section 4.2.4 confirm the Group's ability to pay its liabilities under the credit facility agreements and other agreements with banks and financial institutions.

For additional information on the ORLEN Group's debt structure, see section 9.2.7 of the Consolidated Financial Statements for 2017.

4.3.3. Issue of bonds and use of proceeds

In 2017, the ORLEN Group had in place three domestic bond programmes and two eurobond programmes.

Since 2006, PKN ORLEN has used a PLN 2,000 million non-public bond programme under an agreement with a syndicate of Polish banks, with the proceeds applied to fund day-to-day operations. In 2012, under the programme PKN ORLEN issued 7-year floating-rate corporate bonds with a nominal value of PLN 1,000 million due on February 27th 2019. The balance available under the programme, of PLN 1,000 million, is used for intra-Group issues of short-term notes. In 2017, PKN ORLEN issued PLN-denominated notes to nine ORLEN Group companies: Anwil, ORLEN Asfalt, ORLEN KolTrans, ORLEN Oil, ORLEN Południe, ORLEN Paliwa, ORLEN Upstream, ORLEN Serwis and Ship-Service. The notes are each time priced by a bank on market terms.

The other two domestic bond programmes are public programmes, predominantly for retail investors. These are Bond Programme 1 established in 2013–2014 and Bond Programme 2 set launched in 2017. Under an agreement with UniCredit CAIB Poland S.A., Powszechna Kasa Oszczędności Bank Polski S.A. and Bank Pekao S.A., in 2013 and 2014 PKN ORLEN issued five series of 4-year floating-rate retail bonds with a total nominal value of PLN 900 million, and one series of 6-year fixed-rate bonds with a nominal value of PLN 100 million under Bond Programme 1. The bonds were rated 'A (pol)' by Fitch Polska S.A. In 2017, the Company redeemed four series of bonds issued under Programme 1, with a total value of PLN 700 million. Another PLN 200 million worth of bonds will be redeemed in April 2018, with the last tranche under Programme 1, of PLN 100 million, scheduled for redemption in April 2020.

Under an agreement with Powszechna Kasa Oszczędności Bank Polski S.A. – Oddział Dom Maklerski PKO BP of Warsaw, in 2017 PKN ORLEN issued two series of 4-year and 5-year floating-rate bonds under Public Bond Programme 2, with a total nominal value of PLN 400 million. The programme was rated 'A (pol)' by Fitch Polska S.A.

The bonds issued under the public bond programmes have been listed on the Warsaw Stock Exchange and are traded on a regulated market (Catalyst).

In 2017, the ORLEN Group also used funds raised by ORLEN Capital in two eurobond issues guaranteed by PKN ORLEN. The value of the first issue, carried out in 2014 and maturing on June 30th 2021, was EUR 500 million. The value of the other issue, conducted in 2016 and maturing on June 7th 2023, was EUR 750 million. The eurobonds were rated 'BBB-' by Fitch Ratings Ltd. and 'Baa2' by Moody's Investors Service. Moody's raised the rating from

'Baa3' to 'Baa2' in April 2017 following an upward revision of PKN ORLEN's rating. Both eurobond issues are listed on the Irish Stock Exchange. In July 2016, the second series of eurobonds was listed on the Catalyst platform operated by the Warsaw Stock Exchange.

Funds raised by ORLEN Capital from the eurobonds issues were loaned to PKN ORLEN. The nominal value of the eurobonds outstanding at the end of 2017 was EUR 1,250 million (PLN 5,214 million, translated at the mid rate quoted by the National Bank of Poland for EUR/PLN on December 31st 2017).

For additional information on bond issues, see section 9.2.7 of the Consolidated Financial Statements for 2017.

4.3.4. Borrowings granted and received

Listed below are loan agreements between the Parent (lender) and ORLEN Group companies (borrowers) which were in effect at the end of 2017:

– CAD 100 million loan advanced to ORLEN Upstream Canada in January 2016. In December 2016, the loan amount was increased to CAD 276.5 million (PLN 768 million at the mid rate quoted by the National Bank of Poland for CAD/PLN on December 31st 2017), with the repayment date set for December 31st 2017. In December 2017, the repayment date was changed to December 31st 2018, with an option to extend the term of the loan for another year. The outstanding balance as at December 31st 2017 was CAD 255 million (PLN 708 million at the mid rate quoted by the National Bank of Poland for CAD/PLN on December 31st 2017);

– PLN 50 million long-term investment loan advanced to IKS Solino in June 2014. The loan will be repaid in instalments, with the final maturity repayment date set for December 31st 2024. As at December 31st 2017, the outstanding balance of the loans was PLN 39 million.

Listed below are loan agreements between the Parent (borrower) and ORLEN Group companies (lenders) which were in effect at the end of 2017:

– EUR 740 million long-term loan agreement with ORLEN Capital of June 2016, with the repayment date set for June 7th 2023. The outstanding balance as at December 31st 2017 was EUR 740 million (PLN 3,081 million at the mid rate quoted by the National Bank of Poland for EUR/PLN on December 31st 2017) – see section 4.3.3;

– EUR 496 million long-term loan agreement with ORLEN Capital of June 2014, with the repayment date set for June 30th 2021. The outstanding balance as at December 31st 2017 was EUR 496 million (PLN 2,067 million at the mid rate quoted by the National Bank of Poland for EUR/PLN on December 31st 2017) – see section 4.3.3;

– USD 15 million short-term loan agreement with ORLEN Insurance of November 2013. The repayment date was set for November 21st 2018, with an option to extend the loan term for another year. As at December 31st 2017, the outstanding balance was USD 10 million (PLN 35 million at the mid rate quoted by the National Bank of Poland for USD/PLN on December 31st 2017).

Intra-Group loans and borrowing are eliminated in the course of standard consolidation procedures.

4.3.5. Sureties, guarantees and other contingent liabilities

As at December 31st 2017, the ORLEN Group carried off-balance-sheet liabilities under guarantees and sureties totalling PLN 13,143 million, a decrease of PLN (1,848) million on the end of 2016. In 2017, the amount included:

– guarantees and sureties provided to subsidiaries in favour of third parties, for a total amount of PLN 10,216 million, mainly to secure payment by ORLEN Capital of its future liabilities under two eurobond issues (see section 4.3.4), and timely payment of liabilities by the subsidiaries,

– excise bonds and excise duty on products and goods undergoing the suspended excise collection procedure, of PLN 2,577 million,

– guarantees in respect of liabilities towards third parties issued in the course of day-to-day operations, including civil-law performance guarantees and public-law guarantees required under generally applicable laws to ensure the proper conduct of licensed activities in the liquid fuels sector and the payment of tax and customs liabilities arising from such activities, for a total amount of PLN 350 million.

For more information on guarantees and sureties, see section 9.3.5.4 of the Consolidated Financial Statements for 2017.

For description of contingent liabilities, see section 9.4.4 of the Consolidated Financial Statements for 2017.

4.3.6. Financial instruments

The ORLEN Group uses the following financial instruments to hedge its cash flows:

– cash flows from operating activities – non-deliverable currency forwards,

– cash flows relating to sales of products and procurement of crude oil by the ORLEN Group – commodity swaps,

– cash flows resulting from periodic increase in operating inventories – commodity swaps,

– cash flows relating to interest payments on external financing – interest rate swaps (IRS) and cross-currency interest rate swaps (CIRS),

– cash flows relating to capital expenditure projects – currency forwards,

– cash flows relating to payments in foreign currencies – spot or forward currency contracts,
– cash flows relating to the obligation to account for CO_2 emissions – spot or forward contracts to purchase CO_2 certificates.

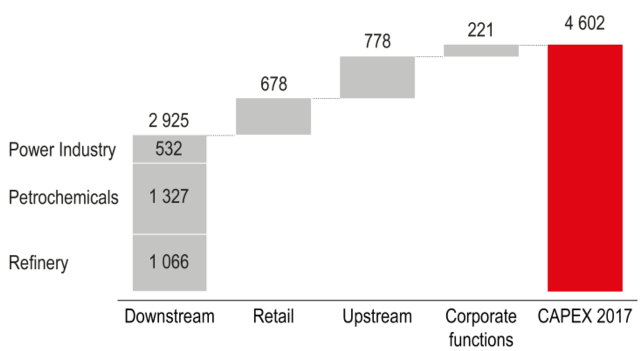
For more information on financial instruments, see section 9.3 of the Consolidated Financial Statements for 2017.

4.3.7. Ratings

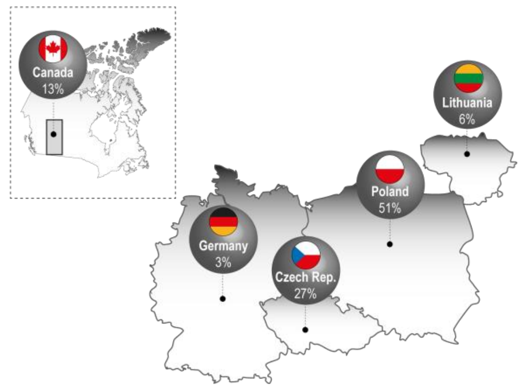
In April 2017, Moody's Investor Services raised PKN ORLEN's rating from Baa3 to Baa2 to reflect a significant improvement in the financial condition of the ORLEN Group, led by consistent efforts to reduce debt, diversify funding sources and keep financial ratios at a safe level. Fitch Ratings Ltd. affirmed PKN ORLEN's long-term credit rating at BBB- with a stable outlook.
For description of the ratings assigned to bonds and notes issued by the ORLEN Group, see section 4.3.3.

4.4. REALISATION OF INVESTMENT PLANS

DIAGRAM 52. Capital expenditures (CAPEX) [PLN million].



SCHEME 11. Capital expenditures by operating markets [%].



Major investments projects carried out in 2017 included:

Downstream

- Construction of CCGT units with related infrastructure in Włocławek and Płock,
- Construction of a polyethylene unit (PE3) in Litvinov,
- Construction of a metathesis unit in Płock.

Retail

- 89 new service stations opened (39 in Poland, 11 in Germany, and 39 in the Czech Republic),
- 55 service stations upgraded and rebranded (23 in Poland and 32 in the Czech Republic),
- 102 new Stop Cafe and O! SHOP outlets opened

Upstream

- Canada – PLN 609 million / Poland – PLN 169 million.

Assessment of project implementation

The ORLEN Group manages the structure of its capital expenditure in response to market situation, and focuses on the most effective investment projects. For description of key projects planned for the following years, see section 4.5.

The ORLEN Group's financial condition is stable, with cash flows and available financing sources sufficient to implement the investment plans.
For information on the level of selected financial ratios, confirming feasibility of the investment plans, see section 4.2.4.

4.5. DEVELOPMENT PROSPECTS

Market prospects in 2018

Expected macroeconomic environment	• **GDP forecast for 2018** – Poland 3.6%, the Czech Republic 3.4%, Germany 2.1%, Lithuania 2.9%. • **Brent crude price** – crude oil prices are expected to grow relative to the average price in 2017 following the extension, until the end of 2018, of the OPEC members' agreement to cut their oil output by 1.8 million bbl/d. However, any rapid increase in prices of crude oil is likely to drive up oil production in the US. Stronger demand for oil is expected to absorb an increase in oil supply from other regions.

- **Model downstream margin** – the margin is forecast to decline compared with the 2017 average as a result of lower refining and petrochemical margins, mainly due to a year-on-year increase in crude oil prices. The decline of downstream margin may decelerate on the expected increase in consumption of fuel and petrochemical products driven by further growth of the global economy.

Projected market trends

- **Forecast stabilisation of demand** for gasoline and slightly higher demand for diesel oil in Central and Eastern Europe (Germany, the Czech Republic, Lithuania). In Poland, demand for both gasoline and diesel oil continues on the upward trend.

Legislative changes

- **Grey market for fuels** – the monitoring system will be extended to cover rail freight transport.
- **Emergency stocks** – maintaining emergency stocks in Poland at the equivalent of 53 days.
- **NIT** – as from January 1st 2018 at least 50% of the NIT is to be achieved by the mandatory blending of bio-components on a quarterly basis (in 2017: on an annual basis). In 2018, PKN ORLEN will be able to reduce the blending ratio from 7.5% to 5.48%.
- **Restricted Sunday trade** – as from March 1st 2018, shopping centres in Poland will be open on the first and last Sunday of the month. The Sunday trade ban does not apply to petrol stations.

Investment activities of the ORLEN Group

- **Main development investments in 2018:**

Downstream

- Construction of a polyethylene unit (PE3) in Litvinov,
- Construction of Metathesis unit in Płock
- Construction of PPF Splitter unit in Lithuania
- Construction of Visbreaker unit in Płock
- Expansion of fertilizer production capacity in Anwil

Retail

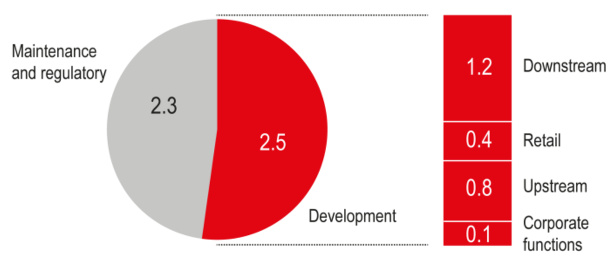
- Expansion of the service station chain (40 new CODO stations)
- Development of the Stop Cafe 2.0 food service format (more than 200 new catering outlets)
- Launch of new services and products

Upstream

- Continuation of exploration and extraction works in Poland and Canada
- Capital expenditure: Canada – PLN 600 million / Poland – PLN 200 million

- **CAPEX 2018**

DIAGRAM 53. The level of capital expenditures by segments in 2018 [PLN billion].



Scheduled maintenance shutdowns

- **Maintenance shutdowns of production units at the ORLEN Group in 2018:**
  - **PKN ORLEN: Catalytic Cracking Unit / Alkylation Unit, Petroleum Tar Hydrodesulphurisation Unit, Olefins Unit, PX/PTA Complex.**
  - **ORLEN Lietuva Group:** 2nd phase of the refinery's regular maintenance shutdown.
  - **Unipetrol Group**: maintenance shutdown at the Kralupy refinery, shutdown of the Steam Cracker combined with inspection of the polymer units in Litvínov, shutdown of the PVC and Caprolactam units at Spolana.
  - **Anwil**: PVC production line.
  - **BOP**: Polyethylene/Polypropylene production lines.

5. PKN ORLEN – PARENT OF THE ORLEN GROUP

Sections of the Directors' Report on PKN ORLEN's operations presented further in this Directors' Report on the ORLEN Group's were prepared in accordance with Par. 83.7 of the Minister of Finance's Regulation on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, dated February 19th 2009.

5.1. PKN ORLEN'S EQUITY AND SHAREHOLDING STRUCTURE

DIAGRAM 54. Shareholding structure in PKN ORLEN. 1)

1) Based on disclosures provided for the purpose of the PKN ORLEN Extraordinary General Meeting of February 2nd 2018.

- The share capital of PKN ORLEN is divided into 427,709,061 ordinary bearer shares with a par value of PLN 1.25 per share. PKN ORLEN shares are freely transferable.
- The PKN ORLEN Management Board has no knowledge of any agreements which would results in future changes of holdings of Company shares.
- In 2017, the ORLEN Group did not operate any employee stock option scheme.
- In 2017, PKN ORLEN did not buy back its own shares.
- As at December 31st 2017, members of the PKN ORLEN Management Board did not hold any shares of the Company.
- As at December 31st 2017, none of the members of the Parent's Supervisory Board held any PKN ORLEN shares.

5.2. PKN ORLEN ON THE STOCK EXCHANGE

PKN ORLEN shares are traded on the main market of the Warsaw Stock Exchange in the continuous trading system and are included in the WIG, WIG20, WIG30, WIG-Poland general market indices and in the WIG-FUELS industry index.
In 2017, the blue-chip WIG20 index and the all-cap WIG index increased by, respectively, 26.4% and 23.2% year on year. In this period, the price of PKN ORLEN shares increased by 24.3%. Total return on PKN ORLEN shares (price appreciation + dividend) was 27.7%. In 2017, 212,359,184 PKN ORLEN shares were traded on the main market, a decrease of 20.2% on 2016. In October 2017, the price of PKN ORLEN shares reached an all-time high of PLN 134.00 per share, and the Company's market capitalisation exceeded PLN 57.3 billion, thus making PKN ORLEN the most valuable Polish company traded on the main market of the Warsaw Stock Exchange.

TABLE 28. Key data regarding PKN ORLEN's share.

Key data	Unit	2017	2016	2014	change %
1	2	3	4	5	6=(3-4)/4
Net profit attributable to equity owners of the Parent Company	PLN mn	6 655	5 261	2 837	26,5%
Highest share price 1)	PLN	134.00	87.17	85.25	53.7%
Lowest share price 1)	PLN	81.18	57.64	47.75	40.8%
Share price at the year-end 1)	PLN	106.00	85.30	67.85	24.3%
Average price in the period 1)	PLN	109.37	68.56	65.84	59.5%
P/E2) ratio average		7.0	5.6	9.9	25.0%
P/E2) ratio at the end of the year		6.8	6.9	10.2	-1.4%
Number of shares	Item	427 709 061	427 709 061	427 709 061	0.0%
Capitalisation at the year end	PLN mn	45 337	36 484	29 020	24.3%
Average daily trading value	PLN mn	91	73	86	24.7%
Average daily trading volume	Item	849 437	1 059 622	1 288 482	-19.8%

1) Share price according to a closing share price.
2) P/E – stock market price (P) / value of net profit per one share (earnings per share – EPS).

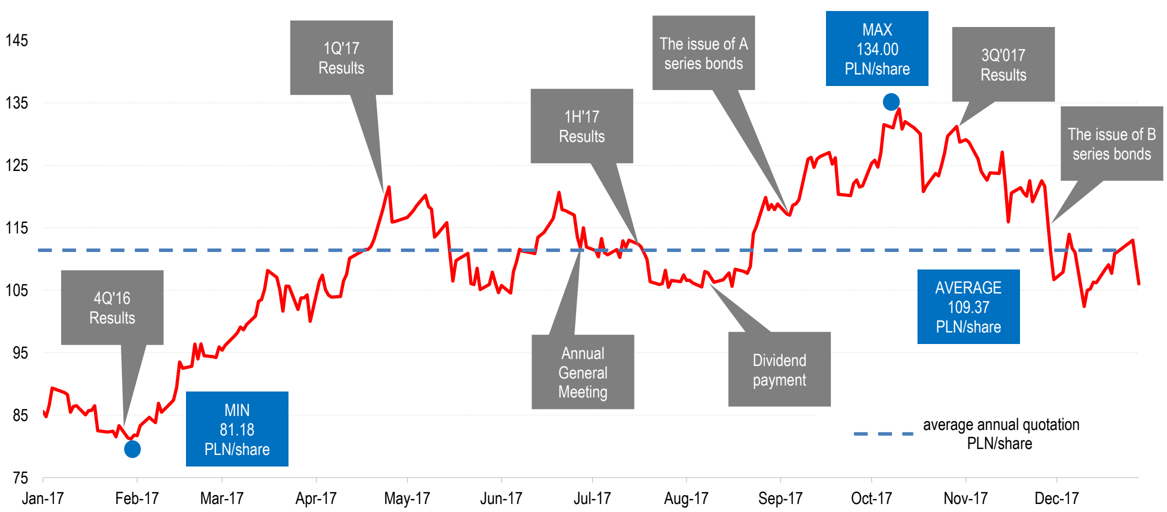
TABLE 29. The list of financial institutions which issue recommendations and reports relating to shares of PKN ORLEN.[1]

Seated in Poland		Seated outside of Poland	
BDM	Haitong Bank	Bank of America Merrill Lynch	Morgan Stanley
BOŚ	mBank	Concorde Securities	Raiffeisen
BZ WBK	PKOBP	Erste	Renaissance Capital
Citi	Vestor	HSBC	Societe Generale
Trigon		Wood	UBS

1) As at the date of 28 February 2018.

For current recommendations on the Company shares, see the corporate website at http://www.orlen.pl.

DIAGRAM 55. Key events on the background of quotations PKN ORLEN in 2017.

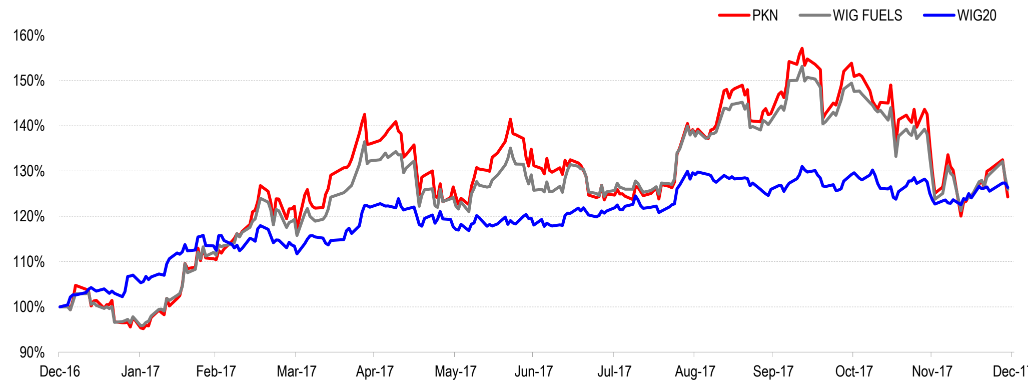


Source: Own preparation based on the Warsaw Stock Exchange

DIAGRAM 56. Quotations of PKN ORLEN on WSE in 1999 – 2017.

Source: Own preparation based on the Warsaw Stock Exchange

DIAGRAM 57. Quotations of PKN ORLEN, WIG20 and WIG-FUELS on WSE in 2017. 1)



1) Percentage change of quotations of PKN ORLEN, WIG 20 in relation to the listing of 30 December 2016.
Source: Own preparation based on the Warsaw Stock Exchange.

5.3. DIVIDEND POLICY

For the past five years, the Company has implemented a dividend policy factoring in its financial ratios, overall financial condition and expansion plans.

The recommendation of profit distribution for PKN ORLEN for 2017 is presented in section 9.2.8.6. of Consolidated Financial Statement for 2017.

5.4. OPERATING ACTIVITY

Stable growth of the Polish economy, supported by the sound condition of the labour market, translated into higher fuel consumption, which in turn had a positive effect on PKN ORLEN's sales. For the Energy Market Agency data on fuel consumption in Poland, see section 3.2.1.4.

In 2017, the total sales volume (after elimination of intra-Group crude sales) was 17,723 thousand tonnes, an increase of 9.9% y/y.

TABLE 30. Sales of PKN ORLEN in the Downstream and the Retail segments (in PLN million/thousands of tonnes).

Sales	2017		2016		2015		change %	
	Value	Volume	Value	Volume	Value	Value		
1	2	3	4	5	6	7	8=(2-4)/4	9=(3-5)/5
Downstream Segment	**53 411**	**12 312**	**38 859**	**11 064**	**44 986**	**11 145**	**37.4%**	**11.3%**
Light distillates 1)	3 378	1 525	3 112	1 595	3 457	1 516	8.5%	(4.4%)
Medium distillates 2)	14 048	6 416	10 242	5 294	10 957	5 020	37.2%	21.2%
Heavy fractions 3)	2 708	2 278	1 803	2 077	2 426	2 320	50.2%	9.7%
Monomers 4)	2 898	843	2 390	789	3 203	944	21.3%	6.8%
Aromas 5)	562	182	533	212	552	214	5.4%	(14.2%)
PTA	1 398	523	1 571	605	1 532	587	(11.0%)	(13.6%)
Other 6)	28 419	545	19 208	492	22 859	544	48.0%	10.8%
Retail Segment	**16 530**	**5 411**	**14 712**	**5 057**	**15 420**	**4 796**	**12.4%**	**7.0%**
Light distillates 1)	5 450	1 932	4 699	1 810	4 795	1 687	16.0%	6.7%
Medium distillates 2)	8 709	3 479	7 714	3 247	8 503	3 109	12.9%	7.1%
Other 7)	2 371	0	2 299	0	2 122	0	3.1%	-
Total	**69 941**	**17 723**	**53 571**	**16 121**	**60 406**	**15 941**	**30.6%**	**9.9%**

1) Gasoline, LPG.
2) Diesel oil, light heating oil, jet fuel, in retail segment diesel oil.
3) Heavy heating oil, bitumen, oils.
4) Ethylene, propylene.
5) Benzene, toluene, paraxylene, orthoxylene.
6) Other (in value terms) – comprises revenues from the sale of crude oil to the ORLEN Group companies in the amount of PLN 26 182 million in 2017, PLN 17 968 million in 2016 and PLN 21 084 million in 2015. Also includes revenues from the sale of segment services. Other volume – consists mainly of acetone, butadiene, phenol, glycols, ethylene oxide and sulphur. Other volume doesn't include sales of crude oil to the ORLEN Group companies in the amount of 17 806 thousand tonnes in 2017, 14 845 thousand tonnes in 2016 and 14 825 thousand tonnes in 2015.
7) Other (in value terms) - includes revenues from sales of non-fuel goods and services.

In 2017, sales of PKN ORLEN's **Downstream segment** (after elimination of intra-Group sales of crude oil) increased by 11.3% y/y, to 12,312 thousand tonnes. The highest increase was reported for middle distillates, with volumes rising by 21.2% y/y, mainly on stronger sales of Jet A-1 aviation fuel and diesel oil by, respectively, 30.4% and 22.2% y/y. The rise in diesel oil consumption in 2016 and 2017 caused a fundamental change in the balance of the Polish fuel market, leading to a significant undersupply of diesel oil and the need for its imports. PKN ORLEN and other Group companies tackled new market challenges through closer cooperation in the manufacturing and through alignment of product flows. The Group would not have been able to satisfy the significantly higher demand without an appropriate import policy.
Sales of heavy fractions increased by 9.7% y/y on higher volumes of heavy fuel oil.
Sales of light distillates declined by (4.4)% y/y on lower sales volumes of gasoline and LPG, which declined by (3.3)% and (11.2)% y/y, respectively.

A 6.8% year-on-year increase in sales of monomers following completion of the maintenance shutdown in 2016, and a (13.6)% decrease in sales of PTA as a result of reduced production capacities of the PTA unit prior to the maintenance shutdown scheduled for 2018.

Launch of an extensive programme of service station upgrades, addition to the chain of service stations with a large sales volume potential, and the closing down of unprofitable stations had a positive effect on fuel sales volumes in the **Retail segment** in 2017, which increased by 7.0% y/y, to 5,411 thousand tonnes. Sales of all fuels increased, largely driven by higher fuel consumption in Poland. Particularly noteworthy were a 3% y/y increase in sales of premium fuels (VERVA) and an increase in fleet sales.

For detailed description of sales trend and efficiency measures taken in the Retail segment in Poland, see section 3.2.2.4.

For description of **the supply sources** for the Downstream and Retail segments, see sections 3.2.1.5. and 3.2.2.5.

In 2017, 2016, and 2015, the share of the Company's revenue from sales to three customers in the Downstream segment exceeded **10% of total revenue,** and came in at PLN 41,917 million, PLN 29,044 million, and PLN 31,901 million, respectively. The customers were PKN ORLEN's related parties, and the transactions involved mainly sale and purchase of refining and petrochemical products and services.

In 2017 and 2016, PKN ORLEN **did not conclude any transactions** with related parties other than **on an arms' length basis**. For information on the Company's related-party transactions, see section 7.4.7.2. of PKN ORLEN Financial Statements for 2017. For information on transactions between PKN ORLEN and related parties of the State Treasury, see section 7.4.7.3.

Summary of significant transactions (over PLN 100 million) in 2017 between the **Parent and its related parties** is presented in the table below.

TABLE 31. Significant transactions in the ORLEN Group [PLN million].

Counterparty	Sales of Parent Company	Purchases of Parent Company
ORLEN Paliwa Sp. z o.o.	15 616	1 120
ORLEN Lietuva AB	14 340	1 971
RPA s.r.o.	11 961	895
BOP Sp. z o.o.	2 564	23
ORLEN Asfalt Sp. z o.o.	719	0
Anwi S.A.	644	76
ORLEN Oil Sp. z o.o.	174	89
ORLEN Południe S.A.	121	1 100
ORLEN Koltrans Sp. z o.o.	7	156
Orlen Serwis S.A.	5	126
ORLEN Deutschland GmbH	4	155

5.5. FINANCIAL RESULTS

For detailed information on the policies applied by PKN ORLEN S.A in the preparation of full-year financial statements, see section 5.2. of the Financial Statements of PKN ORLEN for 2017.

5.5.1. Overview of key economic and financial data, and discussion of the factors with a significant impact on the net profit.

TABLE 32. Selected data of profit or loss and other comprehensive income.

Item, PLN million	2017	2016	2015	change	change %
1	2	3	4	5=(2-3)	6=(2-3)/3
Sales revenues	70 012	53 633	60 466	16 379	30.5%
Profit from operations under LIFO increased by amortisation and depreciation (EBITDA LIFO)	**5 327**	**4 846**	**4 376**	**481**	**9.9%**
Profit from operations increased by amortisation and depreciations (EBITDA)	6 028	5 011	2 869	1 017	20.3%
Profit from operations (EBIT)	**4 787**	**3 869**	**1 769**	**918**	**23.7%**
Net financial revenues and expenses	2 260	2 200	(461)	60	2.7%
Profit before tax	**7 047**	**6 069**	**1 308**	**978**	**16.1%**
Income tax	(945)	(705)	(260)	(240)	(34.0%)
Net profit	**6 102**	**5 364**	**1 048**	**738**	**13.8%**

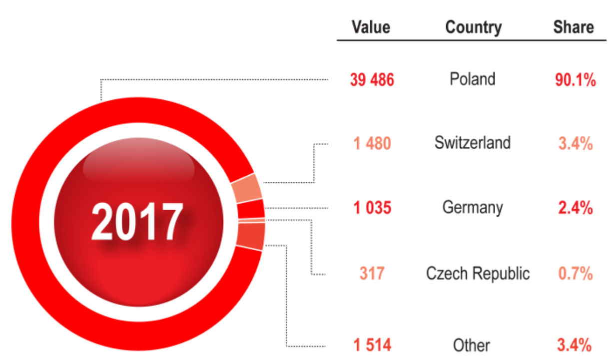
For the complete separate statement of profit or loss and other comprehensive income, see section 1 of the Financial Statements of PKN ORLEN for 2017.

Revenue

In 2017, the total sales volume (net of intra-Group sales of crude oil) increased by 9.9% y/y, to 17,723 thousand tonnes.
PKN ORLEN' revenue was PLN 70,012 million, an increase of 30.5% y/y achieved largely on higher oil prices and, consequently, higher prices of PKN ORLEN products.

- Revenue of the **Downstream** segment (net of intra-Group sales of crude oil) increased up 30.3% (y/y), mainly as a result of higher market prices of products (fuel prices) and a year-on-year increase in petrochemical and fuel sales volumes due to the impact of the scheduled maintenance shutdown on the 2016 data. Higher fuel sales reflect the continued favourable market conditions, including the effects of legislation enacted in August 2016 to curb the grey fuel market in Poland (fuel consumption).
- Revenue of the **Retail** segment increased by 12.4% y/y, primarily on account of a 7.0% y/y increase in sales volumes and the effect of higher crude prices on prices of fuels at the Company's service stations.
- Revenue of the **Corporate Functions** increased by 16.1% y/y.

DIAGRAM 58. PKN ORLEN revenues by countries [1)]



1) Without crude oil sales.

The remaining sales are attributable to customers from the United Kingdom, Ukraine, the Baltic States, Finland and Denmark.

For detailed information on changes in sales volumes in each segment, see section 5.4. For revenue data, see also sections 7.1.1 and 7.1.2 of the Financial Statements of PKN ORLEN for 2017.

Operating costs by nature and functions

TABLE 33. Cost of goods sold in PKN ORLEN.

Item, PLN million	2017	2016	2015	structure 2017	structure 2016	structure 2015	change %
1	2	3	4	5	6	7	8=(2-3)/3
Materials and energy	(26 223)	(21 181)	(28 226)	39.6%	43.0%	48.4%	(23.8%)
Cost of merchandise and raw materials sold	(34 251)	(22 826)	(24 682)	51.8%	46.3%	42.3%	(50.1%)
External services	(2 478)	(2 243)	(2 439)	3.7%	4.6%	4.2%	(10.5%)
Employee benefits	(780)	(732)	(706)	1.2%	1.5%	1.2%	(6.6%)
Depreciation and amortisation	(1 241)	(1 142)	(1 100)	1.9%	2.3%	1.9%	(8.7%)
Taxes and charges	(971)	(919)	(929)	1.5%	1.9%	1.6%	(5.7%)
Other	(235)	(252)	(262)	0.3%	0.5%	0.4%	6.7%
Cost by nature	**(66 179)**	**(49 295)**	**(58 344)**	**100.0%**	**100.0%**	**100.0%**	**(34.3%)**
Change in inventories	500	(608)	(482)				-
Cost of products and services for own use	227	190	88				19.5%
Operating cost	**(65 452)**	**(49 713)**	**(58 738)**				**(31.7%)**
Selling costs	2 547	2 310	2 306				10.3%
General and administrative costs	799	739	867				8.1%
Cost of goods sold	**(62 106)**	**(46 664)**	**(55 565)**				**(33.1%)**

The largest item in **operating expenses by nature** was raw materials and consumables used, related mostly to consumption of crude oil in the manufacturing processes. A 23.8% y/y increase in this cost item was mostly attributable to higher prices of crude oil on global markets, which increased by approximately 10.5 USD/bbl.

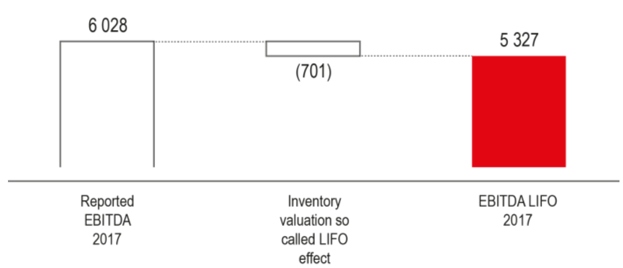
In 2017, the share of feedstock in the overall cost structure declined (3.4) pp y/y, while cost of merchandise purchased increased by 5.5 pp y/y. The above changes resulted mainly from a number of processing units being shut down for maintenance in 2017, which reduced the Company's production capacities, as well as from continued favourable market conditions caused by the successful curbing of the grey market which led to increased commodity trading volumes, including imports.

An increase in **distribution costs** was mainly driven by higher logistics costs due to higher wholesale and retail sales volumes.

Administrative expenses increased primarily as a result of strong wage pressures from the labour market, revaluation of actuarial provisions, and increased headcount in the Company's fastest growing business units.

Profit from operations according to inventory valuation under LIFO method [1] increased by depreciation & amortisation (EBITDA LIFO)

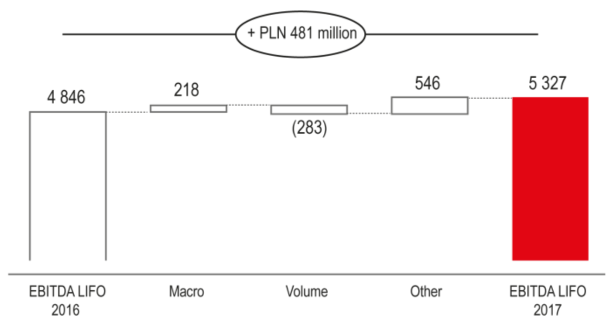
DIAGRAM 59. Reported EBITDA and EBITDA LIFO [PLN million].



- In 2017, **PKN ORLEN's EBITDA LIFO** was PLN 5,327 million.
- The positive impact of oil price movements on inventory valuation in 2017 was PLN 701 million.
- As a result, the Company's **EBITDA** for 2017 came in at **PLN 6,028 million**

1) *The definitions of LIFO method of inventories valuation is presented in „Glossary of selected financial and industry concepts".*

DIAGRAM 60. Factors affecting change of EBITDA LIFO (y/y) [PLN million].



PKN ORLEN's EBITDA LIFO improved by PLN 481 million y/y.

- The positive effect of macroeconomic factors, including in particular improved margins on refining products, olefins, PTA and aromatics, partly offset by the negative impact of the Urals/Brent differential and appreciation of the Polish złoty, was PLN 218 million y/y.
- The negative volume-related effect of PLN (283) million y/y, recorded despite higher y/y sales volumes, was mainly attributable to maintenance shutdowns leading to lower sales of Company-manufactured high-margin fuels and petrochemicals, combined with increased commodity trading volumes, including imports.
- The positive impact of other factors was PLN 546 million y/y, and included mainly: the positive effect of a change in net other income/(expenses) of PLN 278 million y/y resulting from successful collection of fines of PLN 97 million for failure to duly perform the contract for a CCGT plant in Włocławek as well as from lower y/y provisions for environmental and business risks, and the positive effect of higher fuel and non-fuel margins in the Retail segment.

Net finance income/(costs) and net profit

In 2017, net finance income was PLN 2,260 million and mainly included the following items:

- dividends totalling PLN 1,599 million, received chiefly from ORLEN Lietuva, Basell ORLEN Polyolefins and Unipetrol,
- PLN 632 million exchange gains on foreign currency loans and other items,
- PLN 312 million in net reversal of impairment losses on ORLEN Lietuva shares,
- net interest of PLN (151) million,
- net settlement and valuation of financial instruments of PLN (125) million.

After PLN (945) million taxes, PKN ORLEN posted a net profit of PLN 6,102 million for 2017, an increase of PLN 738 million y/y.

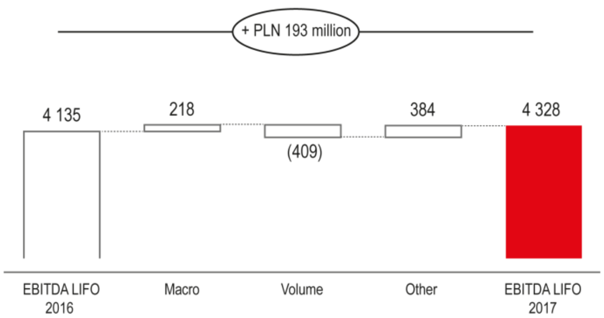
PKN ORLEN's results by segments

Downstream Segment

TABLE 34. Basic financial data of the Downstream segment.

Downstream Segment, PLN million	2017	2016	2015	change	change %
1	2	3	4	5=(2-3)	6=(2-3)/3
Segment revenues, including:	64 522	48 046	55 759	16 476	34.3%
Sales revenues from external customers	53 410	38 859	44 986	14 551	37.4%
Sales revenues from transactions with other segments	11 112	9 187	10 773	1 925	21.0%
Segment expenses	(60 649)	(44 642)	(54 330)	(16 007)	(35.9%)
Other operating income/expenses, net	269	85	51	184	216.5%
Profit from operations under LIFO increased by depreciation and amortisation (EBITDA LIFO)	**4 328**	**4 135**	**3 787**	**193**	**4.7%**
Profit from operations increased by depreciation and amortisation (EBITDA)	5 029	4 300	2 280	729	17.0%
Profit from operations under LIFO (EBIT LIFO)	**3 441**	**3 324**	**2 987**	**117**	**3.5%**
Profit from operations (EBIT)	4 142	3 489	1 480	653	18.7%
CAPEX	1 352	1 595	1 462	(243)	(15.2%)

DIAGRAM 61. Downstream Segment - factors affecting change of EBITDA LIFO (y/y) [PLN million].



In 2017, the Downstream segment posted EBITDA LIFO of PLN 4,328 million and was higher by PLN 193 million y/y.

- The positive impact of macroeconomic factors, including in particular improved margins on refining products, olefins, PTA and aromatics, partly offset by the negative impact of the Urals/Brent differential and appreciation of the Polish złoty, was **PLN 218 million y/y.**
- The negative volume-related effect of **PLN (409) million y/y**, recorded despite higher total sales volumes, was mainly attributable to maintenance shutdowns leading to lower sales of Company-manufactured high-margin fuels and petrochemicals.
- The positive impact of other factors was **PLN 384 million y/y** and included mainly: the positive effect of a change in net other income/(expenses) of PLN 184 million (y/y) resulting from successful collection of fines of PLN 97 million for failure to duly perform the contract for CCGT plant in Włocławek and from income earned on energy certificates as well as the positive effect of higher margins on sales of refining products.
- The positive effect of changes in crude oil prices on the valuation of inventories was PLN 701 million, raising the segment's EBITDA to PLN 5,029 million in 2017.

The segment's capital expenditure was PLN 1,352 million, a decrease of PLN (243) million y/y.

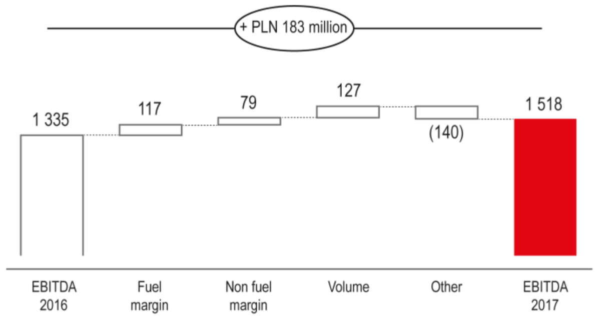
PKN ORLEN complies with the requirements of the Polish Energy Law applicable to licensing (including electricity and heat generation licences), submission of price tariffs (for heat generation, transmission and distribution, and for electricity distribution) for approval by the President of the Energy Regulatory Office, cogeneration subsidies, payment of relevant public dues and charges in connection with electricity sales and industrial electricity consumption, reporting, and billing of customers.

Retail Segment

TABLE 35. Basic financial data for the Retail segment.

Retail Segment, PLN million	2017	2016	2015	change	change %
1	2	3	4	5=(2-3)	6=(2-3)/3
Segment revenues, including:	16 530	14 712	15 420	1 818	12.4%
Sales revenues from external customers	16 530	14 712	15 420	1 818	12.4%
Sales revenues from transactions with other segments	0	0	0	0	-
Segment expenses	(15 251)	(13 589)	(14 476)	(1 662)	(12.2%)
Other operating income/expenses, net	(26)	(37)	(24)	11	29.7%
Profit from operations increased by depreciation and amortisation (EBITDA)	**1 518**	**1 335**	**1 151**	**183**	**13.7%**
Profit from operations (EBIT)	**1 253**	**1 086**	**920**	**167**	**15.4%**
CAPEX	400	276	282	124	44.9%

DIAGRAM 62. Retail Segment – factors impact (y/y) [PLN million].



The Retail segment posted EBITDA of PLN 1,518 million and was higher by PLN 183 million y/y.

- The positive effect of higher retail sales volumes by 7.0% y/y in the amount of PLN 127 million y/y.
- The positive effect of higher fuel margins and improved non-fuel sales y/y in the total amount of PLN 196 million y/y.
- The other factors in the amount of PLN (140) million y/y, include mainly higher operating costs of service stations incurred on higher sales volumes.

The segment's capital expenditure was PLN 400 million, an increase of PLN 124 million y/y.

Upstream

TABLE 36. Basic financial data for the Upstream segment.

Upstream segment, PLN million	2017	2016	2015	change	change %
1	2	3	4	5=(2-3)	6=(2-3)/3
Segment revenues, including:	0	0	0	0	-
Sales revenues from external customers	0	0	0	0	-
Sales revenues from transactions with other segments	0	0	0	0	-
Segment expenses	0	(11)	(37)	11	-
Other operating income/expenses, net	1	(3)	0	4	-
Profit/(Loss) from operations increased by depreciation and amortisation (EBITDA)	**1**	**(14)**	**(37)**	**15**	**-**
Profit/(Loss) from operations (EBIT)	**1**	**(14)**	**(37)**	**15**	**-**
CAPEX	0	0	0	0	-

Since 2016, the main vehicle for PKN ORLEN's upstream activities has been the ORLEN Upstream Group, which operates through its Poland- and Canada-based subsidiaries.

Accordingly, the segment's profit, which in 2017 amounted to **PLN 1 million**, does not have a material impact on EBITDA.

Corporate Functions

TABLE 37. Basic financial data for Corporate Functions.

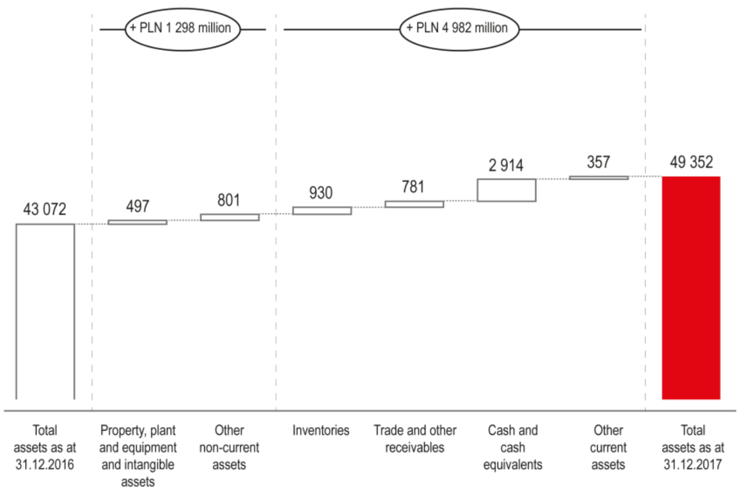
Corporate Functions segment, PLN million	2017	2016	2015	change	change %
1	2	3	4	5=(2-3)	6=(2-3)/3
Segment revenues, including:	162	149	140	13	8.7%
Sales revenues from external customers	72	62	60	10	16.1%
Sales revenues from transactions with other segments	90	87	80	3	3.4%
Segment expenses	(754)	(745)	(748)	(9)	(1.2%)
Other operating income/expenses, net	(17)	(96)	14	79	82.3%
(Loss) from operations increased by depreciation and amortisation (EBITDA)	**(520)**	**(610)**	**(525)**	**90**	**14.8%**
(Loss) from operations (EBIT)	**(609)**	**(692)**	**(594)**	**83**	**12.0%**
CAPEX	159	115	125	44	38.3%

EBITDA reported by Corporate Functions increased by PLN 90 million y/y as a result of positive effect of a change in net other income/(expenses) of PLN 79 million y/y, including mainly a lower year-on-year effect of remeasurement of provisions for environmental and business risks.

The segment's capital expenditure was PLN 159 million (an increase of PLN 44 million y/y) and related mainly to IT projects.

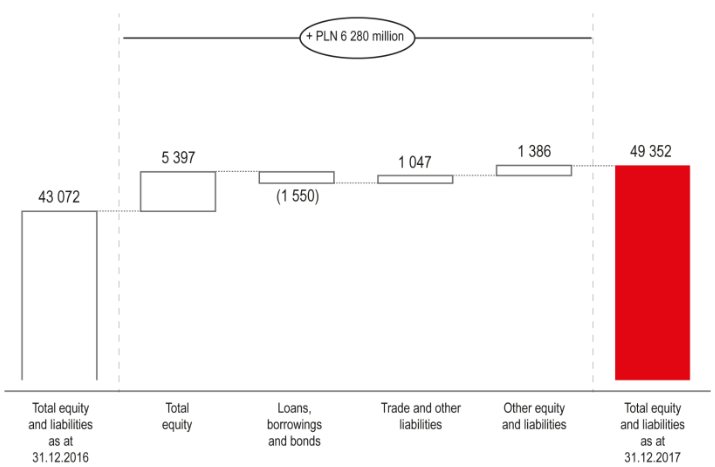
5.5.2. Statement of financial position

DIAGRAM 63. Selected items of financial position – Assets [PLN million].



- The value of property, plant and equipment and intangible assets increased PLN 497 million y/y, to PLN 16,462 million as at December 31st 2017, mainly due to capital expenditure of PLN 1,911 million, depreciation and amortisation of PLN (1,241) million and other items of PLN (173) million, including a decrease in the balance of CO_2 emission allowances by PLN (87) million.
- Other movements in non-current assets included chiefly to PLN 659 million increase y/y in the value of shares in related entities, primarily as a result of net reversal of impairment losses on shares in ORLEN Lietuva of PLN 312 million and a PLN 350 million capital increase at ORLEN Upstream Sp. z o.o.
- Current assets grew PLN 4,982 million y/y, to PLN 22,945 million as at December 31st 2017, chiefly due to PLN 2,914 million increase y/y in cash, PLN 930 million increase y/y in inventories due to higher prices of raw materials and as a consequence of products and PLN 774 million increase y/y in trade and other receivables driven by growing sales revenue.

DIAGRAM 64. Selected items of financial position – Total equity and liabilities [PLN million].



- Equity as at December 31st 2017 was PLN 27,565 million, an increase of PLN 5,397 million relative to the end of 2016, mainly due to:
  - recognition of the 2017 net profit of PLN 6,102 million,
  - PLN 580 million y/y increase in the hedging reserve,
  - payment of dividend from the 2016 profit of PLN (1,283) million.
- As at December 31st 2017, the Group's debt fell PLN (1,550) million y/y, to PLN 7,288 million, due to repayment of borrowings and bonds of PLN (1,229) million and the effect of net exchange gains of PLN (321) million y/y on remeasurement of borrowings denominated in foreign currencies, and valuation of debt.
- Trade and other payables increased as at the end of 2017, mostly due to purchases of crude oil and biocomponents.

For the complete separate statement of financial position, see section 2 of the Financial Statements of PKN ORLEN for 2017.

5.5.3. PKN ORLEN's shares in related parties presented as long-term investments – synthetic financial data of the most significant entities.

Unipetrol Group

Unipetrol a.s. is a parent company of the Unipetrol Group, which was established in 1994 due to restructuring of the Czech oil industry. In 2005 PKN ORLEN acquired 62.99% of Unipetrol a.s. shares.

The core business activity of the Unipetrol Group is crude oil throughput, production and distribution of refining, petrochemical and chemical products.

TABLE 38. Basic operation and financial data of the Unipetrol Group (complaint with the data prepared for the purpose of the ORLEN Group consolidation).

Item	Unit	2017	2016	2015	change	change%
1	2	3	4	5	6=(3-4)	7=(3-4)/4
Sales revenue	PLN million	19 811	14 179	16 669	5 632	39.7%
Profit from operations under LIFO increased by depreciation and amortisation (EBITDA LIFO) before impairment allowances[1]	**PLN million**	**2 394**	**1 652**	**1 764**	**742**	**44.9%**
Profit from operations increased by depreciation and amortisation (EBITDA)	PLN million	2 408	1 939	1 615	469	24.2%
Net profit	PLN million	1 403	1 308	1 072	95	7.3%
Equity capital	PLN million	8 123	6 794	5 571	1 329	19.6%
Total assets	PLN million	12 361	11 215	8 576	1 146	10.2%
Employment as at 31 December	employees	4 720	4 576	3 831	144	3.1%

1) Impairment allowances of non-current assets recognized in 2017, 2016, 2015 amounted to: PLN (12) million, PLN 300 million and PLN (111) million.

ORLEN Lietuva Group

AB ORLEN Lietuva is a parent company of the ORLEN Lietuva Group and it was registered in the Lithuanian Register Court on 24 January 1991 under name of AB Mazeikiu Nafta. On 15 December 2006 PKN ORLEN purchased majority stake of the Company from Yukos International UK B.V., and on 29 April 2009 roku became the sole owner through purchase of stock from the Lithuanian Republic Government. Since 1 September 2009 the Company run its operations under AB ORLEN Lietuva name.

The core business activity of AB ORLEN Lietuva is crude oil throughput, production of refining products and wholesale of the Company's product on local market, land and sea export utilising Klajpedos Nafta terminal.

TABLE 39. Basic operation and financial data of the ORLEN Lietuva Group (complaint with the data prepared for the purpose of the ORLEN Group consolidation).

Item	Unit	2017	2016	2015	change	change%
1	2	3	4	5	6=(3-4)	7=(3-4)/4
Sales revenue	PLN million	17 042	14 279	15 578	2 763	19.4%
Profit from operations under LIFO increased by depreciation and amortisation (EBITDA LIFO) before impairment allowances[1]	**PLN million**	**1 074**	**1 093**	**1 073**	**(19)**	**(1.7%)**
Profit from operations increased by depreciation and amortisation (EBITDA)	PLN million	1 142	1 006	1 102	136	13.5%
Net profit	PLN million	908	944	888	(36)	(3.8%)
Equity capital	PLN million	1 692	1 639	1 206	53	3.2%
Total assets	PLN million	3 994	3 485	2 291	509	14.6%
Employment as at 31 December	employees	1 612	1 582	1 569	30	1.9%

1) Impairment allowances of non-current assets recognized in 2017, 2016, 2015 amounted to: PLN (1) million, PLN (10) million and PLN 1 million.

Anwil S.A.

Anwil S.A. was established on 15 March 1993 due to transformation of the State- owned company into sale-owner, joint-stock company owned by the State Treasury. The share capital of the Company was fully covered by PKN ORLEN as at 31 December 2017.

The business activities of Anwil S.A. include production of nitrogenous fertilisers, plastic materials (polivinyl chloride, granulates, mixtures and PVC sheets), as well as chemicals for processing industry and agriculture (ammonia, chlorine, nitric acid, industrial salt, caustic soda).

TABLE 40. Basic operation and financial data of Anwil S.A. (complaint with the data prepared for the purpose of the ORLEN Group consolidation).

Item	Unit	2017	2016	2015	change	change %
1	2	3	4	5	6=(3-4)	7=(3-4)/4
Sales revenue	PLN million	2 413	2 474	3 385	(61)	(2.5%)
Profit from operations increased by depreciation and amortisation (EBITDA) before impairment allowances[1]	**PLN million**	**502**	**578**	**571**	**(76)**	**(13.1%)**
Profit from operations increased by depreciation and amortisation (EBITDA)	PLN million	502	575	564	(73)	(12.7%)
Net profit	PLN million	325	533	408	(208)	(39.0%)
Equity capital	PLN million	1 157	1 234	1 095	(77)	(6.2%)
Total assets	PLN million	1 619	1 594	1 607	25	1.6%
Employment as at 31 December	employees	1 268	1 244	1 939	24	1.9%

1) Impairment allowances of non-current assets in 2017, 2016 and 2015 amounted to: PLN 0 million, PLN (3) million and PLN (7) million.

ORLEN Deutschland GmbH

ORLEN Deutschland GmbH was established as the result of PKN ORLEN's purchase of fuel stations network in North and East Germany from Deutsche BP AG in December 2002. The share capital of the Company was fully covered by PKN ORLEN as at 31 December 2017. ORLEN Deutschland GmbH carries out mostly activities related to retail sales of fuel activities in Germany.

TABLE 41. Basic operation and financial data of ORLEN Deutschland GmbH (complaint with the data prepared for the purpose of the ORLEN Group consolidation).

Item	Unit	2017	2016	2015	change	change %
1	2	3	4	5	6=(3-4)	7=(3-4)/4
Sales revenue	PLN million	14 850	13 704	13 924	1 146	8.4%
Profit from operations increased by depreciation and amortisation (EBITDA)[1]	**PLN million**	**286**	**295**	**236**	**(9)**	**(3.1%)**
Profit from operations increased by depreciation and amortisation (EBITDA)	PLN million	285	294	236	(9)	(3.1%)
Net profit	PLN million	116	129	95	(13)	(10.1%)
Equity capital	PLN million	603	518	467	85	16.4%
Total assets	PLN million	1 691	1 622	1 423	69	4.3%
Employment as at 31 December	employees	155	146	140	9	6.2%

1) Impairment allowances of non-current assets in 2017 and 2016 amounted to: PLN (1) million and PLN (1) million.

ORLEN Upstream Group

ORLEN Upstream sp. z o.o. is a parent company of the ORLEN Upstream Group. The share capital of the Company is fully covered by PKN ORLEN as at 31 December 2017. The business activities of the Company include: exploration and recognition of hydrocarbons reserves, extraction of crude oil and natural gas.

TABLE 42. Basic operation and financial data of the ORLEN Upstream Group (complaint with the data prepared for the purpose of the ORLEN Group consolidation)

Item	Unit	2017	2016	2015	change	change%
1	2	3	4	5	6=(3-4)	7=(3-4)/4
Sales revenue	PLN million	526	460	253	66	14.3%
Profit from operations under LIFO increased by depreciation and amortisation (EBITDA LIFO) before impairment allowances[1]	**PLN million**	**294**	**270**	**79**	**24**	**8.9%**
Profit/(Loss) from operations increased by depreciation and amortisation (EBITDA)	PLN million	154	197	(773)	(43)	(21.8%)
Net (loss)	PLN million	(30)	(189)	(802)	159	84.1%
Equity capital	PLN million	2 800	2 768	2 577	32	1.2%
Total assets	PLN million	3 949	3 946	3 745	3	0.1%
Employment as at 31 December	employees	148	146	126	2	1.4%

1) Impairment allowances of non-current assets recognized in 2017, 2016, 2015 amounted to: PLN (140) million, PLN (73 million) and PLN (852) million.

5.5.4. Statement of cash flows

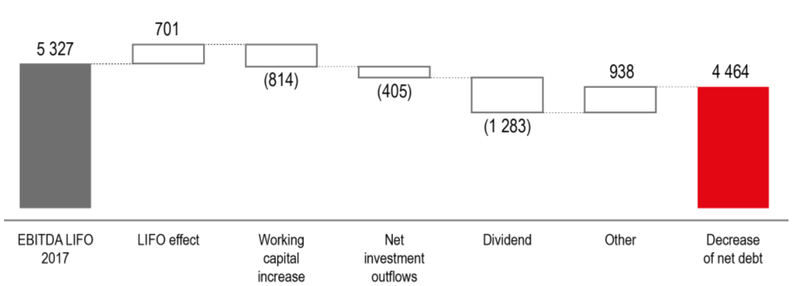
TABLE 43. Selected items of cash flows.

Item, PLN million	2017	2016	2015	change	change %
1	2	3	4	5=(2-3)	6=(2-3)/3
Net cash from operating activities	**4 445**	**5 434**	**948**	**(989)**	**(18.2%)**
Change in working capital	(814)	502	(1 892)	**(1 316)**	**-**
Net cash (used in) investing activities	**(405)**	**(1 873)**	**(1 669)**	**1 468**	**78.4%**
Net cash (used in) financing activities	**(1 092)**	**(1 970)**	**(1 796)**	**878**	**44.6%**
Net increase/(decrease) in cash and cash equivalents	**2 948**	**1 591**	**(2 517)**	**1 357**	**85.3%**
Effect of exchange rate changes on cash and cash equivalents	(34)	8	6	(42)	-
Cash and cash equivalents, beginning of the period	2 563	964	3 475	1 599	165.9%
Cash and cash equivalents, end of the period	**5 477**	**2 563**	**964**	**2 914**	**113.7%**

In 2017, after taking into account revaluation of cash attributable to exchange differences, the cash balance increased by PLN 2,914 million y/y, to PLN 5,477 million as at December 31st 2017.

For the complete separate statement of cash flows, see section 4 of the Financial Statements of PKN ORLEN for 2017.

DIAGRAM 65. Free cash flow [PLN million].



- Negative effect of PLN (814) million increase in net working capital, mainly due to an increase in inventories driven by higher prices of crude oil and petroleum products, and higher trade receivables attributable to growing revenues.
- Net cash used in investing activities in 2017 amounted to PLN (405) million and included mainly:
  - net payments on acquisition of property, plant and equipment, intangible assets and perpetual usufruct rights to land of PLN (1,430) million,
  - received dividends of PLN 1,604 million, net payments on acquisition of shares in the amount of PLN (382) million, mainly in connection with a PLN (350) million increase in the equity interest held in ORLEN Upstream Sp. z o.o. and the acquisition of PLN (32) million worth of shares in ORLEN KolTrans Sp. z o.o. from Euronaft Trzebinia Sp. z o.o.,
  - other items, of PLN (197) million, including mainly net payments under the cash pool system, and loans advanced by PKN ORLEN Finance AB.
- Dividend payment totalling PLN (1,283) million corresponds to dividend of PLN 3 per share.
- Other includes mainly net proceeds from the cash pool systems used and income tax paid.

5.5.5. Differences between financial results disclosed in the full-year report and previously published financial forecasts for the year

PKN ORLEN did not publish any financial forecasts for 2017.

PKN ORLEN's results for 2017 remained unchanged relative to the data presented in the Q4 2017 report issued on January 25th 2018.

5.6. DEBT AND FINANCING SOURCES

5.6.1. Loans, borrowings and debt securities

PKN ORLEN cooperates with banks that have high credit ratings and a strong market position and offer terms that allow the Company to minimise costs of banking services. This approach makes it possible to use high quality banking services and maintain security of surplus cash placed with the banks.

TABLE 44. Sources of financing.

Item, PLN million	2017	2016	2015	change	change %
1	2	3	4	5=(2-3)	6=(2-3)/3
Bank Loans	0	757	4 213	(757)	-
Borrowings	5 257	5 578	2 728	(321)	(5.8%)
Debt securities	2 031	2 503	2 301	(472)	(18.9%)
Financial indebtedness[1]	**7 288**	**8 838**	**9 242**	**(1 550)**	**(17.5%)**
By maturity:					
Non-current	6 736	7 503	8 125	(767)	(10.2%)
Current	552	1 335	1 117	(783)	(58.7%)

1) doesn't include liabilities from finance lease

Detailed information on the parameters of credit agreements and financing banks are described in point 4.3.2.

As regards the loan agreements in force, PKN ORLEN is obliged to maintain selected financial indicators within brackets agreed in the loan agreements.

After taking into account cash and cash equivalents, net financial indebtedness at the end of 2017 amounted to PLN 1,811 million. In 2017 the financial ratios assessed by the lending banks remained at the safe level and confirm the full ability to perform payment obligations resulting from the loan agreements and other agreements with banks and financial institutions.

Additional information on the debt structure of PKN ORLEN is presented in point 7.2.6.1 of the Financial Statements of PKN ORLEN for 2017

PKN ORLEN may issue bonds within the set limits as well as purchase bonds issued by companies from the ORLEN Group. At the end of 2017, the total value of PKN ORLEN issued bonds amounted to PLN 2,031 million. Detailed information concerning the bond issuance is set out in point 4.3.3.

Details on loans granted and obtained by PKN ORLEN within the ORLEN Group are presented in point 4.3.4.

5.6.2 Guarantees, sureties and other contingent liabilities

As at 31 December 2017 PKN ORLEN possessed off-balance liabilities arising out of the issued guarantees and sureties for the overall of PLN 12,076 million, which represents a decrease by PLN (1,524) million in comparison to the end of 2016. In 2017 the amount includes:

– sureties and guarantees issued to subsidiaries to the benefit of third parties of PLN 9,677 million, which related mainly to timely payment of liabilities by the subsidiaries

– securities for excise and excise duty on products and goods undergoing the procedure of suspended excise collection in the amount of PLN 2,170 million,

– guarantees concerning liabilities towards third parties issued in the course of normal business operations mainly relate to: civil law guarantees relating to the protection of performance of contracts and public guarantees under the generally applicable provisions of law which ensures the correctness of the management of business activities licensed in the liquid fuels and taxes, customs, etc. resulting from that activity of in the amount of PLN 229 million.

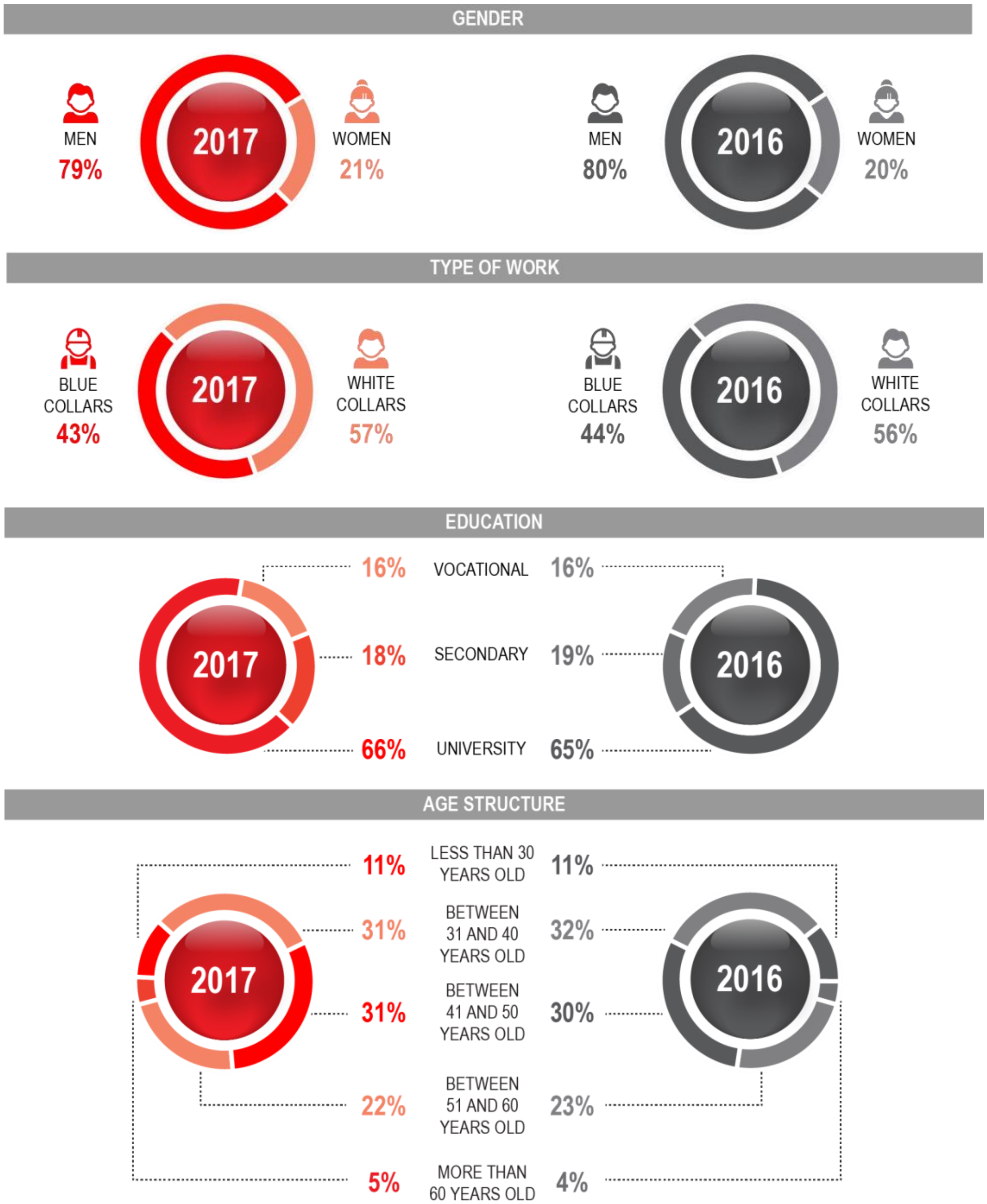
Additional information on sureties and guarantees is presented in point 7.3.5.4 of the Financial Statement of PKN ORLEN for 2017.

Contingent liabilities were presented in point 7.4.5.2 of the Financial Statement of PKN ORLEN for 2017.

5.7. EMPLOYMENT

The ongoing development projects in logistics, procurement, power generation, IT, and retail sales brought about an increase in PKN ORLEN's headcount by 194 employees as at the end of 2017.

DIAGRAM 66. Employment structure in professional groups and age structure in PKN ORLEN.



Personnel programs realised in PKN ORLEN are described in point 3.5. of the foregoing Report.

5.8. REMUNERATION OF MANAGEMENT AND SUPERVISORY PERSONNEL

5.8.1. General terms of remuneration, conditions for granting annual bonuses, and non-competition agreements

Remuneration rules

On 24 January 2017, an Extraordinary General Meeting of Shareholders was held, during which resolutions were adopted on the rules of determining the remuneration of Management Board and Supervisory Board members. On 30 June 2017, an Extraordinary General Meeting of Shareholders adopted resolution introducing a change in resolution of EGMS on the rules of determining the remuneration of Management Board and Supervisory Board members. Both resolutions that were adopted were published here:
http://www.orlen.pl/EN/InvestorRelations/RegulatoryAnnouncements/Pages/Regulatory-announcement-no-14-2017.aspx
http://www.orlen.pl/EN/InvestorRelations/RegulatoryAnnouncements/Pages/Regulatory-announcement-no-89-2017.aspx

Rules for awarding bonuses to the key executive personnel (including members of the Group companies Management Board)

In 2017 rules for awarding bonuses for the Management Board Members of the PKN ORLEN and ORLEN Group companies were adapted to the conditions specified in the Act on the principles of determining the amount of remuneration for people managing certain companies of 9 June 2016 (Official Journal 2016, item 1202).

The regulations applicable to the Management Board of PKN ORLEN, directors directly reporting to the Management Board of PKN ORLEN and other key positions of the ORLEN Group have certain common features. The persons subject to the above mentioned systems are remunerated for the accomplishment of specific goals set at the beginning of the bonus period, by the Supervisory Boards for the Management Boards Members and by the Management Boards for the Key Executive Personnel. The Bonus Systems are consistent with the Concern's Values, so as to promote the cooperation between individual employees in view to achieve the best possible results for the ORLEN Group. The targets set are qualitative as well as quantitative and are settled after the end of the year for which they were set. Moreover, there is a possibility to honour employees, who significantly contribute to generated results.

Remuneration regarding non-competition clause and dissolution of the contract as a result of dismissal from the position held

Contracts of the Management Board Members of the ORLEN Group companies in 2017 were adapted to the to the conditions specified in the Act on the principles of determining the amount of remuneration for people managing certain companies of 9 June 2016 (Official Journal 2016, item 1202).

According to agreements the Management Board Members of PKN ORLEN and of the Group entities are obliged to obey a non-competition clause for 6 months, starting from the date of termination of the contract. In the period, they receive remuneration in the amount of 50% of six-month basic remuneration, payable in 6 equal monthly instalments. Provisions of agreements regarding non-competition clause after termination of Management Board Member function come into force not until 6 months of holding function of Management Board Member.

In addition, agreements include severance payments in case of dissolution of the contract or termination of the contract by the Company due to case other than violation of basic significant duties specified in the contract on condition of holding function of Management Board Member for the period of at least 12 months. In this case severance amount of three monthly basic remuneration.

Directors directly subordinated to PKN ORLEN Management Board are normally required to refrain from competitive activities for a period of 6 months from the date of termination or expiry of the agreement. At that time they receive a salary equal to 50% of six-month basic salary, payable in 6 equal monthly instalments. The severance payment for termination of contract by the Employer is typically six basic monthly remuneration.

5.8.2 Remuneration of management and supervisory bodies

TABLE 45. Remuneration paid to the Company's Management Board Members fulfilling their function in 2017 and 2016 (PLN thousand).

Item	2017	2016
Remuneration of Members of the Company's Management Board, including:		
- remuneration and other benefits	**6 572**	**8 430**
Wojciech Jasiński	1 226	1 715
Mirosław Kochalski	1 127	1 368
Sławomir Jędrzejczyk [1)]	796	1 586
Piotr Chełmiński [2)]	676	1 351
Zbigniew Leszczyński	943	1 049
Krystian Pater	1 012	1 226
Wiesław Protasewicz [3)]	396	-
Maria Sosnowska [3)]	396	-
Marek Podstawa [4)]	-	135

- bonus for prior year	**7 740**	**5 040**
Wojciech Jasiński	1 560	-
Mirosław Kochalski	1 303	-
Sławomir Jędrzejczyk 1)	1 500	1 500
Piotr Chełmiński 2)	1 260	1 260
Zbigniew Leszczyński	977	-
Krystian Pater	1 140	1 140
Marek Podstawa	-	1 140
Total:	**14 312**	**13 470**

1) Remuneration for holding the position of Vice-President of the Management Board for the period to 30 June 2017.
2) Remuneration for holding the position of Member of the Management Board for the period to 30 June 2017.
3) Remuneration for holding the position of Member of the Management Board for the period since 1 July 2017.
4) Remuneration for holding the position of Member of the Management Board for the period to 8 February 2016.

TABLE 46. Bonuses potentially due to Management Board Members in function in the given year to be paid in the following year (PLN thousand).

Item	2017	2016
Wojciech Jasiński	1 177	1 560
Mirosław Kochalski 1)	1 117	1 303
Sławomir Jędrzejczyk 2)	750	1 500
Piotr Chełmiński 2)	630	1 260
Zbigniew Leszczyński 1)	936	977
Krystian Pater	966	1 140
Wiesław Protasewicz 3)	396	-
Maria Sosnowska 3)	396	-
Marek Podstawa 4)	-	113
Total:	**6 368**	**7 853**

1) Bonus potentially due for holding position for the period since 8 February 2016.
2) Bonus potentially due for holding position for the period to 30 June 2017.
3) Bonus potentially due for holding position for the period since 1 July 2017.
4) Bonus potentially due for holding position for the period to 8 February 2016.

TABLE 47. Remuneration and other benefits paid and due to former Management Board Members (PLN thousand).

Item	2017	2016
Sławomir Jędrzejczyk 1)	750	-
Piotr Chełmiński 1)	630	-
Dariusz Krawiec 2)	-	3 160
Marek Podstawa 3)	113	1 140
Total:	**1 493**	**4 300**

1) In 2017 non-competition compensation paid.
2) In 2016 the bonus for 2015 and non-competition compensation paid.
3) In 2017 the bonus due for year 2016; in 2016 severance and non-competition compensation paid.

Remuneration of the Company's Management and Supervisory Board Members for holding functions in the Management or Supervisory Boards of subsidiaries, companies under joint control or associated companies (PLN thousand)

Members of PKN ORLEN Management Board who in 2016 and 2015 were acting as the Management and the Supervisory Boards of the subsidiaries, jointly controlled entities belonging and associate of the ORLEN Group did not receive any remuneration, except for Unipetrol a.s., wherein the payments were transferred to the ORLEN's DAR SERCA Foundation.

TABLE 48. Remuneration of the Members of the Supervisory Board of PKN ORLEN (PLN thousand).

Item	2017	2016
Remuneration of the Company's Supervisory Board members, including:		
Angelina Sarota	124	220
Adam Ambrozik 1)	-	13
Cezary Banasiński 1)	-	13
Mateusz Bochacik 2)	112	157
Grzegorz Borowiec 1)	-	13
Adrian Dworzyński 2)	110	157
Artur Gabor 3)	74	170
Wojciech Kryński 4)	53	-
Agnieszka Krzętowska 2)	114	161
Radosław Kwaśnicki	111	171
Cezary Możeński 1)	-	13
Remigiusz Nowakowski 5)	-	120
Leszek Pawłowicz 1)	-	13
Izabela Felczak-Poturnicka 4)	53	-
Wiesław Protasewicz 6)	57	98
Arkadiusz Siwko 7)	-	59
Total:	**808**	**1 378**

1) For the period of holding position to 29 January 2016.
2) For the period of holding position since 29 January 2016.
3) For the period of holding position to 31 August 2017.
4) For the period of holding position since 30 June 2017.
5) For the period of holding position to 14 September 2016.
6) For the period of holding position since 3 June 2016 until 28 June 2017.
7) For the period of holding position since 29 January until 3 June 2016.

Remuneration of key executive personnel of the ORLEN Group

TABLE 49. Remuneration of key executive personnel of the ORLEN Group (PLN thousand).

Item	2017	2016
Remuneration and other benefits of members of key executive personnel:		
- other key executive personnel of the Company	41 479	44 403
- key executive personnel of the subsidiaries of the ORLEN Group	164 729	165 524
Total:	**206 208**	**209 927**

6. STATEMENT OF COMPLIANCE WITH THE CORPORATE GOVERNANCE PRINCIPLES

6.1. CORPORATE GOVERNANCE RULES

In 2017, PKN ORLEN applied all principles included the code "Best Practice for GPW Listed Companies 2016" ("Code of Best Practice") applicable on the Warsaw Stock Exchange. The code is available on the Stock Exchange website https://www.gpw.pl/best-practice and on the PKN ORLEN corporate website www.orlen.pl in the section dedicated to the Company's shareholders http://www.orlen.pl/EN/InvestorRelations/ShareholderServicesTools/Pages/WSEBestPractice.aspx

Communication with the capital market

One of the basic tools for the communication with the representatives of the capital market is the Investor Relations section in the corporate website http://www.orlen.pl/ , maintained in both Polish and English. The Investor Relations section gathers information mainly for the investors and analysts. It includes, among others:

- Regulatory announcements and periodic reports,
- Presentations concerning the publication of the financial results and other events,
- Multimedia files with teleconferences and videoconferences organized by the Company,
- Interactive charts and grids presenting Company's historical financial data in various periods, with the possibility of export to Excel,
- Stock-exchange quotations of PKN ORLEN shares and main indexes,
- Contact form,
- Newsletter and RSS channel,
- Interactive calendar, offering the possibility of setting a reminder, through a short text message or an e-mail, concerning the most important events in the Company,
- Section for individual investors.

On the website, in the "Investor Relations" section, there is also a tab concerning the corporate governance. One can find there the Company's annual reports on complying with best practices rules and the "Code of Best Practice". There is also brief information on best practices applied by the Company and other information which are required through "Code of Best Practice".

The General Meeting tab in the „Investor Relations" section contains set of corporate documents, information related to General Meetings and contact form regarding General Meeting.

The Company supports its shareholders, investors and analysts to have the knowledge of the sectors, in which it operates, through publications on websites:

- http://napedzamyprzyszlosc.pl/ - specialized publications and relations from industry conferences.
- http://napedzamyprzyszlosc.pl/blog - the blog of PKN ORLEN's Chief Economist with comments on the current market situation.
- Communication through social media: Twitter (https://twitter.com/PKN_ORLEN) and Facebook (https://www.facebook.com/ORLEN.Official).

Direct communication with capital market representatives is realised through:

- Individual and group closed meetings, both in the country and abroad, also as teleconferences.
- Open media conferences after each important Company's event, such as publication of quarterly results or publication of the strategy - transmitted live through the Internet, along with a simultaneous translation to English.
- Series of meetings with investors, in-country and abroad (roadshows).
- Meetings of capital market representatives with key Company's managers in the headquarters and places where PKN ORLEN conducts operating activity (so-called site visits).
- The Investor and Analyst Days organised from time to time - workshops concerning various areas of activity of the Company, conducted by the representatives of the Management Board, executive directors and other, selected managers.

Important Company's activities for shareholders and investors realised in 2017:

- Fifth year in a row PKN ORLEN paid dividend at the level of PLN 3 per share – the highest dividend in the Company's history.
- New public bond issue programme directed to the individual investor up to the total amount of PLN 1 bn.
- Quarterly and half-year reports published within 23 days on average following the closing of the relevant periods, and annual reports within 74 days following the end of the year.

Capital market participants appreciate the Company's activities, which is confirmed by the awards and other distinctions it won in 2017:

- First place in the category "The Best Investor Relations among Institutional Investors" - the assessment of investor relations in WIG 30 Index companies, a joint initiative of "Parkiet" newspaper and of the Chamber of Brokerage Houses.
- Transparent company of the year 2016 – first edition of the ranking, organised by "Parkiet" newspaper and Institute of Accountancy and Taxes under the auspices of the Warsaw Stock Exchange.
- Awards granted by prestige IR Magazine in two categories:
  - Best in Central & Eastern Europe
  - Best ESG communications
- Special award for the best online annual report, special award for integrated report, distinction for the highest quality of financial reporting and Best of the Best title – competition „The Best Annual Report 2016" organised by the Institute of Accounting and Taxes.

Company's reaction to appearing public opinions and information injuring its reputation

In PKN ORLEN, there is an internal regulation in force, concerning the rules of taking actions which create the image of the Company and contacts with the mass media representatives as well as passing the information, relevant for the PKN ORLEN's image, to the Corporate Communication Department's Executive Director. This regulation obliges to multistage verification of information concerning the Company and its representatives before it's made public.

The above regulation sets also the rules of reaction in a situation, when opinions and information expressed in public by third parties may harm the Company' reputation. The person responsible for the coordination of this process is the Executive Director of the Corporate Communication Department.

Corporate Social Responsibility Activities of PKN ORLEN

In 2017, PKN ORLEN was realising corporate social responsibility strategy (CSR) for 2015-2017. In the CSR Strategy Company declares goodwill growth in respect with the interest of the stakeholders and responsible use of resources. CSR projects are realised in all Company's areas. Integrated reporting was implemented, PKN ORLEN Supplier Code of Conduct was published, marketing Code of Conduct was established, "Driving to eco" guide for drivers as well as information material regarding PKN ORLEN CSR activities were issued.

The Company took also activities for realisation of Sustainable Development Goals announced by UNO in 2015. PKN ORLEN became one of the signatory of "Partnership initiative for realisation of Sustainable Development Goals (SDGs)", the project announced by the Ministry of Development.

PKN ORLEN regularly verifies the map of its stakeholders. The Company conducts an active dialogue with them in different forms. Among others, in 2017, dialogue session according to AA 1000 SES standard dedicated to integrated reporting and CSR strategy was conducted.

For many years PKN ORLEN has settled rules of conducting social activities. On the Company's website "Rules of sponsoring activities realisation" and "PKN ORLEN charity policy" are available.

PKN ORLEN is focusing its sponsoring activities on selected thematic areas, such as: culture and art, Polish economy promotion, popularisation of Poland on international arena, promotion of education and knowledge, social projects, activities from national memory and tradition area. PKN ORLEN is engaged in local communities life. A special attention is paid to Płock, where PKN ORLEN realises cross-sectoral partnerships, charity, sponsoring, voluntary projects and other. An important group of activities are events from social sponsoring. Improvement of quality of citizens life and building of good relations are the aim of social sponsoring. In 2017 PKN ORLEN conducted 92 such projects in Płock.

PKN ORLEN conducts also charity activities. The Company supports partnerships between sectors, health and life protection projects, is engaged in culture, maintaining of national tradition projects and others. These activities are conducted directly or in cooperation with NGO sector. PKN ORLEN is a founder of several foundations including "Grant Fund for Płock" Foundation, "Grow with us" Foundation, Museum of Oil and Gas Industry in Bóbrka Foundation and Polish National Foundation. ORLEN's DAR SERCA Corporate Foundation operates since 2001. It takes care of the children's home, conducts scholarship programs and other activities, mainly relating to safety and health and life protection. It also supports local societies.

In community initiatives of PKN ORLEN and ORLEN's DAR SERCA Foundation also participate PKN ORLEN's clients, the members of the VITAY loyalty program and users of YANOSIK application by forwarding the points gathered in the program to the social purposes.

PKN ORLEN communicates its social initiatives, among others, via the corporate website, in the Responsible business section, as well as in the Integrated report.

6.2. CONTROL, RISK MANAGEMENT AND COMPLIANCE SYSTEM

The Company's system of internal control and risk management in the process of financial statements preparation is implemented through:

- verification whether a uniform accounting policy is applied by the ORLEN Group companies as regards the recognition, measurement and disclosures in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union,
- following accounting standards and monitoring compliance with them,
- following uniform separate and consolidated financial reporting standards and periodic verification whether these standards are properly applied in the ORLEN Group companies,
- verification of the ORLEN Group companies' financial reports compliance with the data placed into integrated IT system used to prepare the ORLEN Group's consolidated financial statements,
- auditor's review of financial statements published for I quarter, half-year, III quarter and audit of annual financial statements of PKN ORLEN and the ORLEN Group,
- procedures to authorize and give opinions about financial statements before they are published,
- carrying out an independent and objective evaluation of risk management and internal control systems.

Recording of economic events in PKN ORLEN is conducted in an integrated financial - accounting system. Security and availability of information contained in the financial-accounting system are controlled at all levels of the database, applications and presentations as well as at the level of operating system. System integration is ensured by the data entry control systems (validation, authorization, a list of values) and logs of changes.
In order to ensure that unified accounting standards are applied, the ORLEN Group companies have to follow, for the purpose of preparing the consolidated financial statements, the accounting policy adopted by PKN ORLEN and approved by ORLEN Group companies.
The consolidated financial statements are prepared based on the integrated IT system where consolidation process of entered data from reporting packages provided by the ORLEN Group companies is performed. The system is designed for financial management and reporting purposes. The system enables the unification of financial information. Results budgeted and forecasted data as well as statistics are gathered in one place, what ensures direct control and compatibility of the entered data.
The data is reviewed in terms of their cohesion, completeness and continuity, which is achieved thanks to controls implemented in the system, which check the compliance of data entered by the companies.

In order to reduce the risks relating to the process of the financial statements preparation on a current basis, they are quarterly verified

by an auditor, i.e. more often than required under the applicable law. The financial statements for the I quarter, the half year and the III quarter of the year are reviewed by the auditor, whereas the annual financial statements are subject to audit.
The Supervisory Board, based on recommendation of Audit Committee and report on tender offer conducted by Audit Committee, appoints qualified auditor to audit financial statements. Deloitte Polska Sp. z o.o. Sp.k. has been appointed as a qualified auditor of PKN ORLEN financial statements for years 2017-2018. Qualified auditor, during audit, makes an independent assessment of reliability and correctness of unconsolidated and consolidated financial statements and confirmation of effectiveness of internal control and risk management system.
The auditor presents the results of the reviews and audits to the Management Board and the Audit Committee of the Supervisory Board.
The Audit Committee is a supervisory body of preparing ORLEN Group financial statements process and the body cooperating with independent auditor.
The Company has certain procedures to authorize the financial statements under which the periodical reports are submitted to the Management Board and to the Supervisory Board Audit Committee for its opinion. Once the financial statements are approved by the Supervisory Board Audit Committee and after finishing of auditor verification the financial statements are approved by PKN ORLEN Management Board for publication and then are forwarded by the Investor Relations Department to public domain.
The annual financial statements are also presented to the Supervisory Board for final opinion and control of financial statement process. The Supervisory Board is an independent body ensuring correctness and reliability of presented information in financial statements of PKN ORLEN and ORLEN Group.

The Company has an Audit, Financial Control and Corporate Risk Management Department which has to ensure an independent and objective evaluation of the risk management and internal audit systems, and analyse business processes. The Department operates basing on the annual audit plans approved by the Management Board and accepted by the Audit Committee of the Supervisory Board and the Supervisory Board. The Audit, Control and Corporate Risk Management Department can also carry out random audits as ordered by the Company's Supervisory Board or the Management Board.

Within the realised tasks and objectives, the Audit, Financial Control and Corporate Risk Management Department provides recommendations as to the implementation of solutions and standards for realised audit tasks, designed to mitigate the risk of PKN ORLEN not meeting the targets set, to improve the effectiveness of the internal control system and to increase the efficiency of business processes.

Twice a year the Audit, Financial Control and Corporate Risk Management Department prepares a report for the Management Board and the Audit Committee of the Supervisory Board on the implementation status of recommendations monitoring, which summarizes the conclusions regarding realized audit tasks. It monitors also the realization of the Company's financial statements auditor's recommendations. Adhering to the principles set forth by the Institute of Internal Auditors Research Foundation, the Audit, Financial Control and Corporate Risk Management Department has been also conducting consultancy projects.

Procedures and management systems ensuring realization of tasks and processes according to generally applicable law, internal regulations and voluntary accepted standards are implemented in PKN ORLEN. Compliance system in PKN ORLEN includes the process of adapting to legal requirements in the scope of new and changing law and ensuring correct implementation of them. Compliance system is decentralised and managers directly subordinated to Management Board Members are responsible for particular elements.

6.3. SIGNIFICANT STAKE

In 2017 and until the date of authorization of this Report there was no change in the structure of shareholders with a stake of more than 5% in the PKN ORLEN share capital. The number of shares held by the shareholders is presented based on the most recent, official information acquired by the Company.
The ownership rights of PKN ORLEN's shares are fully transferable.

TABLE 50. Shareholding structure in PKN ORLEN as at 1 January 2017, 31 December 2017 and the date of the approval of this report.

Shareholder	Number of shares and votes at a general meeting (as at 01.01.2017*)	Share in share capital and in total number of votes at a General Meeting (as at 01.01.2017*)	Number of shares and votes at a general meeting (as at 31.12.2017**)	Share in share capital and in total number of votes at a General Meeting (as at 31.12.2017**)	Number of shares and votes at a general meeting (on the date of approval of the report ***)	Share in share capital and in total number of votes at a General Meeting (on the date of approval of the report ***)
State Treasury	117 710 196	27,52%	117 710 196	27,52%	117 710 196	27,52%
Nationale-Nederlanden OFE	39 785 564	9,30%	33 000 000	7,72%	30 000 000	7,01%
Aviva OFE	31 257 000	7,31%	29 900 000	6,99%	28 300 000	6,62%
Others	238 956 301	55,87%	247 098 865	57,77%	251 698 865	58,85%
Total	**427 709 061**	**100,00%**	**427 709 061**	**100,00%**	**427 709 061**	**100,00%**

** According to the information from the OGM PKN ORLEN held on 3 June 2016.*
*** According to the information from the OGM PKN ORLEN held on 30 June 2017.*
**** According to the information from EGM PKN ORLEN held on 2 February 2018.*

6.4. SPECIAL CONTROL AND VOTING RIGHTS

The exercise of the voting right and special control have been regulated in detail in PKN ORLEN's Articles of Association. According to the provisions of the Articles of Association, one share of PKN ORLEN entitles to one vote at the Company's General Meeting.The voting right of the shareholders has been restricted in the Articles of Association to the extent that none of them can exercise more than 10% of the total votes existing in the Company as at the date the General Meeting is held. The restriction of the voting right does not apply to the State Treasury and the depositary bank which issued, on the basis of the agreement with the Company, depository receipts in connection with the Company's shares (in case this entity exercises the voting right from the Company's shares).
The shareholders whose votes are subject to accumulation and reduction are jointly referred to as 'the Shareholders Grouping'. The rules of accumulation and reduction are specified in detail in the Articles of Association. The shareholders being a part of the Shareholders Grouping cannot exercise the voting right from more than 10% of the total votes existing in the Company as at the date the General Meeting is held.
If the cumulated number of shares registered in the General Meeting by the shareholders being a part of the Shareholders Grouping exceeds 10% of the total number of shares of the Company, the votes resulting from the number of held shares are subject to reduction, the rules of which have been specified in detail in the Articles of Association of the Company.

The restriction of the voting right, described above, does not apply to the entities dependent on the State Treasury.

The State Treasury is entitled to appoint and recall one Member of the Supervisory Board. Furthermore, one Member of the Management Board of PKN ORLEN is appointed and recalled by the Supervisory Board upon the request of the State Treasury.

Additionally, in accordance with the Articles of Association of the Company, as long as the State Treasury is entitled to appoint a Member of the Supervisory Board, a resolution granting approval for activities related to sale or encumbrance in any way of shares or stock in the following companies: Naftoport Sp. z o.o., Inowrocławskie Kopalnie Soli S.A. as well as in the company that will be created in order to operate the pipeline transport of liquid fuels, require a vote in favour of their adoption by the Supervisory Board Member appointed by the State Treasury.

Special rights for the State Treasury shareholder can be a result of the commonly applicable provisions of law, i.e.:

- the Act of 18 March 2010 on specific rights vested in the Minister in charge of energy and their execution in certain capital companies or capital groups conducting business activities in the electricity, crude oil and gas fuel factors,
- the Act of 24 July 2015 on the control of certain investments,
- the Act of 16 December 2016 on the rules of managing the national assets.

6.5. AMENDMENTS OF ARTICLES OF ASSOCIATION

Any amendment to PKN ORLEN's Articles of Association requires a resolution of the General Meeting and has to be entered in the companies register. The resolution of the General Meeting to amend the Company's Articles of Association is adopted by three quarters of votes. The General Meeting may authorize the Supervisory Board to formulate the uniform text of the Articles of Association or make other editorial changes as set out in the resolution passed by the General Meeting.

Once the amendments to the Articles of Association are entered in the companies register PKN ORLEN publishes a relevant regulatory announcement.

6.6. GENERAL MEETING OF SHAREHOLDERS

Proceedings and powers of PKN ORLEN's General Meeting are regulated in the Articles of Association and the Rules of Procedure for the General Meeting of PKN ORLEN, available on PKN ORLEN website:
http://www.orlen.pl/EN/Company/Pages/CorporateBylaws.aspx.
The Company determines the place and date of the General Meeting in a way to enable participation of the largest number of shareholders. The General Meetings of PKN ORLEN are held at the registered office of the Company in Płock, but it can also be held in Warsaw. The General Meetings can be attended by the media representatives.

PKN ORLEN takes relevant measure to ensure that drafts of the resolutions of the General Meeting contained a justification facilitating the shareholders adopt resolutions with due discernment. All the materials are available to the shareholders at the Company's headquarters in Plock and office in Warsaw, as well as on the corporate website http://www.orlen.pl starting from the date of General Meeting convention.

Convening and calling off PKN ORLEN's General Meeting

The General Meeting is convened through placing an announcement on the Company's website and by delivering a current report to the capital market institutions and public information.

The Ordinary General Meeting should be held no later than within six months from the end of every financial year. The Extraordinary General Meeting is convened by the Management Board on its own initiative, on the motion of the Supervisory Board or on the motion of a shareholder or shareholders representing no less than one twentieth of the Company's share capital, within two weeks from filing the motion. The Supervisory Board may convene the Extraordinary General Meeting if the Supervisory Board recognizes that it is advisable to do so. The Supervisory Board may also convene the Extraordinary General Meeting if the Management Board fails to do so within two weeks following the submission of the relevant request by the Supervisory Board. The Extraordinary General Meeting may also be convened by the shareholders representing at least one half of the share capital or at least one half of the overall number of votes in the Company.

The Company arranges for an Internet broadcast of the General Meeting and offers simultaneous translation into English.

In accordance with the Rules of Procedure for the General Meeting, the General Meeting may be called off if there are extraordinary impediments to its holding or its holding would be obviously groundless. The cancellation and the change in the date of the General Meeting should be effected forthwith once the requirement for the cancellation and the change in the date has occurred but no later than seven days prior to the day when the General Meeting is to be held. If the cancellation or change in the date of the General Meeting cannot be effected within the deadline specified above, such a General Meeting should be held. If it is impossible or excessively hindered to hold such a meeting due to the circumstances the cancellation and change in the date of the General Meeting may be effected at any time prior to the day when the General Meeting is to be held. The cancellation and the change in the date of the General Meeting is effected by announcement placed on the Company's website together with the reasons and complying with other legal requirements. Only the body or the person to have convened the General Meeting is competent to cancel the same. The General Meeting with the agenda containing specific issues put therein at the request of eligible entities, or which was convened at such a request, may be cancelled only with consent of such requesting entities.

Competence of PKN ORLEN's General Meeting

The General Meeting is especially authorized to:

- consider and approve the Company's annual financial statements; the annual report on the Company's business operations; the consolidated financial statements of the ORLEN Group and the report on the ORLEN Group business operations for the previous financial year,
- acknowledge the fulfilment of duties by the Supervisory Board and Management Board Members,
- decide on the allocation of profit and the cover of losses as well as on the use of funds set up from profit,
- appoint the Supervisory Board Members, subject to the provisions of § 8 item 2 of the Articles of Association, and establish principles for their remuneration,
- increase and decrease in the share capital unless otherwise stated in the Commercial Code and the Company's Articles of Association,
- decide on claims for the rectification of damage caused when setting up the Company or exercising supervision or management,
- approve the sale and lease of the company or its organized part and establish a limited property right on such enterprise or an organized part thereof,
- grant consent to the sale of real estate, perpetual usufruct or interest in real estate which net book value exceeds one twentieth of the Company's share capital,
- amend the Company's Articles of Association,
- set up and dissolve reserve capitals and other capitals and the Company's funds,
- resolutions to redeem shares and buy shares to be redeemed and to establish the redemption rules,
- issue convertible bonds or bonds with pre-emptive rights and issue warrants,
- dissolution, liquidation, restructuring of the Company and merger with another company,
- conclusion of a group contracts within the meaning of article 7 of the Commercial Companies Code.

Participation in PKN ORLEN's General Meetings

In accordance with the Commercial Companies Code, the right to participate in the Company's General Meeting is vested only in the persons that are the Company's shareholders sixteen days before the date of the General Meeting (record date).

The shareholders of the Company may communicate with the Company via the corporate website by using contact form available at: http://www.orlen.pl/EN/InvestorRelations/GeneralMeetings/Contact/Pages/default.aspx or through e-mail (at: walne.zgromadzenie@orlen.pl). This way shareholders can send an electronic notice of proxy or proxy document allowing the identification of the principal and the proxy together with other related documentation. Special section dedicated to the Company's General Meetings includes useful to the shareholders information documents, among others, the guideline "How to participate in General Meeting", information about the planned shareholders meetings along with materials relating to such meetings, archive materials from the meetings held, including texts of resolutions adopted and video files with internet broadcasts of the General Meeting.
The General Meeting may be attended by the Members of the Management Board and the Supervisory Board, who can participate and speak, even if they are not shareholders, without any invitations. An Ordinary General Meeting can be attended by the Members of the Management Board and the Supervisory Board whose mandates have expired before the date of the General Meeting and who exercised their functions in the financial year for which the Management Board report and the financial statements are to be approved by the Ordinary General Meeting.

General Meetings can also be attended by other persons invited by an authority convening the General Meeting or allowed to enter the meeting room by the Chairman, specifically, certified auditors, legal and financial advisers or the Company's employees. PKN ORLEN under the applicable law and with due consideration of the Company's interests allows media representatives to attend the General Meetings. The Management Board ensures that each General Meeting is attended by an independent expert specialized in commercial law.

Voting at PKN ORLEN's General Meetings

Unless stated otherwise in the Commercial Companies Code and the Articles of Association, resolutions of the General Meeting are passed with an absolute majority of votes cast. One PKN ORLEN share confers the right to one vote at the Company's General Meeting. The limitations of the Company's shareholders voting rights are described in point 6.4.

General Meetings in 2017

In 2017 two General Meetings were held: Extraordinary General Meeting on 24 January 2017 and Ordinary General Meeting on 30 June 2017.

During the Extraordinary General Meeting the Company's shareholders adopted new rules of determining of the PKN ORLEN Management Board and Supervisory Board remuneration, proposed by the shareholder State Treasury, complies with the Act on the principles of determining the amount of remuneration for people managing certain companies as of 9 June 2016.

The Ordinary General Meeting held on 30 June 2017 adopted resolutions in following issues:

– approval of the annual reports on the operations of the Company and the ORLEN Group as well as the financial statements for 2016,
– acknowledgement of the fulfilment of duties by all the Supervisory and the Management Boards Members,
– distribution of the net profit for fiscal year 2016 in the following manner:
  1) the amount of PLN 1 283 127 183.00 for dividend payment (PLN 3 per share),
  2) the remaining amount, i.e. PLN 4 081 328 369.64 for the Company's supplementary capital,
– change of the resolution of the Extraordinary General Meeting dated 24 January 2017 regarding the rules of remuneration for people managing certain companies,
– appointment of Ms Izabela Felczak-Poturnicka and Mr Wojciech Kryński to the composition of the Company's Supervisory Board,
– terms of proceedings regarding conclusions of agreements on legal services, marketing services, public relations and public communication services and management advisory services as well as donation agreements, releasing from the debt or other agreements with similar effect and changes of these agreements,
– obligation of submission to the General Meeting of representative expenditures statements, expenditures on legal services, marketing services, public relations and public communication services and management advisory services,
– terms of sale of fixed assets,
– the determination of requirements for the candidate for a Management Board Member and conducting of a qualification procedure for a Management Board Member.

6.7. MANAGEMENT AND SUPERVISORY BODIES

Apart from generally applicable laws, the rules of conduct for PKN ORLEN Supervisory Board, its Committees and the Management Board are regulated in PKN ORLEN's Articles of Association and the Supervisory Board and the Management Board Constitutions, respectively. The proceedings of the management and supervisory authorities in PKN ORLEN are also subject to the corporate governance principles set out by the Warsaw Stock Exchange.

6.7.1. The Management Board

Composition of the PKN ORLEN's Management Board

TABLE 51. Composition of the PKN ORLEN's Management Board as at 1 January 2017.

Name and surname	Position held in PKN ORLEN Management Board	Supervised divisions
Wojciech Jasiński	President of the Management Board, Chief Executive Officer	audit, control and management of corporate risk, safety, head office, crude oil and gas, trade, innovations, corporate communication, marketing, protection of information, critical infrastructure and defense matters, strategy and project management
Sławomir Jędrzejczyk	Vice – President of the Management Board, Chief Financial Officer	IT, capital investments and divestments, business controlling, planning and reporting, taxes, investor relations, finance management, supply chain management,
Mirosław Kochalski	Vice – President of the Management Board Corporate Affairs	the capital group, human resources, organisation and management systems, legal department, procurement, management of regulatory risk
Piotr Chełmiński	Member of the Management Board, Business Development/Power and Heat Generation Officer	health and safety, power and heat generation, environmental protection, realisation of property investments, development and technology
Zbigniew Leszczyński	Member of the Management Board Sales	efficiency and development of sales, refining products wholesale, petrochemical products wholesale, logistics, retail sale
Krystian Pater	Member of the Management Board, Production	efficiency and optimisation of production, petrochemical production, refinery production, technology

The Supervisory Board at its meetings on 26 and 29 June 2017 appointed to PKN ORLEN Management Board following persons: Mr Wojciech Jasiński to the position of the President of the Management Board, Mr Mirosław Kochalski to the position of the Vice – President of the Management Board, Mr Krystian Pater to the position of the Member of the Management Board, Mr Zbigniew Leszczyński to the position of the Member of the Management Board, Mr Wiesław Protasewicz to the position of the Member of the Management Board, Ms Maria Sosnowska to the position of the Member of the Management Board for a joint three-year term of the Management Board, which started on 1 July 2017.

TABLE 52. Composition of the PKN ORLEN's Management Board as at 1 July 2017.

Name and surname	Position held in PKN ORLEN Management Board	Supervised divisions
Wojciech Jasiński	President of the Management Board, Chief Executive Officer	audit, control and management of corporate risk, safety, head office, crude oil and gas trade, innovations, human resources, corporate communication, marketing, protection of information, critical infrastructure and defence matters, strategy and project management
Mirosław Kochalski	Vice – President of the Management Board	the capital group, IT, capital investments and divestments, organisation and management systems, legal department, investor relations, supply chain management, management of regulatory risk
Zbigniew Leszczyński	Member of the Management Board (responsible for Sales since 6.07.2017)	efficiency and development of sales, refining products wholesale, petrochemical products wholesale, logistics, retail sale
Krystian Pater	Member of the Management Board (responsible for Production since 6.07.2017)	efficiency and optimisation of production, power and heat generation, water and sewage management, petrochemical production, refinery production, technology
Wiesław Protasewicz	Member of the Management Board (responsible for Finance since 6.07.2017)	business controlling, planning and reporting, taxes, finance management
Maria Sosnowska	Member of the Management Board (responsible for Investments and Procurement since 6.07.2017)	administration, health and safety, environmental protection, realisation of property investments, development and technology, procurement

The Supervisory Board at its meeting on 5 February 2018 dismissed from PKN ORLEN Management Board following persons: Mr Wojciech Jasiński, the President of the Management Board, Mr Mirosław Kochalski, the Vice – President of the Management Board, Ms Maria Sosnowska, the Member of the Management Board responsible for Investment and Procurement.

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 PKN ORLEN Management Board, Investments and Procurement by the time of appointment of the Management Board Member for that position, providing that no longer than for three months.

TABLE 53. Composition of the PKN ORLEN's Management Board at the date of authorization of this Management Board Report.

Name and surname	Position held in PKN ORLEN Management Board	Supervised divisions
Daniel Obajtek	President of the Management Board, Chief Executive Officer	audit, financial control and management of corporate risk, head office, the capital group, crude oil and gas trade, human resources, corporate communication, control and safety, marketing, legal department, relations with local communities, strategy, management of regulatory risk
Zbigniew Leszczyński	Member of the Management Board Sales	efficiency and development of sales, refining products wholesale, petrochemical products wholesale, IT, logistics, retail sale
Krystian Pater	Member of the Management Board Production	efficiency and optimisation of production, power and heat generation, water and sewage management, petrochemical production, refinery production, technology
Wiesław Protasewicz	Member of the Management Board Finance	business controlling, supervision of infrastructure safety and information, planning and reporting, taxes, investor relations, finance management, supply chain management
Józef Węgrecki	Supervisory Board Member temporary acting as the Member of the PKN ORLEN Management Board, Investments and Procurement	administration, health and safety, innovations, environmental protection, realisation of property investments, development and technology, procurement

Responsibility division of Members of the Management Board of PKN ORLEN is available as well on the Company's website http://www.orlen.pl/EN/Company/ManagmentBoard/AreasOfResposibility/Pages/default.aspx

Appointing and recalling PKN ORLEN's Management Board

The Management Board of PKN ORLEN consists of five to nine members, including the President, Vice-Presidents and other Members of the Management Board. Members of the Management

Board are appointed and recalled by the Supervisory Board. One member of the Management Board is appointed and recalled by the Supervisory Board upon the request of the Minister in charge of the State Treasury.

The term of office of the Management Board Members is a joint term of office, ending on the day when the Ordinary General Meeting has been held, approving the financial statements for the whole second financial year of such term of office.

The Supervisory Board may suspend the President, Vice-Presidents, individual Members of the Management Board and all Management Board in their activities for serious reasons. Should the Management Board President be suspended from duty or his/her mandate expires before the end of the term of office, all his/her powers, except for the right to the vote cast referred to in § 9 item 5 point 2 of the Articles of Association are to be executed by the person appointed by the resolution of the Supervisory Board acting as President of the Management Board until the new Management Board President is appointed or the current one is restored to his/her position.

Organisation of PKN ORLEN's Management Board activity

Detailed rules for the convening of Management Board meetings are included in the Constitution of the Management Board, available on Company's website (http://www.orlen.pl/EN/Company/Pages/CorporateBylaws.aspx).

Meetings of the Management Board are held when necessary, however, not less frequently than once every two weeks. For an effectiveness of resolution the scheduled meeting has to be notified to all Members of the Management Board and at least one half of the Management Board Members have to be present at the meeting. The Management Board resolutions are passed with a simple majority of votes (in the event of a voting deadlock, the President of the Management Board has the casting vote) provided that for resolutions to grant a procuration, unanimity of all Members of the Management Board is required. A Management Board Member who voted against a resolution that was adopted may communicate his/her dissenting opinion, however, such communication has to be justified.

Resolutions are adopted in an open vote. A secret ballot may be ordered at a request of each Member of the Management Board.
Resolutions are signed by all Members of the Management Board who were present at the Management Board meeting on which the resolution was adopted. The resolution is also signed by the Member of the Management Board who filed a dissenting opinion, with a note: "dissenting opinion" or "votum separatum".

According to the Constitution of the Management Board, the Management Board Members shall notify the Supervisory Board of any conflict of interest connected with the positions occupied by them, or of any possibilities of such conflict of interest. Should the Company's interest be in conflict with the personal interests of the Management Board Member, the Management Board Member in question should abstain from deciding of such matters and request a proper remark to be made in he minutes of the meeting.

Competences of PKN ORLEN`s Management Board

All the Members of the Management Board are obliged and authorized to handle the issues of PKN ORLEN.

All the matters going beyond the ordinary course of business are subject to resolutions of the Management Board. Activities falling within the scope of the ordinary course of business are activities, among others, related to fuels trading within the meaning of the Company's Articles of Association (i.e. crude oil, petroleum products, biocomponents, biofuels and other fuels including natural gas, industrial gas and heating gas) or energy and any other activities not specified in the Constitution of Management Board. In addition, Management Board consent is not required to perform an action which is integral part of other action, for which the Management Board gave already consent, unless otherwise result from Management Board resolution.

Resolution of the Management Board is required, among others to:

- adopt and amend the Constitution of Management Board,
- adopt and amend the Organisational Rules and Regulations of PKN ORLEN,
- adopt motions to be submitted to the Supervisory Board and/or to the General Meeting,
- convene the General Meetings and adopt the proposed agenda of the General Meetings,
- approve annual and long-term financial plans as well as the Company's development strategy,
- approve investment tasks and corresponding liabilities if the resulting expenditures and encumbrances exceed PLN 10 000 000,
- incur liabilities, manage the property rights and any form of encumbrance on the Company's property where the total value exceeds PLN 20 000 000 (with certain exceptions to that rule),
- dispose and purchase real estate, perpetual usufruct or an interest in real estate and to establish a limited property right,
- dispose of, purchase and encumber stakes, shares or other interest in other entities, including shares admitted to public trading,
- issue the Company's securities,
- approve Company's and the ORLEN Group's financial statements,
- adopt and change the Company's employees' remuneration scheme, as well as decisions regarding introduction and fundamentals of the incentive schemes,
- conclude, amend and terminate a collective labour agreement applicable in the Company, and other agreements with trade unions,
- establish the principles of granting and revoking powers of attorney,
- formulate the so-called donation policy of the Company,
- grant a procuration,
- establish the internal division of competences among the Members of the Management Board,
- set up establishments/offices abroad,
- handle other matters which at least one Member of the Management Board requests to be handled in the form of a resolution,
- take decisions on the payment of interim dividends.

The Management Board has to regularly provide the Supervisory Board with exhaustive information on all aspects of PKN ORLEN's business operations and the risks related to such operations as well as the methods of managing such risks.

6.7.2. The Supervisory Board

TABELA 54. Composition of PKN ORLEN's Supervisory Board in 2017.

Name and surname	Position held in PKN ORLEN Supervisory Board
Angelina Sarota	Chairman of the Supervisory Board
Radosław L. Kwaśnicki	Vice – Chairman of the Supervisory Board
Mateusz Henryk Bochacik	Secretary of the Supervisory Board
Adrian Dworzyński	Member of the Supervisory Board (Independent Member of the Supervisory Board)
Agnieszka Krzętowska	Member of the Supervisory Board (Independent Member of the Supervisory Board)
Izabela Felczak-Poturnicka	Member of the Supervisory Board – appointed by OGM on 30 June 2017
Wojciech Kryński	Member of the Supervisory Board (Independent Member of the Supervisory Board)- appointed by OGM on 30 June 2017
Artur Gabor	Member of the Supervisory Board (Independent Member of the Supervisory Board)- resigned from the position from 1 September 2017
Wiesław Protasewicz	Member of the Supevisory Board – resignation as Member of the PKN ORLEN Supervisory Board with effect as of June 29th 2017

In 2017 the Supervisory Board held 14 minuted meetings and adopted 141 resolutions.

Attendance of PKN ORLEN Supervisory Board Members on Supervisory Board meetings was 99%. In the case of absence of Supervisory Board Member on the meeting, the Supervisory Board adopted resolution about its justification.

On 5 January 2018 the Minister of Energy 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 Małgorzata Niezgoda to the PKN ORLEN Supervisory Board. On 1 February 2018 Mr Małgorzata Niezgoda resigned from the position of PKN ORLEN Supervisory Board Member.

PKN ORLEN Extraordinary General Meeting on 2 February 2018 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 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.

TABLE 55. Composition of the PKN ORLEN's Supervisory Board at the date of authorization of this Management Board Report.

Name and surname	Position held in PKN ORLEN Supervisory Board
Izabela Felczak-Poturnicka	Chairman of the Supervisory Board
Radosław L. Kwaśnicki	Vice – Chairman of the Supervisory Board (Independent Member of the Supervisory Board from 14 March 2018)
Mateusz Henryk Bochacik	Secretary of the Supervisory Board (Independent Member of the Supervisory Board from 26 February 2018)
Agnieszka Biernat- Wiatrak	Member of the Supervisory Board
Wojciech Kryński	Member of the Supervisory Board (Independent Member of the Supervisory Board)
Jadwiga Lesisz	Member of the Supervisory Board (Independent Member of the Supervisory Board)
Małgorzata Niezgoda	Member of the Supervisory Board
Józef Węgrecki	Member of the Supervisory Board delegated to temporarily stand in for Management Board Member

The rules of conduct of PKN ORLEN's Supervisory Board

Appointing and recalling Members of PKN ORLEN's Supervisory Board

PKN ORLEN's Supervisory Board is composed of six to nine Members. The State Treasury is authorized to appoint and recall one Member of the Supervisory Board, other Members of the Supervisory Board are appointed and recalled by the General Meeting. Members of PKN ORLEN's Supervisory Board are appointed for a joint term of office, ending on the day when the Ordinary General Meeting has been held, approving the financial statements for the whole second financial year of such term of office. Individual Members of the Supervisory Board and the entire Supervisory Board can be recalled at any time before the end of the term of office. The General Meeting of PKN ORLEN appoints the Chairman of the Supervisory Board, whereas the vice-chairman and the secretary are appointed by the Supervisory Board from amongst the other Members of the Board. The current term of the Supervisory Board started on 3 June 2016.

At least two Supervisory Board Members must meet the independence criteria specified in the PKN ORLEN Articles of Association. Independent Supervisory Board Members are not employees of the Company, its subsidiary or affiliate, as well as they are not associated with these entities based on a contract of similar nature, are also not tied to shareholder in a manner that excludes the independence.

Independent Members of the Supervisory Board, before being appointed to the Supervisory Board, should submit to the Company a written statement of compliance with above mentioned provisions. The statement of compliance are submitted to remaining Supervisory Board Members and to the Management Board.

If the mentioned provisions are not met, a Member of the Supervisory Board is obliged to immediately notify the Company thereof. The Company informs the shareholders about the current number of independent members of the Supervisory Board.
If the number of independent members of the Supervisory Board is less than two, the Company's Management Board is obliged to immediately convene a General Meeting and put an issue concerning changes in the composition of the Supervisory Board on the agenda of the General Meeting. The Supervisory Board acts in its current composition until the changes in the composition of the Supervisory Board are made, i.e. the number of independent members is adjusted to the statutory requirements set in the Articles of Association whereas the provisions of § 8 item 9 of the Articles of Association (containing a list of resolutions which must be passed with consent of at least one half of independent Supervisory Board Members) do not apply.

Organisation of PKN ORLEN's Supervisory Board's operations

Organisation of the Supervisory Board, in accordance with the principles outlined in the PKN ORLEN Articles of Association and the Constitution of the Supervisory Board, is available on the corporate website:
http://www.orlen.pl/EN/Company/Pages/CorporateBylaws.aspx .

Meetings of the Supervisory Board are held when necessary, however, not less frequently than once every two months.

The Supervisory Board can pass resolutions if at least half of its Members participate in the meeting. Subject to the provisions of the Commercial Code, a resolution of the Supervisory Board can be passed in writing or with the use of direct means of remote communication. Resolutions of the Supervisory Board are passed with an absolute majority of the votes cast in the presence of at least half of the Members of the Supervisory Board. This does not apply to any Members of the Management Board or the entire Management Board being recalled or suspended during the term of their office when at least two thirds of all the Supervisory Board Members have to vote in favour of the resolution.

Passing resolutions on the following matters:

- any contribution to Members of the Management Board provided by the Company or any related entities,
- giving permission to sign any significant agreement by the Company or a subsidiary with an entity related to the Company, a Member of the Supervisory Board, or Management Board as well as with their related entities,
- appointing a certified auditor to audit the financial statements of the Company

requires the consent of at least one half of the independent Members of the Supervisory Board. Such provisions do not exclude applying art. 15 § 1 and 2 of the Commercial Code.

In order to perform their duties the Supervisory Board has the right to inspect all documents of the Company, request reports and explanations from the Management Board and the employees, and review the assets and liabilities of the Company. In order to ensure proper performance of its duties, the Supervisory Board, for its own purposes, has the right to ask the Management Board to draw up expert reports and opinions or to hire an adviser. The costs are borne by the Company.

According to the Constitution of the Supervisory Board, a Supervisory Board Member shall inform the remaining Members of the Supervisory Board of any conflict of interest as well as refraining from participating in discussions and casting votes in the case of voting on the resolution on an issue in which a conflict of interest has arisen. In case of doubt as to whether the conflict of interest exists or not, the matter is resolved by the Supervisory Board in the manner of a resolution.

Competence of PKN ORLEN's Supervisory Board

The Supervisory Board of PKN ORLEN exercises permanent supervision over the Company's operations, in all fields of its activity, specifically, the Supervisory Board is authorized to act as set out in the Commercial Code and the Company's Articles of Association.

Additionally, the Ordinary General Meeting held on 30 June 2017 imposed on the Supervisory Board an obligation to evaluate the statements regarding representative expenditures, expenditures on legal services, marketing services, public relations and public communication services and management advisory services as well as to give consent for conclusion of agreements in these matters.

Given the corporate governance standards and in order to enable the shareholders to make a true and fair view of the Company, the Supervisory Board of PKN ORLEN is in charge of the additional duty to submit to the General Meeting of the Company:

- assessment of PKN ORLEN's standing, including internal control, risk management, compliance and internal audit function

- an annual report on its work
- assessment of how the company's disclosure obligations are fulfilled regarding the application of the principles of corporate governance
- assessing the reasonableness of the Company's sponsorship activities and charity.

6.7.3. Committees of Supervisory Board

The Supervisory Board of PKN ORLEN may elect permanent or ad hoc committees which act as its collective advisory and opinion making bodies. The following permanent committees operate within the Supervisory Board of PKN ORLEN:

- Audit Committee,
- Strategy and Development Committee,
- Nomination and Remuneration Committee,
- Corporate Governance Committee,
- Corporate Social Responsibility Committee (CSR Committee).

TABLE 56. Composition of Supervisory Board Committees of PKN ORLEN in 2017.

Name and surname	Position held in PKN ORLEN supervisory board committee
Audit Committee	
Artur Gabor	Committee Chairman, Independent Supervisory Board Member till 31 August 2017
Radosław L. Kwaśnicki	Committee Member
Adrian Dworzyński	Committee Member - Independent Supervisory Board Member
Agnieszka Krzętowska	Committee Member - Independent Supervisory Board Member
Wiesław Protasewicz	Committee Member till 29 June 2017
Wojciech Kryński	Committee Member, Independent Supervisory Board Member from 13 June 2017 Committee Chairman from 12 September 2017
Izabela Felczak- Poturnicka	Committee Member from 12 September 2017
Strategy and Development Committee	
Wiesław Protasewicz	Committee Chairman till 29 June 2017
Radosław L. Kwaśnicki	Committee Chairman from 13 July 2017
Angelina Sarota	Committee Member till 13 July 2017
Adrian Dworzyński	Committee Member, Independent Supervisory Board Member
Agnieszka Krzętowska	Committee Member, Independent Supervisory Board Member
Izabela Felczak- Poturnicka	Committee Member from 13 July 2017
Artur Gabor	Committee Member, Independent Supervisory Board Member till 31 August 2017
Nomination and Remuneration Committee	
Angelina Sarota	Committee Chairman
Mateusz Bochacik	Committee Member
Adrian Dworzyński	Committee Member, Independent Supervisory Board Member
Agnieszka Krzętowska	Committee Member, Independent Supervisory Board Member
Corporate Governance Committee	
Adrian Dworzyński	Committee Chairman, Independent Supervisory Board Member
Angelina Sarota	Committee Member
Mateusz Bochacik	Committee Member
Radosław L. Kwaśnicki	Committee Member
Corporate Social Responsibility Committee	
Agnieszka Krzętowska	Committee Chairman, Independent Supervisory Board Member
Radosław L. Kwaśnicki	Committee Member
Mateusz Bochacik	Committee Member
Izebela Felczak- Poturnicka	Committee Member from 13 July 2017
Artur Gabor	Committee Member, Independent Supervisory Board Member till 31 August 2017

In 2017 Supervisory Board Committees held 38 minuted meetings.

Due to the changes in the structure of Supervisory Board, introduced on 5 January 2018 and 1, 2 and 5 February 2018, the Supervisory Board established the following Committee Members:

TABLE 57. Composition of Supervisory Board Committees of PKN ORLEN at the date of authorization of this Management Board Report

Name and surname	Position held in PKN ORLEN supervisory board committee
Audit Committee	
Wojciech Kryński	Committee Chairman, Independent Supervisory Board Member
Mateusz Bochacik	Committee Member, Independent Supervisory Board Member
Izabela Felczak-Poturnicka	Committee Member
Radosław L. Kwaśnicki	Committee Member, Independent Supervisory Board Member
Jadwiga Lesisz	Committee Member, Independent Supervisory Board Member
Strategy and Development Committee	
Radosław L. Kwaśnicki	Committee Member, Independent Supervisory Board Member
Agnieszka Biernat-Wiatrak	Committee Member
Izabela Felczak- Poturnicka	Committee Member
Małgorzata Niezgoda	Committee Member
Nomination and Remuneration Committee	
Małgorzata Niezgoda	Committee Chairman
Mateusz Bochacik	Committee Member, Independent Supervisory Board Member
Wojciech Kryński	Committee Member, Independent Supervisory Board Member
Corporate Governance Committee	
Agnieszka Biernat-Wiatrak	Committee Chairman
Mateusz Bochacik	Committee Member, Independent Supervisory Board Member
Radosław L. Kwaśnicki	Committee Member, Independent Supervisory Board Member
Corporate Social Responsibility Committee	
Jadwiga Lesisz	Committee Chairman, Independent Supervisory Board Member
Izabela Felczak- Poturnicka	Committee Member
Radosław L. Kwaśnicki	Committee Member, Independent Supervisory Board Member

Audit Committee

The task of the Audit Committee is to advise the Supervisory Board of PKN ORLEN on the issues related to the proper implementation of budget and financial reporting rules and internal control within the Company and the ORLEN Group, as well as cooperation with the Company's certified auditors. The Audit Committee meetings are held at least once per quarter, each time prior to the publication of the Company's financial statements.

Pursuant to the provisions of the Constitution of the Supervisory Board of PKN ORLEN, the Audit Committee consists of at least two independent members and at least one member has qualifications and experience in accounting or finance.

In 2017, the Audit Committee held 14 minuted meetings.

In 2017, the Act of 11 May 2017 on auditors, audit firms and public supervision was implemented, which defined the tasks of the Audit Committee and introduced new requirements for member of the Audit Committee. The Audit Committee performs all tasks required by this Act. Members of the Audit Committee also meet all conditions provided for in the Act.

Corporate Governance Committee

The task of the Corporate Governance Committee is to provide opinions and recommendations to the Supervisory Board on the implementation of corporate governance rules, assessment of reports concerning compliance with the corporate governance principles published by the Company and issuance of opinions on proposed changes to the corporate documents of the Company, as well as monitoring the Company management for compliance with legal and regulatory requirements, including compliance with the PKN ORLEN's Code of Ethics and the corporate governance principles.

In 2017, the Corporate Governance Committe held 4 minuted meetings including 3 shared meetings with the Nomination and

Remuneration Committee and 1 shared meeting with the Corporate Social Responsibility Committee.

Strategy and Development Committee

The task of the Strategy and Development Committee is to issue opinions and submit recommendations to the Supervisory Board on planned investments and divestments which exert a material impact on the Company's assets.

In 2017 the Strategy and Development Committee held 5 minuted meetings.

Nomination and Remuneration Committee

The task of the Nomination and Remuneration Committee is to help to attain the strategic goals of the Company by providing the Supervisory Board with opinions and motions on how to shape the management structure, with regard to organisational solutions, remuneration schemes and selection of the staff with the skills required to ensure the Company's success.

In 2017, the Nomination and Remuneration Committee held 8 minuted meetings including 3 shared meetings with the Corporate Governance Committee.

Corporate Social Responsibility Committee (CSR Committee)

The task of the CSR Committee is to support the Company's strategic objectives by taking into account social, ethical and environmental issues in the Company's operations and in contacts with stakeholders (including employees, customers, shareholders, local communities).

In 2017, the Social Responsibility Committee held 4 minuted meetings and 1 shared meeting with the Corporate Governance Committee.

6.8. REMUNERATION POLICY

Remuneration for Members of the Management Board at PKN ORLEN is determined by the Supervisory Board taking into account the resolution of the General Meeting in relation to the Act on the principles of determining remuneration of managing persons in certain companies and the recommendations of the Nomination and Remuneration Committee. The main components of the Management Board Members remuneration system include:

- monthly fixed-base pay,
- annual bonus dependent on the accomplishment level of quantitative and qualitative targets and the implementation of possible separate objectives to be determined,
- severance pay for dismissal from the Management Board Member function,
- compensation for non-competition.

All elements of the remuneration are governed by an agreement between the Member of the Management Board and the Company.

Benefits for directors reporting to the Management Board at PKN ORLEN may include a company car, coverage of the costs of investment insurance premiums, right to use extra medical service for the directors and their family members, including preventive health care, sports activities and rehabilitation, co-financing of rent if the director is renting a flat, coverage of the costs of moving house during the employment period, possibility of enjoying the benefits described in the Rules of the Company Social Benefits Fund, and the right to participate in the Employee Pension Scheme in accordance with the rules in force at the Company.

The remuneration policy in place at PKN ORLEN supports the achievement of the Company's goals, including in particular the long-term increase of value for shareholders and stability of functioning of the company.

General terms and conditions of the annual bonuses

In 2017, the rules for awarding bonuses for PKN ORLEN Members of the Management Board (as well as Management Board Members of ORLEN Group companies) were adjusted to the requirements resulting from the Act on the principles of determining remuneration of managing persons in certain companies as of 9 June 2016.

Members of the Management Board are entitled to an annual bonus on the principles established in the contract, which includes the Bonus System Regulations for the Management Board. The level of annual bonus depends on the performance of individual tasks (qualitative and quantitative), established by the Supervisory Board for the individual Members of the Management Board. The Supervisory Board, based on the general catalogue of Managerial Objectives established by PKN ORLEN General Meeting, appoints each year from four to ten individual bonus tasks that are recorded in Goals Charter of the Board Member. The Supervisory Board may also appoint for a particular year separate objective or objectives conditioning the possibility of receiving a bonus for this year.
Assessment of the performance of individual bonus tasks (quantitative and qualitative) by particular Member of the Management Board and separate objectives is made each year by the Supervisory Board on the President of the Management Board's recommendation, which contains assessment of individually performed bonus tasks of all Members of the Management Board, the Management Board's recommendation regarding the implementation of separate objective/objectives, reports on the performance of individual bonus tasks by members of the Management Board, PKN ORLEN's financial statements and other documents the investigation of which the Supervisory Board deems appropriate.
The Supervisory Board adopts a resolution to grant or not the Management Board Member of the annual bonus for the financial year, and its amount, by 30 April of the following year. The resolution is the basis for a payment of the annual bonus if the Company's consolidated financial statements for the financial year will be approved by the General Meeting.

For 2017, the Supervisory Board has set for all Members of the Management Board the following seven quantitative objectives:

- EBIT reported of the Concern,
- EBITDA LIFO of the Concern,
- Maintenance CAPEX of the Concern + general and personnel costs of the Concern,
- Development CAPEX of the Concern,
- Stock exchange ratio(TSR PKN ORLEN relative to the market),
- The Concern's debt ratio (financial gearing),
- Accident rate (the Concern's TRR)

and attributed to them relevant bonus thresholds. The Supervisory Board for each of the Members of the Management Board also established quality objectives associated with supervised by them unit.

Additionally, the Supervisory Board is accordance with the resolutions of PKN ORLEN General Meeting – determined the following separate objectives conditioning the possibility of receiving the annual bonus for 2017:

- implementation of the principles of remunerating Members of the Management and Supervisory Bodies in all companies belonging to the Capital Group in accordance with the provisions of the Act on the principles of determining remuneration of managing persons in certain companies until 30 June 2017,
- determining the composition of the Supervisory Boards in all companies belonging to the Capital Group in such a manner that their members hold required qualifications of members of Supervisory Boards, confirmed by a positive result of the examination for candidates for Members of Supervisory Boards or hold qualifications exempting them from the obligation to pass the examination in particular: hold a PhD degree in economic sciences or law, or are entered into the list of legal counsels, attorneys, expert auditors or investment advisers until 31 December 2017,
- realization of duties mentioned in Articles 17-20, Article 22 and Article 23 of the Act as of 16 December 2016 on the state asset management (Journal of Law 2016 item 2259), in the Company's subsidiaries defined in Art. 4 point 3 of Act as of 16 February 2007 on protection of the competition and consumers (Journal of Law 2017 item 229) until 31 December 2017.

Rules for awarding bonuses for key management personnel (including Members of the Management Board)

The regulations applicable to PKN ORLEN Management Board, directors reporting directly to the Management Board of PKN ORLEN and other key positions have certain common features. Persons covered by the above-mentioned systems are remunerated for the implementation of individual goals set at the beginning of the bonus period by the Supervisory Board for the Management Board and the Management Board for the key executive personnel. The bonus systems are consistent with the Company's Values and promote cooperation between particular employees and motivate them to achieve the best possible results for the PKN ORLEN.
The targets set are qualitative and quantitative, and are settled for after end of the year for which they were set, based on the principles adopted in the applicable Bonus System Regulations. Regulations also gives the possibility to highlight employees who have a significant contribution to the achieved results.

Remuneration of the Members of the Management Board and the Supervisory Board of the Company due to sit on the Management or Supervisory Boards of subsidiaries, jointly controlled entities and associates

Members of the PKN ORLEN's Management Board in 2017, who were acting as the Management or Supervisory Boards Members of subsidiaries, jointly controlled entities and associates of the ORLEN Group did not receive any remuneration, with the exception of Unipetrol a.s. wherein the payments were transferred to ORLEN's Foundation "DAR SERCA". As at 31 December 2017, thee members of the Management Board of PKN ORLEN sat on the Supervisory Board of Unipetrol a.s.

The agreements with the Members about non-competition and termination on appeal from the position held

The agreements of the Management Boards Members of PKN ORLEN and ORLEN Group companies in 2017 were adjusted to the requirements resulting from the Act on the principles of determining remuneration of managing persons in certain companies as of 9 June 2016.
In accordance with applicable agreements, Members of PKN ORLEN's Management Board are required for a period of 6 months from the date of termination of the contract, to refrain from competitive activities. During this period, the Management Board members are entitled to receive a salary in the amount of 50% of six-month basic salary, paid in 6 equal monthly instalments. Provisions of agreements regarding non-competition clause after termination of Management Board Member function come into force not until 6 months of holding function of Management Board Member.

In addition, the agreements provide for the payment of compensation in case of termination by the Company for reasons other than a breach of primary, essential obligations, under the condition of holding the position of the Management Board Member for a period of at least 12 months. Salary in this case amounts to three basic monthly remuneration.

The same rules regarding non-competition and severance payments apply to Management Board Members of ORLEN Group companies.

Directors directly subordinated to PKN ORLEN Management Board are normally required to refrain from competitive activities for a period of 6 months from the date of termination of the agreement. During this period they receive a salary equal to 50% of six-month basic salary, payable in 6 equal monthly instalments. The severance for termination of contract by the Employer is typically six basic monthly remuneration.

Diversity policy

In PKN ORLEN issues related to diversity management are governed by the following documents applicable to the Company:

- PKN ORLEN Employment Regulation
- The core values and standards of conduct of PKN ORLEN
- Corporate Collective Labour Agreement of PKN ORLEN
- Personnel policy of the ORLEN Group for the years 2013-2017.
- CSR Strategy for PKN ORLEN (in the range of development and diversity management).
- The separate internal organizational act on the implementation of policies defining the terms and conditions of work of persons with disabilities in PKN ORLEN
- The separate internal organizational act on the introduction of the PKN ORLEN the principles of providing support to employees in emergency situations.
- The separate internal organizational act on the Family Friendly Employer project.

The targets of operations connected with diversity management are:

- equal treatment in employment and the prohibition of discrimination,
- respect for diversity,
- management of cultural differences,
- openness for recruitment of socially excluded or marginalised in the labour market,

- supporting initiatives related to labour equality practices in the company,
- remuneration and bonus policy,
- standards of employment and remuneration of delegated workers, ie. expats and inpats,
- adapting workplace to the needs of employees (e.g. people with disabilities, breastfeeding mothers)
- supporting groups in difficult life situation,
- measures to support the reconciliation of private and professional life (i.e. Work-Life Balance Programs).

In addition, diversity policy in PKN ORLEN is also implemented through the following actions:

- organisation of open training courses and workshops for employees on diversity management,
- employee volunteering,
- considering diversity aspects in HR processes and tools (e.g. recruitment, training and development, remuneration) and shaping the organisational culture,
- workshops for expats on the cultural differences management,
- conducting research among employees on job commitment and satisfaction,
- appointment of the team coordinating counteracting mobbing (Anti-mobbing Committee appointed by the Employer to consider complaints in the event of mobbing behaviour)
- appointment of the Ethics Ombudsman for reporting violations of "The core values and standards of conduct of PKN ORLEN" (also regarding discrimination and mobbing)
- appointment of Human Capital Committee that issues opinions, approves/submits for approval of PKN ORLEN Management Board and monitors the observance of "The core values and standards of conduct of PKN ORLEN", in particular examines significant violations, takes corrective actions, issues guidelines and also considers important issues regarding ethical matters.

The Management Board and the Supervisory Board of PKN ORLEN include members with education in law, economics and chemistry with diverse work experience.
As at December 31, 2017, the Management Board consisted of 1 woman and 5 men and the Supervisory Board consisted of 3 women and 4 men. The age structure of Board Members is as follows: 40-50 years old - 2 persons, 50-60 years old - 2 persons, 60-70 old - 2 persons, and the Supervisory Board Members as follows: 30-40 years old - 3 persons, 40-50 years old - 4 persons.

7. REPORT ON NON-FINANCIAL INFORMATION

According to Article 49 b point 2 of the Accounting Act - the Parent Company - PKN ORLEN S.A. and the ORLEN Group is required to prepare **a Report on Non-financial Information for 2017**. This report will be published in a separate document (combining the report of the Company and the ORLEN Group) on the website www.orlen.pl on the day of publication of the Annual Report of the ORLEN Group for 2017.

Glossary of selected industry concepts

Glossary of definitions and abbreviations	
ALKYLATION	Refinery process in PKN ORLEN, namely that olefin and paraffin fractions are merged in order to produce high-octane gasoline component (alkylate). The process is run on alkylation installation in the presence of hydrofluoric acid.
BARREL	Unit of liquid volume used mainly in the oil industry. 1 barrel of crude oil (1 bbl) = 42 American gallons = 158.96832 l.
BIG DATA	The tool assuring advanced analysis of the available data in order to adapt the offer, prepare efficient promotional campaigns, provide better station segmentation (as far as the offer and the price level are concerned).
BIOESTERS	Methyl esters of higher fatty acids produced from vegetable oils or animal fats. Used as a bio-component for diesel fuel or as a fuel for cars with diesel engines. Meets the quality standards set for the biofuel in the PN EN 14214. applicable both in Poland and other European Union markets.
BIOETHANOL	Ethanol derived from biomass or biodegradable waste.
BOE	Barrel of oil equivalent.
CODO / COCO	Fuel station owned by the Company, operated by agent (Company Owned Dealer Operated) / Fuel station owned and operated by the Company (Company Owned Company Operated)
DISTILLATION	Method of physical separation of liquid mixtures. which uses the phenomenon of differences in boiling temperatures of particular components in the mixture undergoing distribution.
DIFFERENTIAL BRENT/URAL	Difference between the quotations of two kinds of crude oil. calculated as: Med Strip - Ural Rdam (Ural CIF Rotterdam).
DOFO / DODO	Fuel station owned by agent and operated as franchise business (Dealer Owned Franchisee Operated) / Fuel station owned and operated by agent (Dealer Owned Dealer Operated)
HYDROCRACKING	Cracking of hydrocarbon raw materials in the presence of hydrogen. This process raises the efficiency of light products from crude oil.
HYDRODESULPHURIZATION	The process of removing sulphur compounds in the raw material by contact with hydrogen at the catalyst bed under high temperature and pressure.
CATALYST	Substance. which accelerates (initiates) the expected chemical reaction.
CRACKING	Thermal or catalytic conversion of heavy or more complex hydrocarbons into light products and coke. which increases the yields of light products from crude oil.
MED STRIP	Brent crude oil quotation.
MODEL DOWNSTREAM MARGIN	Calculated as: revenues from products sold (90,7% Products = 22.8% Gasoline + 44.2% Diesel +15.3% HHO + 1.0% SN 150 + 2.9% Ethylene +2.1% Propylene + 1.2% Benzene + 1.2% PX) – costs (input 100% = 6.5% Brent Crude + 91.1% URAL Crude + 2.4% Natural Gas).
MODEL REFINING MARGIN	Calculated as: revenues from products sold (93.5% Products = 36% Gasoline + 43% Diesel + 14.5% HHO) - costs (100% input: crude oil and other raw materials). Total input calculated acc. to Brent crude quotations. Spot market quotations.
MODEL PETROCHEMICAL MARGIN	Calculated as: revenues from products sold (98% Products = 44% HDPE + 7% LDPE + 35% PP Homo + 12% PP Copo) - costs (100% input = 75% naphtha + 25% LS VGO). Contract market quotations.
MODEL PETROCHEMICAL OLEFINS MARGINS	Calculated as: revenues (100% Products = 0.85 * Ethylene * 54% + 0.92 * Propylene * 28% + 0.84 * Glycols * 9% + 0.81 * Butadiene * 6% + 0.8 * Ethylene oxide * 3%) minus costs (100% input = 100% Naphtha); product prices according to market quotations.
MONOMERS	Molecules of the same type or number of different kind of compounds characterize not very high molecular weight. which can form polymers during polymerization reaction: ethylene and propylene
NET DRILLINGS	The number of drillings corrected with the share of other partners.
POLYMERS	Chemicals of very high molecular weight. which consist of many repeated units called mers. polyethylene and polypropylene.
TOE	Tonne Oil Equivalent (toe) - energy equivalent of one metric ton of crude oil with a calorific value equal to 10 000 kcal/kg.
TRR	Total Recordable Rate = international accident rate in enterprises determined as follows: (number of accidents in a given period/number of hours worked in the period) x 1 000 000.
T1 PSER	The number of events with greater consequences in relation to the release substance into the environment x 1 000 000 / number of hours worked.
T2 PSER	The number of events with smaller consequences in relation to the release substance into the environment x 1 000 000 / number of hours worked.
UPSTREAM	Oil exploration and mining.
URAL RDAM (URAL CIF ROTTERDAM)	Ural crude oil quotation in Rotterdam.
WHITE PRODUCT YIELD	The yield of gasoline, diesel and heating fuel, fuel fractions, dry and liquefied petroleum gas compared to the amount of processed crude oil.
HYDROCARBONS	Organic compounds made of carbon and hydrogen. Crude oil and natural gas are mixtures of hydrocarbons.
HIGH-PERFORMANCE COGENERATION	The production of electricity or mechanical energy and heat in cogeneration what allows savings of primary energy used in cogeneration unit in amount not lower than 10% in comparison to production of electricity and heat in separated systems or in cogeneration unit of installed electric capacity below 1 MW in comparison to production of electricity and heat in separated systems.

Glossary of selected financial concepts

Financial glossary	
ADR	American Depository Receipt = certificate issued by an American bank representing a share of a foreign stock that the bank holds in trust but that is traded on an American stock exchange.
EURIBOR	Interbank Offered Rate – interest rate of interbank credit on the interbank market in euro zone.
GDR	Global Depositary Receipt = security issued outside of Poland by the Depositary Bank in relation to shares.
LIBOR	London Interbank Offered Rate – interest rate on the London market that apply to interbank credits.
WIBOR	Warsaw Inter Bank Offered Rate - interest rate on the Polish interbank market that apply to interbank credits.
EBIT	Profit/(Loss) from operations.
EBITDA	Profit/(Loss) from operations increased by amortisation and depreciation.
Inventory valuation so called LIFO effect	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. In accordance with IFRS inventory valuation under LIFO is not acceptable and consequently it is not applied in the accounting principles as well as in the financial statements of the ORLEN Group. Therefore, an upward trend in crude oil prices has a positive effect and the downtrend has a negative impact on the reported results. As a result, the operating results based on LIFO method of inventory valuation are additionally presented in the foregoing report, to eliminate described above influence of crude oil prices changes on the ORLEN Group financial results. Result from operations under LIFO method of inventories valuation are calculated mainly in production companies, including: PKN ORLEN, Unipetrol Group, ORLEN Lietuva Group, ORLEN Południe and ORLEN Oil.
Capital expenditures / CAPEX	Increase of property, plant and equipment, intangible assets, investment property and perpetual usufruct of land together with the capitalisation of borrowing costs

Financial ratios	
ROA	net profit/ total assets x 100%
ROE	net profit / equity x 100%
ROACE	operating profit after tax and before write-down the value of assets / average capital employed (shareholders' equity + net debt)
ROACE LIFO	LIFO operating profit after tax and before write-down the value of assets / average capital employed (shareholders' equity + net debt)
GROSS MARGIN ON SALES	profit before tax / sales revenues x 100%
NET MARGIN ON SALES	net profit / sales revenues x 100%
CURRENT LIQUIDITY	current assets/short-term liabilities
QUICK LIQUIDITY	(current assets– inventories - prepayments) / short-term liabilities
NET WORKING CAPITAL	trade receivables + inventories – trade liabilities
RECEIVABLES TURNOVER	average amount of trade receivables / sales revenues x 365 days
LIABILITIES TURNOVER	average amount of trade liabilities / cost of goods sold x 365 days
INVENTORY TURNOVER	average amount of inventories / sales revenues x 365 days
ASSETS TURNOVER	sales from revenues / average amount of assets
NET DEBT	non-current loans, borrowings and bonds + short-term loans and borrowing – cash and cash equivalents
FINANCIAL GEARING	net debt / equity x 100%

8. STATEMENT OF THE MANAGEMENT BOARD AND APPROVAL OF MANAGEMENT BOARD REPORT ON THE OPERATIONS OF ORLEN GROUP AND PKN ORLEN

Management Board of PKN ORLEN herby declares that the foregoing Management Board Report on the operations of the ORLEN Group and PKN ORLEN gives a true view of the ORLEN Group and PKN ORLEN development, achievements and position, and includes a description of key threats and risks.

The Management Board Report on the Operations of the ORLEN Group and PKN ORLEN S.A. was approved by the Management Board of the Parent Company on 15 March 2018.

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Daniel Obajtek
President of the Board

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Zbigniew Leszczyński
Member of the Board

....
Krystian Pater
Member of the Board

....
Wiesław Protasewicz
Member of the Board

....
Józef Węgrecki
Member of the Supervisory Board
delegated for temporary acting as
the Member of the Board