Polski Koncern Naftowy ORLEN
Spółka Akcyjna

ORLEN GROUP

CONSOLIDATED QUARTERLY REPORT

FOR THE 3rd QUARTER 2018

ORLEN GROUP - SELECTED DATA

	PLN million		EUR million	
	9 MONTHS ENDED 30/09/2018	9 MONTHS ENDED 30/09/2017	9 MONTHS ENDED 30/09/2018	9 MONTHS ENDED 30/09/2017
Sales revenues	80 286	70 630	18 875	16 593
Profit from operations increased by depreciation and amortisation (EBITDA)	8 055	8 429	1 894	1 980
Profit from operations (EBIT)	6 079	6 670	1 429	1 567
Profit before tax	6 025	6 722	1 416	1 579
Net profit	**4 892**	**5 539**	**1 150**	**1 301**
Total net comprehensive income	4 985	5 910	1 172	1 388
Net profit attributable to equity owners of the parent	4 849	5 064	1 140	1 190
Total net comprehensive income attributable to equity owners of the parent	4 898	5 347	1 152	1 256
Net cash from operating activities	5 941	7 169	1 397	1 685
Net cash (used) in investing activities	(2 921)	(2 786)	(687)	(655)
Net cash (used) in financing activities	(3 244)	(2 831)	(763)	(665)
Net increase/(decrease) in cash and cash equivalents	(224)	1 552	(53)	365
Net profit and diluted net profit per share attributable to equity owners of the parent (in PLN/EUR per share)	11.34	11.84	2.67	2.78

	30/09/2018	31/12/2017	30/09/2018	31/12/2017
Non-current assets	32 658	31 740	7 646	7 610
Current assets	34 798	28 924	8 146	6 935
Total assets	**67 456**	**60 664**	**15 792**	**14 545**
Share capital	1 058	1 058	248	254
Equity attributable to equity owners of the parent	34 836	32 197	8 156	7 719
Total equity	**35 373**	**35 211**	**8 281**	**8 441**
Non-current liabilities	11 016	9 071	2 579	2 176
Current liabilities	21 067	16 382	4 932	3 928
Number of shares	427 709 061	427 709 061	427 709 061	427 709 061
Carrying amount and diluted carrying amount per share attributable to equity owners of the parent (in PLN/EUR per share)	81.45	75.28	19.07	18.05

PKN ORLEN - SELECTED DATA

	PLN million		EUR million	
	9 MONTHS ENDED 30/09/2018	9 MONTHS ENDED 30/09/2017	9 MONTHS ENDED 30/09/2018	9 MONTHS ENDED 30/09/2017
Sales revenues	63 701	51 821	14 976	12 174
Profit from operations increased by depreciation and amortisation (EBITDA)	5 261	4 277	1 237	1 005
Profit from operations (EBIT)	4 254	3 374	1 000	793
Profit before tax	4 971	4 517	1 169	1 061
Net profit	**4 205**	**3 846**	**989**	**904**
Total net comprehensive income	4 075	4 343	958	1 020
Net cash from operating activities	3 219	3 038	757	713
Net cash from/(used in) investing activities	(4 643)	59	(1 091)	14
Net cash from/(used in) financing activities	1 367	(2 099)	321	(493)
Net increase/(decrease) in cash	(57)	998	(13)	234
Net profit and diluted net profit per share (in PLN/EUR per share)	9.83	8.99	2.31	2.11

	30/09/2018	31/12/2017	30/09/2018	31/12/2017
Non-current assets	30 145	26 407	7 057	6 331
Current assets	27 925	22 945	6 538	5 501
Total assets	**58 070**	**49 352**	**13 595**	**11 832**
Share capital	1 058	1 058	248	254
Total equity	**30 333**	**27 565**	**7 101**	**6 609**
Non-current liabilities	10 063	8 253	2 356	1 979
Current liabilities	17 674	13 534	4 138	3 244
Number of shares	427 709 061	427 709 061	427 709 061	427 709 061
Carrying amount and diluted carrying amount per share (in PLN/EUR per share)	70.92	64.45	16.60	15.45

The above data for the 9 month period of 2018 and 2017 was translated into EUR using the following exchange rates:

- items in the statement of profit or loss and other comprehensive income and the statement of cash flows - by the arithmetic average of average exchange rates published by the National Bank of Poland as of the last day of each month during the reporting period: from 1 January to 30 September 2018 – 4.2535 EUR/PLN and from 1 January to 30 September 2017 – 4.2566 EUR/PLN;
- items of assets, equity and liabilities – by the average exchange rate published by the National Bank of Poland as at 30 September 2018 – 4.2714 EUR/PLN and as at 31 December 2017 – 4.1709 EUR/PLN.

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INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE 9 AND 3 MONTH PERIOD ENDED 30 SEPTEMBER 2018

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

ORLEN GROUP (in PLN million)

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

Consolidated statement of profit or loss and other comprehensive income

	NOTE	9 MONTHS ENDED 30/09/2018 (unaudited)	3 MONTHS ENDED 30/09/2018 (unaudited)	9 MONTHS ENDED 30/09/2017 (unaudited)	3 MONTHS ENDED 30/09/2017 (unaudited)
Sales revenues	5.1	80 286	30 344	70 630	24 730
revenues from sales of finished goods and services		*66 431*	*25 509*	*52 773*	*18 381*
revenues from sales of merchandise and raw materials		*13 855*	*4 835*	*17 857*	*6 349*
Cost of sales	5.2	(70 100)	(26 495)	(60 660)	(21 060)
cost of finished goods and services sold		*(57 781)*	*(22 264)*	*(44 352)*	*(15 307)*
cost of merchandise and raw materials sold		*(12 319)*	*(4 231)*	*(16 308)*	*(5 753)*
Gross profit on sales		**10 186**	**3 849**	**9 970**	**3 670**
Distribution expenses		(3 498)	(1 223)	(3 160)	(1 140)
Administrative expenses		(1 149)	(384)	(1 095)	(359)
Other operating income	5.3	965	155	1 007	146
Other operating expenses	5.3	(545)	(137)	(238)	(105)
(Loss)/reversal of loss due to impairment of financial instruments		6	5	-	-
Share in profit from investments accounted for under equity method		114	26	186	62
Profit from operations		**6 079**	**2 291**	**6 670**	**2 274**
Finance income	5.4	1 169	391	1 027	214
Finance costs	5.4	(1 222)	(134)	(975)	(428)
Net finance income and costs		**(53)**	**257**	**52**	**(214)**
(Loss)/reversal of loss due to impairment of financial instruments		(1)	-	-	-
Profit before tax		**6 025**	**2 548**	**6 722**	**2 060**
Tax expense		(1 133)	(473)	(1 183)	(363)
current tax		*(1 021)*	*(429)*	*(965)*	*(330)*
deferred tax		*(112)*	*(44)*	*(218)*	*(33)*
Net profit		**4 892**	**2 075**	**5 539**	**1 697**
Other comprehensive income:					
which will not be reclassified subsequently into profit or loss		**(15)**	**(12)**	**-**	**-**
gains/(losses) on investments in equity instruments at fair value through other comprehensive income		*(18)*	*(14)*	*-*	*-*
deferred tax		*3*	*2*	*-*	*-*
which will be reclassified into profit or loss		**108**	**(132)**	**371**	**187**
hedging instruments		*(342)*	*40*	*787*	*(86)*
hedging costs		*67*	*17*	*-*	*-*
exchange differences on translating foreign operations		*331*	*(177)*	*(267)*	*253*
deferred tax		*52*	*(12)*	*(149)*	*20*
		93	**(144)**	**371**	**187**
Total net comprehensive income		**4 985**	**1 931**	**5 910**	**1 884**
Net profit attributable to		**4 892**	**2 075**	**5 539**	**1 697**
equity owners of the parent		*4 849*	*2 063*	*5 064*	*1 603*
non-controlling interest		*43*	*12*	*475*	*94*
Total net comprehensive income attributable to		**4 985**	**1 931**	**5 910**	**1 884**
equity owners of the parent		*4 898*	*1 924*	*5 347*	*1 717*
non-controlling interest		*87*	*7*	*563*	*167*
Net profit and diluted net profit per share attributable to equity owners of the parent (in PLN per share)		11.34	4.83	11.84	3.75

The accompanying notes disclosed on pages 9 – 26 are an integral part of the foregoing interim condensed consolidated financial statements.

(in PLN million)

Consolidated statement of financial position

	NOTE	30/09/2018 (unaudited)	31/12/2017
ASSETS			
Non-current assets			
Property, plant and equipment		30 181	29 071
Intangible assets		1 268	1 272
Investments accounted for under equity method		667	715
Deferred tax assets		30	49
Derivatives	5.6	167	303
Other assets	5.6	345	330
		32 658	**31 740**
Current assets			
Inventories		15 409	12 440
Trade and other receivables		12 552	9 518
Current tax assets		88	80
Cash and cash equivalents		6 012	6 244
Non-current assets classified as held for sale		75	75
Derivatives	5.6	583	434
Other assets	5.6	79	133
		34 798	**28 924**
Total assets		**67 456**	**60 664**
EQUITY AND LIABILITIES			
EQUITY			
Share capital		1 058	1 058
Share premium		1 227	1 227
Hedging reserve		90	331
Revaluation reserve		(10)	5
Exchange differences on translating foreign operations		639	334
Retained earnings		31 832	29 242
Equity attributable to equity owners of the parent		**34 836**	**32 197**
Non-controlling interests		**537**	**3 014**
Total equity		**35 373**	**35 211**
LIABILITIES			
Non-current liabilities			
Loans and bonds	5.5	8 549	6 688
Provisions	5.7	929	902
Deferred tax liabilities		1 138	1 095
Derivatives	5.6	46	75
Other liabilities	5.6	354	311
		11 016	**9 071**
Current liabilities			
Trade and other liabilities		17 717	14 469
Liabilities from contracts with customers		251	-
Loans and bonds	5.5	1 114	317
Provisions	5.7	736	673
Current tax liabilities		482	290
Derivatives	5.6	500	313
Other liabilities	5.6	267	320
		21 067	**16 382**
Total liabilities		**32 083**	**25 453**
Total equity and liabilities		**67 456**	**60 664**

The accompanying notes disclosed on pages 9 – 26 are an integral part of the foregoing interim condensed consolidated financial statements.

ORLEN GROUP (in PLN million)

Consolidated statement of changes in equity

	Equity attributable to equity owners of the parent							
	Share capital and share premium	Hedging reserve	Revaluation reserve	Exchange differences on translating foreign operations	Retained earnings	Total	Non-controlling interests	Total equity
01/01/2018 (approved data)	2 285	331	5	334	29 242	32 197	3 014	35 211
Impact of IFRS 9 adoption	-	-	-	-	(9)	(9)	-	(9)
01/01/2018 (converted data)	2 285	331	5	334	29 233	32 188	3 014	35 202
Net profit	-	-	-	-	4 849	4 849	43	4 892
Items of other comprehensive income	-	(241)	(15)	305	-	49	44	93
Total net comprehensive income	**-**	**(241)**	**(15)**	**305**	**4 849**	**4 898**	**87**	**4 985**
Change in structure	-	-	-	-	(967)	(967)	(2 564)	(3 531)
Dividends	-	-	-	-	(1 283)	(1 283)	-	(1 283)
30/09/2018	**2 285**	**90**	**(10)**	**639**	**31 832**	**34 836**	**537**	**35 373**
(unaudited)								
01/01/2017	2 285	(355)	5	946	23 882	26 763	2 522	29 285
Net profit	-	-	-	-	5 064	5 064	475	5 539
Items of other comprehensive income	-	586	-	(303)	-	283	88	371
Total net comprehensive income	**-**	**586**	**-**	**(303)**	**5 064**	**5 347**	**563**	**5 910**
Dividends	-	-	-	-	(1 283)	(1 283)	(89)	(1 372)
30/09/2017	**2 285**	**231**	**5**	**643**	**27 663**	**30 827**	**2 996**	**33 823**
(unaudited)								

The accompanying notes disclosed on pages 9 – 26 are an integral part of the foregoing interim condensed consolidated financial statements.

ORLEN GROUP (in PLN million)

Consolidated statement of cash flows

	9 MONTHS ENDED 30/09/2018 (unaudited)	3 MONTHS ENDED 30/09/2018 (unaudited)	9 MONTHS ENDED 30/09/2017 (unaudited)	3 MONTHS ENDED 30/09/2017 (unaudited)
Cash flows from operating activities				
Profit before tax	**6 025**	**2 548**	**6 722**	**2 060**
Adjustments for:				
Share in profit from investments accounted for under equity method	(114)	(26)	(186)	(62)
Depreciation and amortisation	1 976	677	1 759	616
Foreign exchange (gain)/loss	234	(148)	(27)	65
Interest, net	149	53	155	52
Dividends	(4)	-	(4)	-
(Profit)/Loss on investing activities	(192)	(145)	360	157
Change in provisions	451	172	219	86
Change in working capital	(1 477)	631	(685)	(267)
inventories	*(2 830)*	*(1 026)*	*(281)*	*(266)*
receivables	*(2 494)*	*(633)*	*(1 524)*	*(1 472)*
liabilities	*3 847*	*2 290*	*1 120*	*1 471*
Other adjustments, incl.:	(264)	220	29	549
change in balances of settlements due to compensation from insurers in Unipetrol Group	*-*	*264*	*218*	*493*
rights received free of charge	*(366)*	*(152)*	*(214)*	*(85)*
Income tax (paid)	(843)	(430)	(1 173)	(253)
Net cash from operating activities	**5 941**	**3 552**	**7 169**	**3 003**
Cash flows from investing activities				
Acquisition of property, plant and equipment, intangible assets and perpetual usufruct of land	(3 270)	(1 065)	(2 880)	(879)
Acquisition of shares	(25)	-	-	-
Disposal of property, plant and equipment, intangible assets and perpetual usufruct of land	126	21	85	17
Dividends received	129	-	177	-
Settlement of derivatives not designated as hedge accounting	127	39	(167)	(78)
Other	(8)	(4)	(1)	1
Net cash (used) in investing activities	**(2 921)**	**(1 009)**	**(2 786)**	**(939)**
Cash flows from financing activities				
Redemption of non-controlling shares Unipetrol a.s.	(4 222)	(691)	-	-
Proceeds from loans and borrowings received	2 188	57	10	132
Bonds issued	600	200	-	-
Repayments of loans and borrowings	(91)	(2)	(827)	(177)
Redemption of bonds	(200)	-	(400)	-
Interest paid	(207)	(27)	(214)	(24)
Dividends paid	(1 284)	(1 283)	(1 376)	(1 376)
to equity owners of the parent	*(1 283)*	*(1 283)*	*(1 283)*	*(1 283)*
to non-controlling interest	*(1)*	*-*	*(93)*	*(93)*
Payments of liabilities under finance lease agreements	(24)	(7)	(21)	(7)
Other	(4)	(3)	(3)	(2)
Net cash (used) in financing activities	**(3 244)**	**(1 756)**	**(2 831)**	**(1 454)**
Net increase/(decrease) in cash and cash equivalents	**(224)**	**787**	**1 552**	**610**
Effect of exchange rate changes	(8)	(53)	(91)	90
Cash and cash equivalents, beginning of the period	6 244	5 278	5 072	5 833
Cash and cash equivalents, end of the period	**6 012**	**6 012**	**6 533**	**6 533**

The accompanying notes disclosed on pages 9 – 26 are an integral part of the foregoing interim condensed consolidated financial statements.

ORLEN GROUP (in PLN million)

EXPLANATORY NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Principal activity of the ORLEN Group

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

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

2.1. Statement of compliance and general principles for preparation

The foregoing interim condensed consolidated financial statements ("consolidated financial statements") were prepared in accordance with requirements of IAS 34 "Interim financial reporting" and in the scope required under the Minister of Finance Regulation of 29 March 2018 on current and periodic information provided by issuers of securities and conditions of recognition as equivalent information required by the law of a non member state (Official Journal 2018, item 757) ("Regulation") and present the Polski Koncern Naftowy ORLEN S.A. Capital Group's ("Group", "ORLEN Group") financial position as at 30 September 2018 and as at 31 December 2017, financial results and cash flows for the 9 and 3 month period ended 30 September 2018 and 30 September 2017.

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

The duration of the Parent Company and the entities comprising the ORLEN Group is unlimited.

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

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

2.2.1. Accounting principles

In the foregoing interim condensed consolidated financial statements, the significant accounting policies applied by the Group and significant values based on judgments and estimates were the same as described in separate explanatory notes in the Consolidated Financial Statements for 2017, except for the adopted new IFRS 15 – Revenue from Contracts with Costumers and IFRS 9 - Financial Instruments described in note 2.2.2.

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

The Group adopted the requirements of IFRS 9 and IFRS 15 with a modified retrospective approach with effect from 1 January 2018. According to the option allowed by the standard, the Group resigned from converting comparable data. As at 31 December 2017 and for the 3rd quarter of 2017 data were prepared based on IAS 39 regarding financial instruments and IAS 18 and IAS 11 regarding revenues from sales.

2.2.2. Amendments to International Financial Reporting Standards (IFRS)

➢ IFRS 9 Financial instruments

Selected accounting principles

Measurement of financial assets and liabilities

From 1 January 2018, the Group classifies financial assets into one of the following categories:
- measured at amortized cost,
- measured at fair value through other comprehensive income,
- measured at fair value through profit or loss,
- hedging financial instruments.

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

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

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

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

The Group classifies financial liabilities into one of the following categories:
- measured at amortized cost,
- measured at fair value through profit or loss,
- hedging financial instruments.

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

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

Measurement of financial assets at amortized cost

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

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

Measurement of financial assets at fair value through other comprehensive income

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

Measurement of financial assets at fair value through profit or loss

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

Measurement of hedging financial instruments

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

Impairment of financial assets

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

The Group uses the following models for determining impairment allowances:
- general model (basic),
- simplified model.

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

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

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

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

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

ORLEN GROUP (in PLN million)

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

The simplified model is used by the Group for trade receivables.
In the simplified model, the Group does not monitor changes in the credit risk level during the life of the instrument and estimates the expected credit loss in the horizon up to maturity of the instrument.
In particular, for the insolvency event, the Group recognizes when the contractor has not satisfied the obligation after 90 days from the due receivables date.
For the purpose of estimating the expected credit loss, the Group uses a provision matrix estimated on the basis of historical levels of repayment and recoveries from receivables from contractors.
The Group includes information about the future in the parameters used in the expected loss estimation model, through the management adjustment of the basic insolvency probability parameters. To calculate the expected credit loss, the Group determines the probability parameter of receivables defaults estimated on the basis of the analysis of the number of unpaid invoices in the last five years, and the liabilities default rate estimated on the basis of the value of unpaid invoices in the last five years.
The expected credit loss is calculated when the receivable is recognized in the statement of financial position and is updated on each subsequent day ending the reporting period, depending on the number of days for which the receivable is due.

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

Hedge accounting
Derivatives designated as hedging instruments from which it is expected that their fair value or resulting from them cash flows will offset changes in fair value or cash flows of hedged item are recognized in accordance with the principles of fair value hedge accounting or cash flows hedges.
The Group assesses the effectiveness of hedging both at the moment of establishing the hedging and in subsequent periods, at least at each end of the reporting period. Verification of satisfaction of the conditions for the effectiveness of linking is made on a prospective basis, based on a qualitative analysis. If necessary, the Group uses a quantitative analysis (linear regression method) to confirm an economic relation between the hedging instrument and the hedged item.
In the case of cash flows hedge accounting, the Group:
- the part of profits or losses related to the hedging instrument, which constitute an effective hedge due to the hedged risk, recognizes in other comprehensive income,
- in addition (in the case of FX hedging - spot risk element), a change in the fair value due to the forward element (including the cross-currency margin) recognizes within the equity in a separate position (hedging cost),
- the inefficient part of profits or losses related to the hedging instrument recognizes in the statement of profit or loss. In the case of hedging cash flows from operating activities, the ineffective part recognizes in other operating income/expenses, and in the case of hedging cash flows of financing activities in finance income/costs.
- reclassifies profits or losses from equity to the statement of profit or loss to the line in which the hedged item is presented,
- excludes profits or losses from equity and adjusts the initial value of the hedged item (if the realization of the hedged item results in the recognition of a non-financial asset - for example, an inventory).

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

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

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

The item of unquoted shares consists of equity instruments not held for trading, in accordance with IAS 39 classified as available for sale, which were valued by the Group at the purchase price less impairment allowances. The instruments were not acquired for trading in relation to the above, these assets will be measured at fair value through other comprehensive income, without the option of subsequent transferring the result from these instruments to the statement of profit or loss.
In the area of hedge accounting, the Group applies the requirements of IFRS 9 in the construction of hedging relationships. In particular, it concerns matching of the definitions of commodity risk hedging to the exposure characteristics and applied risk management strategies. The Group aims to limit the underlying risk in hedging relationships (resulting from various commodity indices on the side of the hedging instrument and the hedged item).

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

ORLEN GROUP (in PLN million)

IFRS 15 Revenue from Contracts with Customers

Selected accounting principles

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

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

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

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

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

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

Recognition of revenue when performance obligations are satisfied
The Group recognises revenue when (or as) the Group satisfies performance obligations by transferring a promised good or service (i.e. an asset) to a customer (the customer obtains control of that asset). Revenues are recognised as amounts equal to the transaction price that has been allocated to a given performance obligation.
The Group transfers control of good or service over time and, therefore, satisfies a performance obligation and recognises revenues over time, if one of the following criteria is met:
- the customer simultaneously receives and consumes the benefits from performance as the Group performs,
- the asset is created or enhanced as a result of the performance, and the customer controls the asset as it is created or enhanced,
- as a result of the performance of the service, an alternative component for the Group is not created, and the Group has an enforceable right to payment for performance completed to date.

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

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

The change in trade and other receivables results from the change in the measurement of impairment allowances estimated in accordance with IFRS 9, considering the requirements of the expected credit losses model.
The impact of the application of IFRS 15 on the items of the consolidated financial statements of the Group in the 3rd quarter of 2018 compared to IAS 11, IAS 18 and related interpretations was immaterial.
Additionally, the Group disclosed information on the estimated impact of applying IFRS 9 and IFRS 15 in the annual consolidated financial statements of the Group for 2017 in note 5.5.

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

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

IFRS 16 Lease

The Council of International Accounting Standards issued International Financial Reporting Standard 16 Leases ("IFRS 16") in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure.
IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted for entities that use IFRS 15 from or before the first application of IFRS 16. The Group has not decided to IFRS 16 early adoption.

The Group identified current finance lease agreements, operating lease agreements and agreements not previously recognized as lease which can meet lease definition according to IFRS 16. The Group defined accounting principles and a detailed methodology for the implementation of the new standard. Currently, the Group estimates the potential impact of the application of IFRS 16 on future financial statements.

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

2.3.1. Functional currency and presentation currency

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

2.3.2. Methods applied to translation of financial data

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

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

CURRENCY	Average exchange rate for the reporting period				Exchange rate as at the end of the reporting period	
	9 MONTHS ENDED 30/09/2018	3 MONTHS ENDED 30/09/2018	9 MONTHS ENDED 30/09/2017	3 MONTHS ENDED 30/09/2017	30/09/2018	31/12/2017
EUR/PLN	4.2488	4.3056	4.2661	4.2579	4.2714	4.1709
USD/PLN	3.5591	3.7014	3.8399	3.6253	3.6754	3.4813
CZK/PLN	0.1662	0.1674	0.1606	0.1632	0.1664	0.1632
CAD/PLN	2.7638	2.8309	2.9374	2.8913	2.8257	2.7765

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

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

3. Financial situation and description of ORLEN Group organization

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

Profit or loss for the 9 months of 2018

Sales revenues of the ORLEN Group increased by PLN 9,656 million (y/y) to PLN 80,286 million. Higher sale revenues is the effect of increasing in prices of major refinery and petrochemical products: fuel (by 28%), diesel oil (by 35%), light heating oil (by 35%), heavy heating oil (by 36%), ethylene (by 9%) and propylene (by 18%) and higher sales volumes by 1% (y/y).

The operating expenses increased by PLN (9,832) million (y/y) to PLN (74,747) million. The largest item in this cost structure constitute the costs of materials and energy consumption related mainly to the crude oil used in technological processes. The increase in the costs of materials and energy consumption by 33% (y/y) resulted mainly from higher by 20 USD/bbl (y/y) crude oil quotations on global market and higher by 1% (y/y) crude oil processing to 24.7 million tons.

Positive result of other operating activities amounted to PLN 420 million and was lower by PLN (349) million (y/y). It included mainly effect of settlement of compensation related to the steam cracker unit accident in Unipetrol Group from August 2015 in the amount of PLN 264 million and compensation for delayed execution of the contract of the power plant CCGT in Płock in the amount of PLN 190 million.

The decrease in the positive balance effect on other operating activities resulted mainly of lack of compensation received in the 9 month period of 2017 related to the accident on installation FCC in Unipetrol in the amount of PLN (211) million, lower by (178) million (y/y) compensations due to damage related to the steam cracker unit accident in Unipetrol Group at higher by PLN 104 million (y/y) penalties for improper execution of the contracts of the power plant CCGT Włocławek and Płock installations.

Share in profit from investments accounted for under equity method decreased by PLN (72) million (y/y) to the PLN 114 million.

As a result profit from operations amounted to PLN 6,079 million and was lower by PLN (591) million (y/y) - additional information on the change in profit from operations increased by depreciation and amortisation (so-called EBITDA) is presented in note B1.

Net finance cost in the described period amounted to PLN (53) million and included mainly net foreign exchange loss in the amount of PLN (196) million, net interest expenses in the amount of PLN (125) million and net positive impact of settlement and valuation of financial instruments in the amount of PLN 274 million.

After consideration of tax charges in the amount of PLN (1,133) million, the net profit of the ORLEN Group amounted to PLN 4,892 million and was lower by PLN (647) million (y/y)

Profit or loss for the 3rd quarter of 2018

Sales revenues of the ORLEN Group in the 3rd quarter of 2018 amounted to PLN 30,344 million and were higher by PLN 5,614 million (y/y) mainly as a result of increasing in quotation of major products: fuel (by 32%), diesel oil (by 37%), light heating oil (by 39%), heavy heating oil (by 43%), ethylene (by 16%) and propylene (by 29%).

Total operating expenses increased by PLN (5,543) million (y/y) to PLN (28,102) million mainly due to higher by 23 USD/bbl quotation of crude oil prices in the global market which affected on increase in the cost of consumed materials and energy by 47% (y/y).

After consideration of positive result on other operating activities in the amount of PLN 18 million and share in profit from investments accounted for under equity method in the amount of PLN 26 million the operating profit amounted to PLN 2,291 million and was higher by PLN 17 million (y/y).

Net finance income in the described period amounted to PLN 257 million and included mainly net positive impact of settlement and valuation of financial instruments in the amount of PLN 158 million, net foreign exchange gain in the amount of PLN 147 million and net interest expenses in the amount of PLN (43) million.

After consideration of tax charges in the amount of PLN (473) million, the net profit of the ORLEN Group amounted to PLN 2,075 million and was higher by PLN 378 million (y/y).

Statement of financial position

As at 30 September 2018, total assets of the ORLEN Group amounted to PLN 67,456 million and was higher by PLN 6,792 million in comparison with 31 December 2017.

As at 30 September 2018, the value of non-current assets amounted to PLN 32,658 million and was higher by PLN 918 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 1,106 million, decreasing valuation of financial instruments by PLN (136) million and decrease of investments accounted for under equity method by PLN (48) million.

Balance change of property, plant and equipment and intangible assets comprised mainly investment expenditures in the amount of PLN 2,899 million, for the Construction of the Polyethylene 3 installation in Unipetrol Group, Metathesis Installation in Płock and projects in upstream segment, depreciation and amortisation in the amount of PLN (1,976) million and impact of exchange differences from recalculation of balances of foreign entities of the ORLEN Group on PLN in the amount of PLN 236 million.

The value of current assets increased by PLN 5,874 million, mainly as result of an increase in trade and other receivables by PLN 3,034 million, increase in balance of inventories by PLN 2,969 million mainly and decrease of cash and cash equivalents by PLN (232) million. The increase in value of inventories is mainly the effect of higher crude oil prices. The increase in trade receivables results mainly from higher goods prices and higher volume of sales. The increase in other receivables, is mainly due to receivables from contributions made on account of redemption of non-controlling shares of Unipetrol a.s. in the amount of PLN 691 million.

As at 30 September 2018, total equity amounted to PLN 35,373 million and was higher by PLN 162 million in comparison with the end of 2017, mainly due to decrease by PLN (3,531) million in the equity attributable to non-controlling interests due to partial redemption by PKN ORLEN shares in Unipetrol a.s., dividend payments from the previous year's profit in the amount of PLN (1,283) million and recognition of net profit for 9 months of 2018 in the amount of PLN 4,892 million.

As at 30 September 2018 provisions amounted to PLN 1,665 million and were higher by PLN 90 million compared to the end of 2017, mainly due to provision balance change of estimated CO_2 emissions and energy certificates in the total amount of PLN 152 million. The change results mainly from the net effect of recognition of provision in the amount of PLN 544 million based on current market quotations or prices resulting from the status of owned rights on intangible assets and their usage of the provision due to redemption of rights from 2017 in the amount of PLN (385) million.

As at 30 September 2018, net financial indebtedness of the ORLEN Group amounted to PLN 3,651 million and was higher by PLN 2,890 million in comparison with the end of 2017. Change of indebtedness included net proceeds of loans in the amount of PLN 2,497 million, decrease of cash and cash equivalents balance by PLN 232 million and the net impact of negative exchange differences from revaluation of indebtedness valuation and interests in total amount of PLN 161 million.

Statement of cash flows for the 9 months of 2018

Proceeds of net cash from operating activities for the 9 months of 2018 amounted to PLN 5,941 million and comprised mainly profit from operations increased by depreciation and amortisation in the amount of PLN 8,055 million, the negative impact of increase in a net working capital by PLN (1,477) million and paid income tax in the amount of PLN (843) million.

Net cash used in investing activities for the 9 months of 2018 amounted to PLN (2,921) million and comprised mainly acquisition and disposal of property, plant and equipment, intangible assets and perpetual usufruct of land in the amount of PLN (3,144) million and proceeds from dividends received in the amount of PLN 129 million.

Net outflows of cash used in financing activities for the 9 months of 2018 amounted to PLN (3,244) million and comprised mainly the redemption of shares of Unipetrol a.s. in the amount PLN (4,222) million the net proceeds of loans, borrowings and bonds in the amount of PLN 2,097 redemption of retail bonds in the amount of PLN (200) million, issue of retail bonds in the amount of PLN 600 million, paid dividends in the amount of PLN (1,284) million and interest paid in the amount of PLN (207) million.

After consideration the revaluation of cash due to exchange differences, the cash balance in the 9 months of 2018 decreased by PLN (232) million and as at 30 September 2018 amounted to PLN 6,012 million.

Statement of cash flows for the 3rd quarter of 2018

In the 3rd quarter of 2018 the net cash provided by operating activities amounted to PLN 3,552 million and comprised mainly profit from operations increased by depreciation and amortisation in the amount of PLN 2,968 million and the positive impact of decrease in a net working capital by PLN 631 million.

In the 3rd quarter of 2018 the net cash used in investing activities amounted to PLN (1,009) million and comprised mainly net expenses for the acquisition and disposal of property, plant and equipment, intangible assets and perpetual usufruct of land in the amount of PLN (1,044) million.

In the 3rd quarter of 2018 net expenses of cash used in financing activities amounted to PLN (1,756) million and comprised mainly redemption of shares of Unipetrol a.s. in the amount PLN (691) million, paid dividend in the amount of PLN (1,283) million and the net proceeds of loans and borrowings in the amount of PLN 55 million and issue of retail bonds in the amount of PLN 200 million.

Taking into account the revaluation of cash due to exchange differences, the cash balance in the 3rd quarter of 2018 increased by PLN 734 million and as at 30 September 2018 amounted to PLN 6,012 million.

Factors and events which may influence on future results

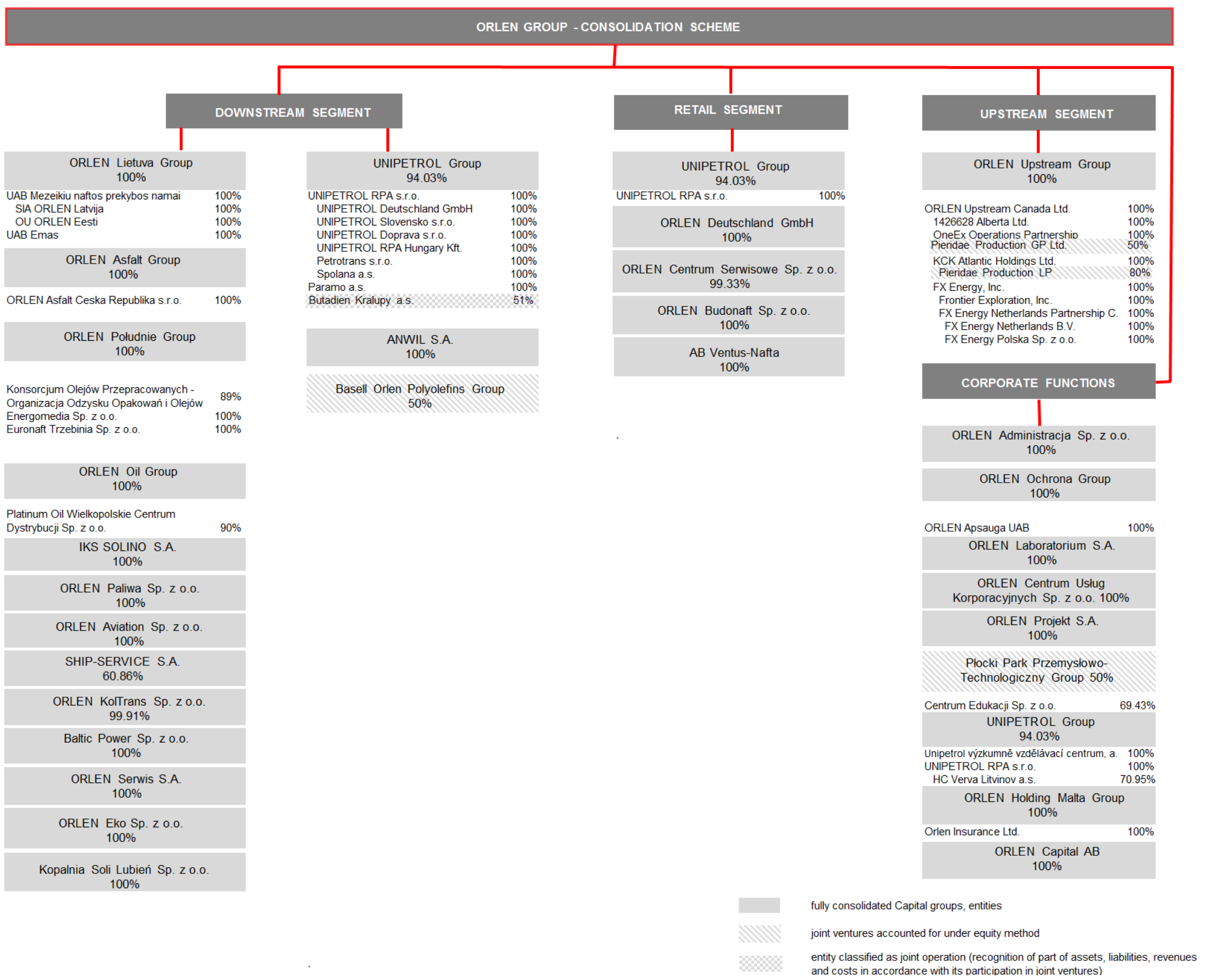
The factors affecting on future financial results of ORLEN Group include:

- macroeconomic environment - crude oil and other energy resources prices, quotations on refinery and petrochemical products and foreign exchange rates (mainly PLN/USD and PLN/EUR),
- economic situation - GDP level, fuel and other products of the Group consumption on the markets of its operations and the situation on the labor market,
- availability of production instances,
- applicable legal regulations.

3.2. Organization of the ORLEN Group

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

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



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

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

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

4. Segment reporting

The operations of the ORLEN Group is conducted in:

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

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

ORLEN GROUP (in PLN million)

Revenues, costs, financial results, investments expenditures

for the 9 month period ended 30 September 2018

	NOTE	Downstream Segment (unaudited)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
External revenues	5.1	52 372	27 386	464	64	-	80 286
Inter-segment revenues		13 260	126	-	322	(13 708)	-
Sales revenues		65 632	27 512	464	386	(13 708)	80 286
Operating expenses		(61 107)	(25 983)	(418)	(947)	13 708	(74 747)
Other operating income	5.3	849	56	3	57	-	965
Other operating expenses	5.3	(309)	(66)	(62)	(108)	-	(545)
(Loss)/reversal of loss due to impairment of financial instruments		12	(2)	-	(4)	-	6
Share in profit from investments accounted for under equity method		114	-	-	-	-	114
Profit/(Loss) from operations		**5 191**	**1 517**	**(13)**	**(616)**	**-**	**6 079**
Net finance income and costs	5.4						(53)
(Loss)/reversal of loss due to impairment of financial instruments							(1)
Profit before tax							**6 025**
Tax expense							(1 133)
Net profit							**4 892**
Depreciation and amortisation	5.2	**1 315**	**343**	**237**	**81**	**-**	**1 976**
EBITDA		**6 506**	**1 860**	**224**	**(535)**	**-**	**8 055**
CAPEX		**1 741**	**479**	**553**	**126**	**-**	**2 899**

for the 3 month period ended 30 September 2018

	NOTE	Downstream Segment (unaudited)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
External revenues	5.1	19 889	10 276	154	25	-	30 344
Inter-segment revenues		5 125	9	-	108	(5 242)	-
Sales revenues		25 014	10 285	154	133	(5 242)	30 344
Operating expenses		(23 194)	(9 680)	(145)	(325)	5 242	(28 102)
Other operating income	5.3	113	19	-	23	-	155
Other operating expenses	5.3	(78)	(26)	(3)	(30)	-	(137)
(Loss)/reversal of loss due to impairment of financial instruments		6	(1)	-	-	-	5
Share in profit from investments accounted for under equity method		26	-	-	-	-	26
Profit/(Loss) from operations		**1 887**	**597**	**6**	**(199)**	**-**	**2 291**
Net finance income and costs	5.4						257
Profit before tax							**2 548**
Tax expense							(473)
Net profit							**2 075**
Depreciation and amortisation	5.2	**452**	**115**	**80**	**30**	**-**	**677**
EBITDA		**2 339**	**712**	**86**	**(169)**	**-**	**2 968**
CAPEX		**626**	**192**	**172**	**37**	**-**	**1 027**

ORLEN GROUP (in PLN million)

for the 9 month period ended 30 September 2017

	NOTA	Downstream Segment (unaudited)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
External revenues	5.1	44 946	25 256	382	46	-	70 630
Inter-segment revenues		10 141	153	-	240	(10 534)	-
Sales revenues		55 087	25 409	382	286	(10 534)	70 630
Operating expenses		(50 103)	(24 151)	(408)	(787)	10 534	(64 915)
Other operating income	5.3	921	50	1	35	-	1 007
Other operating expenses	5.3	(72)	(73)	(44)	(49)	-	(238)
Share in profit from investments accounted for under equity method		187	-	(1)	-	-	186
Profit/(Loss) from operations		**6 020**	**1 235**	**(70)**	**(515)**	**-**	**6 670**
Net finance income and costs	5.4						52
Profit before tax							**6 722**
Tax expense							(1 183)
Net profit							**5 539**
Depreciation and amortisation	5.2	**1 129**	**310**	**242**	**78**	**-**	**1 759**
EBITDA		**7 149**	**1 545**	**172**	**(437)**	**-**	**8 429**
CAPEX		**1 799**	**343**	**614**	**142**	**-**	**2 898**

for the 3 month period ended 30 September 2017

	NOTA	Downstream Segment (unaudited)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
External revenues	5.1	15 786	8 814	115	15	-	24 730
Inter-segment revenues		3 550	104	-	84	(3 738)	-
Sales revenues		19 336	8 918	115	99	(3 738)	24 730
Operating expenses		(17 475)	(8 406)	(150)	(266)	3 738	(22 559)
Other operating income	5.3	114	20	-	12	-	146
Other operating expenses	5.3	(28)	(27)	(43)	(7)	-	(105)
Share in profit from investments accounted for under equity method		62	-	-	-	-	62
Profit/(Loss) from operations		**2 009**	**505**	**(78)**	**(162)**	**-**	**2 274**
Net finance income and costs	5.4						(214)
Profit before tax							**2 060**
Tax expense							(363)
Net profit							**1 697**
Depreciation and amortisation	5.2	**394**	**104**	**89**	**29**	**-**	**616**
EBITDA		**2 403**	**609**	**11**	**(133)**	**-**	**2 890**
CAPEX		**675**	**131**	**122**	**49**	**-**	**977**

EBITDA – profit/(loss) from operations increased by depreciation and amortization
CAPEX - increase of property, plant and equipment, intangible assets, investment property and perpetual usufruct of land together with the capitalisation of borrowing costs

Assets by operating segments

	30/09/2018 (unaudited)	31/12/2017
Downstream Segment	47 117	42 159
Retail Segment	7 098	6 511
Upstream Segment	4 161	3 839
Segment assets	**58 376**	**52 509**
Corporate Functions	9 129	8 206
Adjustments	(49)	(51)
	67 456	**60 664**

ORLEN GROUP (in PLN million)

5. Other notes

5.1. Sales revenues

Performance obligations

While establishing contracts, the Group commits to deliver mainly refining, petrochemical and energy, crude oil and gas products and merchandise to customers. Within the contracts, the Group acts as a principal.
There are no obligations for returns, refunds and other similar obligations.
The guarantees provided within the contracts are guarantees assuring the customer that the product complies with the established specification. They do not involving the performance of a separate service.

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

Within the Retail segment, there are both cash sales as well as sales with deferred payment dates, performed based on fleet contracts. The moment of satisfaction of the performance obligation is the moment of release of the good.
In contracts with costumers of the Downstream and Retail segments, in most cases are payment dates that do not exceed 30 days.

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

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

5.1.1. Sales revenues by assortments

	9 MONTHS ENDED 30/09/2018 (unaudited)	3 MONTHS ENDED 30/09/2018 (unaudited)	9 MONTHS ENDED 30/09/2017 (unaudited)	3 MONTHS ENDED 30/09/2017 (unaudited)
Downstream Segment				
Medium distillates	25 030	9 693	20 362	7 382
Light distillates	9 534	3 786	8 863	3 020
Heavy fractions	5 180	2 050	4 079	1 567
Monomers	2 632	918	2 266	793
Polymers	2 103	685	1 926	657
PTA	1 189	387	1 121	393
Plastics	1 146	363	1 158	387
Fertilizers	609	230	611	255
Aromas	895	284	786	297
Other	4 054	1 493	3 774	1 035
	52 372	**19 889**	**44 946**	**15 786**
Retail Segment				
Medium distillates	14 493	5 415	12 490	4 378
Light distillates	10 513	3 985	9 887	3 397
Other *	2 380	876	2 879	1 039
	27 386	**10 276**	**25 256**	**8 814**
Upstream Segment				
NGL **	261	87	176	60
Crude oil	77	27	47	15
Natural Gas	122	39	152	38
Other	4	1	7	2
	464	**154**	**382**	**115**
Corporate Functions	64	25	46	15
	80 286	**30 344**	**70 630**	**24 730**

** The line other in retail segment includes mainly sale of non-fuel merchandise*
*** NGL (Natural Gas Liquids)*

In the 9 month period ended 30 September 2018 revenues from contracts with customers amounted to PLN 80,169 million, while other revenues related to rent and lease services amounted to PLN 117 million.
In the 9 and 3 month period ended 30 September 2018 and 30 September 2017 no leading customers were identified in the Group, for which turnover would individually exceeded 10% of total revenues from sale of the ORLEN Group.

ORLEN GROUP (in PLN million)

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

	9 MONTHS ENDED 30/09/2018 (unaudited)	3 MONTHS ENDED 30/0692018 (unaudited)	9 MONTHS ENDED 30/09/2017 (unaudited)	3 MONTHS ENDED 30/09/2017 (unaudited)
Poland	36 406	12 801	31 754	11 511
Germany	12 418	4 450	12 769	4 360
Czech Republic	10 303	4 047	9 626	3 406
Lithuania, Latvia, Estonia	8 363	4 318	5 150	1 551
Other countries	12 796	4 728	11 331	3 902
	80 286	**30 344**	**70 630**	**24 730**

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

5.2. Operating expenses

Cost by nature

	9 MONTHS ENDED 30/09/2018 (unaudited)	3 MONTHS ENDED 30/09/2018 (unaudited)	9 MONTHS ENDED 30/09/2017 (unaudited)	3 MONTHS ENDED 30/09/2017 (unaudited)
Materials and energy	(54 953)	(21 285)	(41 330)	(14 456)
Cost of merchandise and raw materials sold	(12 319)	(4 231)	(16 308)	(5 753)
External services	(3 349)	(1 188)	(3 064)	(1 102)
Employee benefits	(1 947)	(636)	(1 749)	(577)
Depreciation and amortisation	(1 976)	(677)	(1 759)	(616)
Taxes and charges	(1 093)	(390)	(860)	(318)
Other	(365)	(142)	(362)	(129)
	(76 002)	**(28 549)**	**(65 432)**	**(22 951)**
Change in inventories	1 093	428	363	360
Cost of products and services for own use	162	19	154	32
Operating expenses	**(74 747)**	**(28 102)**	**(64 915)**	**(22 559)**
Distribution expenses	3 498	1 223	3 160	1 140
Administrative expenses	1 149	384	1 095	359
Cost of sales	**(70 100)**	**(26 495)**	**(60 660)**	**(21 060)**

Impairment allowances of inventories to net realizable value

	9 MONTHS ENDED 30/09/2018 (unaudited)	3 MONTHS ENDED 30/09/2018 (unaudited)	9 MONTHS ENDED 30/09/2017 (unaudited)	3 MONTHS ENDED 30/09/2017 (unaudited)
Increase	(41)	(6)	(103)	(15)
Decrease	46	8	113	38

5.3. Other operating income and expenses

Other operating income

	9 MONTHS ENDED 30/09/2018 (unaudited)	3 MONTHS ENDED 30/09/2018 (unaudited)	9 MONTHS ENDED 30/09/2017 (unaudited)	3 MONTHS ENDED 30/09/2017 (unaudited)
Profit on sale of non-current non-financial assets	14	7	29	9
Reversal of provisions	17	12	15	6
Reversal of receivables impairment allowances	-	-	10	3
Reversal of impairment allowances of property, plant and equipment and intangible assets and other non-current assets	34	14	30	12
Penalties and compensations	496	8	808	69
Settlement and valuation of derivative financial instruments related to operational exposure	167	39	-	-
Ineffective part related to operational exposure	76	20	-	-
Settlement of hedging costs	13	9	-	-
Other, incl.:	148	46	115	47
received/due energy certificates	*104*	*42*	*79*	*38*
	965	**155**	**1 007**	**146**

On 13 August 2015 the steam cracker unit accident in Unipetrol Group took place. As a result of arrangements with insurers, the final amount of compensation was determined to cover reconstruction costs of installations and lost business profits, therefore during the 9 month period ended 30 September 2018 the Group recognized in the line penalties and compensation the amount PLN 264 million. The inflow of cash from this title occurred in the 3rd quarter of 2018.

ORLEN GROUP (in PLN million)

The line penalties and compensation in the 9 month period ended 30 September 2018 includes additionally penalties for delayed execution of the contract of the power plant CCGT in Płock in the amount of PLN 190 million, received in 1st and 3rd quarter of 2018.

In the 9 month period ended 30 September 2017 the line penalties and compensation includes amounts of claims settlement in Unipetrol Group due to the accident on installation FCC of May 2016 in the amount PLN 211 million and due to the steam cracker unit accident of August 2015 in the amount of PLN 442 million.

Furthermore, the line penalties and compensation in the 9 and 3 month period ended 30 September 2017 includes penalties for improper execution of the contract of the CCGT Włocławek installation of PLN 97 million and PLN 48 million, respectively.

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

Other operating expenses

	9 MONTHS ENDED 30/09/2018 (unaudited)	3 MONTHS ENDED 30/09/2018 (unaudited)	9 MONTHS ENDED 30/09/2017 (unaudited)	3 MONTHS ENDED 30/09/2017 (unaudited)
Loss on sale of non-current non-financial assets	(26)	(4)	(32)	(11)
Recognition of provisions	(11)	(3)	(20)	(7)
Recognition of receivables impairment allowances	-	-	(17)	(9)
Recognition of impairment allowances of property, plant and equipment and intangible assets and other non-current assets	(63)	(30)	(95)	(62)
Penalties, damages and compensations	(13)	(4)	(20)	(5)
Settlement and valuation of derivative financial instruments related to operational exposure	(198)	(41)	-	-
Ineffective part related to operational exposure	(103)	(21)	-	-
Other	(131)	(34)	(54)	(11)
	(545)	**(137)**	**(238)**	**(105)**

The line other includes mainly donations and update provision for CO_2 emissions.

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

For the 9 and 3 month period ended 30 September 2018 the net positions of valuation and settlement of derivative financial instruments related to operating exposure (non-designated instruments for hedge accounting purposes) amounted to PLN (31) million and PLN (2) million respectively, mainly related to commodity swaps which hedge the risk of price changes in oversize inventories, future products sales, including those by fixed price.

In the 9 and 3 month period ended 30 September 2018 the net positions of ineffective part concern operating exposure amounted to PLN (27) million and PLN (1) million and concern mainly commodity swaps hedged risks mentioned above and risk connected with sea crude oil purchases.

5.4. Finance income and costs

Finance income

	9 MONTHS ENDED 30/09/2018 (unaudited)	3 MONTHS ENDED 30/09/2018 (unaudited)	9 MONTHS ENDED 30/09/2017 (unaudited)	3 MONTHS ENDED 30/09/2017 (unaudited)
Interest calculated using the effective interest rate method	26	9	31	17
Net foreign exchange gain	-	147	389	-
Dividends	4	-	4	-
Settlement and valuation of derivative financial instruments	1 069	223	590	195
Other	70	12	13	2
	1 169	**391**	**1 027**	**214**

ORLEN GROUP (in PLN million)

Finance costs

	9 MONTHS ENDED 30/09/2018 (unaudited)	3 MONTHS ENDED 30/09/2018 (unaudited)	9 MONTHS ENDED 30/09/2017 (unaudited)	3 MONTHS ENDED 30/09/2017 (unaudited)
Interest calculated using the effective interest rate method	(144)	(49)	(141)	(49)
Other interest	(7)	(3)	(6)	(2)
Net foreign exchange loss	(196)	-	-	(67)
Settlement and valuation of derivative financial instruments	(795)	(65)	(807)	(305)
Other	(80)	(17)	(21)	(5)
	(1 222)	**(134)**	**(975)**	**(428)**

In the 9 and 3 month period ended 30 September 2018 the net positions of valuation and settlement of derivative financial instruments (non-designated instruments for hedge accounting purposes) amounted to PLN 254 million and PLN 158 million, respectively and concerned mainly hedging the risk of changes in exchange rates in accordance to deposits and payments in foreign currency and hedging of interest rates and payment of bonds interests.

Borrowing costs capitalized in the 9 and 3 month period ended 30 September 2018 and 30 September 2017 amounted to PLN (29) million, PLN (8) million and PLN (41) million, PLN (9) million, respectively.

5.5. Loans and bonds

	Non-current		Current		Total	
	30/09/2018 (unaudited)	31/12/2017	30/09/2018 (unaudited)	31/12/2017	30/09/2018 (unaudited)	31/12/2017
Loans	2 136	-	75	48	2 211	48
Bonds	6 413	6 688	1 039	269	7 452	6 957
	8 549	**6 688**	**1 114**	**317**	**9 663**	**7 005**

As at 30 September 2018, indebtedness due to loans relates to a loan reimbursed by PKN ORLEN from a consortium of banks under the Agreement for a multi-currency revolving loan of 25 April 2014 in the amount PLN 2,136 million translated using the exchange rate as at 30 September 2018 (which corresponds to EUR 500 million).
In the period covered by the foregoing interim condensed consolidated financial statements, as well as after the reporting date, there were no instances of principal or interest non repayment nor loan covenant violations.

5.6. Derivatives and other assets and liabilities

Derivatives and other assets

	Non-current		Current		Total	
	30/09/2018 (unaudited)	31/12/2017	30/09/2018 (unaudited)	31/12/2017	30/09/2018 (unaudited)	31/12/2017
Cash flow hedging instruments	113	303	480	311	593	614
currency forwards	*113*	*303*	*288*	*225*	*401*	*528*
commodity swaps	-	-	*192*	*86*	*192*	*86*
Derivatives not designated as hedge accounting	27	-	91	123	118	123
currency forwards	-	-	*54*	*89*	*54*	*89*
commodity swaps	-	-	*37*	*33*	*37*	*33*
currency interest rate swaps	*19*	-	-	*1*	*19*	*1*
interest rate swaps	*8*	-	-	-	*8*	-
Fair value hedging instruments	27	-	12	-	39	-
commodity swaps	*27*	-	*12*	-	*39*	-
Derivatives	**167**	**303**	**583**	**434**	**750**	**737**
Other financial assets	106	93	79	133	185	226
receivables on settled derivatives	-	-	*70*	*126*	*70*	*126*
financial assets at fair value through other comprehensive income	*93*	-	-	-	*93*	-
financial assets available for sale	-	*84*	-	-	-	*84*
hedged item adjustment	*3*	-	*1*	-	*4*	-
other	*10*	*9*	*8*	*7*	*18*	*16*
Other non-financial assets	239	237	-	-	239	237
investment property	*106*	*104*	-	-	*106*	*104*
perpetual usufruct of land	*114*	*115*	-	-	*114*	*115*
other	*19*	*18*	-	-	*19*	*18*
Other assets	**345**	**330**	**79**	**133**	**424**	**463**

ORLEN GROUP (in PLN million)

Derivatives and other liabilities

	Non-current		Current		Total	
	30/09/2018 (unaudited)	31/12/2017	30/09/2018 (unaudited)	31/12/2017	30/09/2018 (unaudited)	31/12/2017
Cash flow hedging instruments	-	-	434	141	434	141
currency forwards	-	-	74	7	74	7
commodity swaps	-	-	360	134	360	134
Derivatives not designated as hedge accounting	42	75	65	172	107	247
currency forwards	-	-	13	100	13	100
commodity swaps	-	-	26	72	26	72
interest rate swaps	42	56	-	-	42	56
currency interest rate swaps	-	19	26	-	26	19
Fair value hedging instruments	4	-	1	-	5	-
commodity swaps	4	-	1	-	5	-
Derivatives	**46**	**75**	**500**	**313**	**546**	**388**
Other financial liabilities	345	302	161	125	506	427
liabilities on settled derivatives	-	-	152	125	152	125
investment liabilities	111	108	-	-	111	108
finance lease	179	166	-	-	179	166
hedged item adjustment	26	-	9	-	35	-
other	29	28	-	-	29	28
Other non-financial liabilities	9	9	106	195	115	204
deferred income, incl.:	9	9	106	195	115	204
VITAY loyalty program, prepaid cards	-	-	-	164	-	164
rights granted free of charge	-	-	90	-	90	-
Other liabilities	**354**	**311**	**267**	**320**	**621**	**631**

5.7. Provisions

	Non-current		Current		Total	
	30/09/2018 (unaudited)	31/12/2017	30/09/2018 (unaudited)	31/12/2017	30/09/2018 (unaudited)	31/12/2017
Environmental	651	626	38	67	689	693
Jubilee bonuses and post-employment benefits	239	238	39	39	278	277
CO_2 emissions, energy certificates	-	-	528	376	528	376
Other	39	38	131	191	170	229
	929	**902**	**736**	**673**	**1 665**	**1 575**

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

As compared to the previous reporting period the Group did not change the valuation methods concerning financial instruments.
Methods applied in determining the fair value were described in the Consolidated Financial Statements for the year 2017 in note 9.3.3.
In the item financial assets measured at fair value through other comprehensive income, quoted/unquoted shares not held for trading are included. In 2017, in accordance with IAS 39, these assets were classified as available for sale and valued at purchase price less impairment allowances.

Fair value hierarchy

			Fair value hierarchy	
	Carrying amount (unaudited)	Fair value (unaudited)	Level 1	Level 2
Financial assets				
Financial assets measured at fair value through other comprehensive income	93	93	53	40
Derivatives	750	750	-	750
	843	**843**	**53**	**790**
Financial liabilities				
Loans	2 211	2 211	-	2 211
Bonds	7 452	7 794	7 794	-
Finance lease	212	214	-	214
Derivatives	546	546	-	546
	10 209	**10 551**	**7 794**	**2 757**

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

ORLEN GROUP (in PLN million)

5.9. Finance lease payments

As at 30 September 2018 and as at 31 December 2017 the Group possessed as a lessee the finance lease agreements, concerning mainly buildings, technical equipment and machinery and means of transportation.

	30/09/2018 (unaudited)	31/12/2017
Value of future minimum lease payments	268	254
Present value of future minimum lease payments	212	198

5.10. Future commitments resulting from signed investment contracts

As at 30 September 2018 and as at 31 December 2017, the value of future commitments resulting from investment contracts signed until that day amounted to PLN 1,734 million and PLN 1,538 million, respectively.

5.11. Issue, redemption and repayment of debt securities

PKN ORLEN in the 3rd quarter 2018 under the second public bond issue program issued retail bonds E Series in the total amount of PLN 200 million. Thus, the second public bond issue program run in 2017-2018 has been completed.
Under the first public bond issue program, the F Series remains open with a nominal value of PLN 100 million, and under the second public bond issue program, the A-E Series with a total nominal value of PLN 1 billion.
In the 3rd quarter of 2018 short term bonds were issued/redeemed in favour of the Group companies as a part of liquidity optimisation in the ORLEN Group, using the corporate bond issue program from 2012. These transactions are eliminated at the ORLEN Group level.

5.12. Distribution of the profit for 2017

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

5.13. Contingent liabilities

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

I.P.-95 s.r.o. compensation claim against UNIPETROL RPA s.r.o.
On 23 May 2012, Unipetrol RPA s.r.o. received from the District Court in Ostrava a claim brought by I.P.-95 s.r.o. for compensation related to the filing by Unipetrol RPA s.r.o. a motion for bankruptcy of I.P.-95 s.r.o. in November 2009. The total amount of the claim is approximately PLN 298 million, translated using the exchange rate as at 30 September 2018 (representing CZK 1,789 million). Unipetrol RPA s.r.o. is one of eight defendants which the claim was brought against. At the request of the I.P.-95 s.r.o proceeding is pending concerning the accession to the claim as plaintiff NESTARMO TRADING LIMITED. The court refused the Company to permission to enter to the case. In February 2018, the court dismissed in entirety claim ruling in favour of Unipetrol RPA s.r.o. On 3 April 2018, I.P.-95 s.r.o. appealed against the decision of the court of first instance. The parties are awaiting the date of the appellate hearing. According to UNIPETROL RPA s.r.o. the claim is without merit.

Claim of Warter Fuels S.A. (before: OBR S.A.) against PKN ORLEN for compensation
On 5 September 2014, OBR S.A. (currently: Warter Fuels S.A.) filled an action against PKN ORLEN with the District Court in Łódź for a claim for payment in respect of an alleged breach by PKN ORLEN of patent rights. The amount of the claim in the lawsuit was estimated by Warter Fuels S.A. in the amount of approximately PLN 83 million. The claim covers the adjudged sum of money from PKN ORLEN for Warter Fuels S.A. in the amount corresponding to the value of the license fee for the use of the solution under the above patent and adjudge the obligation to repay the benefits derived from the use of this solution. On 16 October 2014 PKN ORLEN responded to the lawsuit. By the procedural document from 11 December 2014 the value of the dispute was referred to by the plaintiff in the amount of approximately PLN 247 million. So far, several hearings took place (last on 28 September 2018), during which witnesses submitted by the parties were heard by the court . The PKN ORLEN attorney submitted a request to suspend the proceedings due to parallel proceedings for determining the right to the disputed patent, the outcome of which will have significance for the resolution in the case of breach. The request was not considered yet. In the opinion of PKN ORLEN the above claims are without merit.

Polocktransneft Druzhba claim against AB ORLEN Lietuva
On 21 September 2017, AB ORLEN Lietuva received from the court a claim brought by the Belarusian company Polocktransneft Druzhba (operator of the Belarus section of the Druzhba pipeline) for payment of compensation for crude oil (so-called 'technological oil') which from 1992 was located in Lithuanian section of the Druzhba pipeline and used by ORLEN Lietuva after operation of this section was stopped in 2006. Polocktransneft Druzhba believes that this oil was its property. The value of the claim is approximately PLN 309 million, translated using the exchange rate as at 30 September 2018 (representing USD 84 million). The claim also includes a request for procedural interest and litigation cost. ORLEN Lietuva responded to the claim. On 15 March 2018 a hearing took place. On 29 March 2018, the court dismissed the plaintiff's claim. Polokotransneft Druzhba appealed against the judgment dismissing the claim. ORLEN Lietuva responded to the appeal. The appellate hearing date was not set. According to ORLEN Lietuva, the above claim is without merit.

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

ORLEN GROUP (in PLN million)

5.14. Related parties transactions

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

As at 30 September 2018 and as at 31 December 2017 and in the 9 and 3 month period ended 30 September 2018 and 30 September 2017, on the basis of submitted declarations, there were no transactions of related parties with members of the Management Board and the Supervisory Board of the Parent Company.

In the 9 and 3 month period ended 30 September 2018 and 30 September 2017 on the basis of submitted declarations, there were transactions of close relatives with the other key executive personnel of the Parent Company and key executive personnel of the ORLEN Group companies with related parties in the amount of PLN 0.3 million, PLN 0.1 million and PLN 0.4 million, PLN 0.1 million, respectively; included the main amounts regarded purchase of legal services and marketing services.

As at 30 September 2018 there were no trade and other liabilities due to the above transactions and as at 31 December 2017 balance of liabilities was not significant.

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

	9 MONTHS ENDED 30/09/2018 (unaudited)	3 MONTHS ENDED 30/09/2018 (unaudited)	9 MONTHS ENDED 30/09/2017 (unaudited)	3 MONTHS ENDED 30/09/2017 (unaudited)
Parent Company				
Short-term employee benefits	29.9	9.5	32.4	9.7
Termination benefits (severance pay and other remuneration)	9.1	1.5	1.2	0.8
Subsidiaries				
Short-term employee benefits	102.2	32.1	109.0	37.5
Post-employment benefits	0.2	0.1	0.2	0.1
Other long term employee benefits	0.1	0.1	-	-
Termination benefits (severance pay and other remuneration)	6.3	2.7	5.7	3.7
	147.8	**46.0**	**148.5**	**51.8**

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

The value of provisions for post-employment benefits and other long term employee benefits for the key management personnel of the Parent Company and subsidiaries are at the same level as presented in the consolidated financial statements of the ORLEN Group for the year ended 31 December 2017 in note 9.4.6.1. and are updated on an annual basis.

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

	Sales				Purchases			
	9 MONTHS ENDED 30/09/2018 (unaudited)	3 MONTHS ENDED 30/09/2018 (unaudited)	6 MONTHS ENDED 30/09/2017 (unaudited)	3 MONTHS ENDED 30/09/2017 (unaudited)	9 MONTHS ENDED 30/09/2018 (unaudited)	3 MONTHS ENDED 30/09/2018 (unaudited)	6 MONTHS ENDED 30/09/2017 (unaudited)	3 MONTHS ENDED 30/09/2017 (unaudited)
Jointly-controlled entities	**2 370**	**836**	**2 058**	**706**	**(105)**	**(33)**	**(106)**	**(34)**
joint ventures	*2 250*	*803*	*1 955*	*674*	*(34)*	*(13)*	*(30)*	*(10)*
joint operations	*120*	*33*	*103*	*32*	*(71)*	*(20)*	*(76)*	*(24)*
Associates	**-**	**-**	**28**	**10**	**-**	**-**	**(3)**	**(1)**
	2 370	**836**	**2 086**	**716**	**(105)**	**(33)**	**(109)**	**(35)**

	Trade and other receivables		Trade and other liabilities	
	30/09/2018 (unaudited)	31/12/2017	30/09/2018 (unaudited)	31/12/2017
Jointly-controlled entities	**651**	**484**	**8**	**16**
joint ventures	*643*	*463*	*7*	*8*
joint operations	*8*	*21*	*1*	*8*
	651	**484**	**8**	**16**

The above transactions with related parties include mainly sales and purchases of refinery and petrochemicals products and services.
In the 9 and 3 month period ended 30 September 2018 and 30 September 2017 there were no related parties transactions within the Group concluded on other than an arm's length basis.

5.14.4. Transactions with entities related to the State Treasury

As at 30 September 2018 and as at 31 December 2017 the State Treasury owned 27.52% of the ORLEN Group Parent Company's shares - PKN ORLEN and has ability to exert a significant influence on it.
The Group identified transactions with related parties with the State Treasury on the basis of "The Council of Ministers Regulation of 3 January 2017 on the list of companies in which the rights of the State Treasury shares carry other than the President Council of Ministers members of the Council of Ministers', Government Plenipotentiaries or state legal entities" with subsequent updates.

ORLEN GROUP (in PLN million)

In the 9 and 3 month period ended 30 September 2018 and 30 September 2017 and as at 30 September 2018 and as at 31 December 2017, the Group identified the following transactions:

	9 MONTHS ENDED 30/09/2018 (unaudited)	3 MONTHS ENDED 30/09/2018 (unaudited)	6 MONTHS ENDED 30/09/2017 (unaudited)	3 MONTHS ENDED 30/09/2017 (unaudited)
Sales	1 498	556	1 106	378
Purchases	(3 922)	(1 477)	(2 450)	(881)

	30/09/2018 (unaudited)	31/12/2017
Trade and other receivables	361	298
Trade and other liabilities	651	559

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

5.15. Guarantees

Excise tax guarantees and excise tax on goods and merchandise under the excise tax suspension procedure as at 30 September 2018 and as at 31 December 2017 amounted to PLN 2,718 million and PLN 2,577 million, respectively.

5.16. Events after the end of the reporting period

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

OTHER INFORMATION TO CONSOLIDATED QUARTERLY REPORT

FOR THE 9 AND 3 MONTH PERIOD ENDED 30 SEPTEMBER 2018

B. OTHER INFORMATION TO CONSOLIDATED QUARTERLY REPORT

1. Major factors having impact on EBITDA and EBITDA LIFO

Profit or loss for the 9 months of 2018

EBITDA profit amounted to PLN 8,055 million and was lower by PLN (374) million (y/y).

ORLEN Group's inventories are valued in the financial statements in accordance with International Financial Reporting Standards at weighted average cost method or purchase price method. Therefore, an upward trend in crude oil prices has a positive effect and the downtrend has a negative impact on the reported results. The estimated, positive impact of changes in crude oil prices on inventory valuation recognized in EBITDA result in the described period amounted to PLN 1,659 million and was higher by PLN 1,591 million (y/y).

Profit from operations increased by depreciation and amortisation before consideration of impact of changes of crude oil prices on inventory valuation (so-called EBITDA LIFO) amounted to PLN 6,396 million and was lower by PLN (1,965) million (y/y).
Changes in macroeconomic factors lowered the ORLEN Group results by PLN (2,577) million (y/y) and included mainly the negative effect of higher costs of raw materials used for own energy needs as a result of increase in crude oil prices by 20 USD/bbl, decreasing of margins with reference to fuel and refinery heavy fractions, petrochemical products, fertilizers and PVC as well as appreciation of the PLN exchange rate against the foreign currencies, partly compensated by higher margins on medium distillates.

Positive volume effect in the amount of PLN 512 million (y/y) reflects 1% (y/y) increase in total sales volumes.

The positive impact of other factors amounted to PLN 100 million (y/y) and mainly included the positive effect of the usage during shutdown of inventories of crude oil and products purchased and produced in previous periods with lower raw material costs, higher fuel and non-fuel margins in the retail segment, after taking into account the increase in operating costs of fuel stations due to higher sales volumes and market pressures on the wages level with a negative impact of change in the balance on other operating activity (y/y).

The decrease in the positive balance of other operating activity by PLN (349) million (y/y) is mainly due to lack of compensation received in the 9 months of 2017 related to the accident on installation FCC in Unipetrol in the amount of PLN (211) million, lower by PLN (178) million (y/y) compensation due to steam cracker unit accident in Unipetrol Group at higher by PLN 104 million (y/y) penalties for improper execution of the contract of the CCGT Włocławek and Płock installations.

Profit or loss for the 3rd quarter of 2018

EBITDA profit amounted to PLN 2,968 million and was higher by PLN 78 million (y/y).

The positive impact of changes in crude oil prices on inventory valuation in EBITDA profit amounted to PLN 579 million and was higher by PLN 686 million (y/y).

As a result EDITDA LIFO profit (before consideration of changes of crude oil prices on inventory valuation) amounted to PLN 2,389 million and was lower by PLN (608) million (y/y).

Impact of macroeconomic factors amounted to PLN (388) million (y/y) and included mainly the negative effect of higher costs of raw materials used for own energy needs as a result of increase in crude oil prices by 23 USD/bbl, worsening of margins on refinery heavy fractions, petrochemical products, fertilizers and PVC, partly compensated by higher margins on fuel products.

As a result of the shutdown of production installations the total sales volume decreased by (3)% (y/y) and as a result the negative volume effect reached to PLN (20) million (y/y).
The negative volume effect was mainly the result of the cyclical shutdown of olefin installations in the Unipetrol Group, which affected in decrease on sales volume of downstream segment by (5%) (y/y). This effect was partially compensated by the increase in retail volumes in all operating markets by 7% (y/y), with comparable (y/y) volumes in the Upstream segment.

The negative impact of other factors amounted to PLN (200) million (y/y) and resulted mainly due to lack of positive effects from the 3rd quarter of 2017 including net change of impairment allowances of inventories to net realizable values (net realisable value) in the amount of PLN (254) million (y/y) and received penalties for improper execution of the contract of the CCGT Włocławek in the amount of PLN (48) million at positive impact of trade margins in the downstream and retail segments.

2. The most significant events in the period from 1 January 2018 up to the date of preparation of the foregoing report

JANUARY 2018

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

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

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

FEBRUARY 2018

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

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

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

Changes in the composition of the Management Board
On 5 February 2018 the Supervisory Board dismissed from the Management Board:
- Mr Wojciech Jasiński,
- Mr Mirosław Kochalski,
- Ms Maria Sosnowska.

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

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

Signing a letter of intent concerning taking capital control over Grupa Lotos S.A. by PKN ORLEN
On 27 February 2018 was signed a letter of intent between PKN ORLEN and the State Treasury concerning taking capital control over Grupa Lotos S.A. by PKN ORLEN, understood as a purchase by PKN ORLEN directly or indirectly minimum 53% stake in Grupa Lotos S.A. share capital ("Transaction").
By signing the letter of intent, PKN ORLEN and the State Treasury agreed to start, in a good faith, discussions with the intent to conclude the Transaction. The Transaction assumes the purchase of Grupa Lotos S.A. shares from its shareholders by PKN ORLEN, in particular from the State Treasury, in line with the requirements of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies of 29 July 2005 (unified text Journal of Laws of 2016, item 1639, as amended), governing the requirement of announcement of a tender offer to acquire or exchange shares.
PKN ORLEN informed that the Transaction model, the schedule and detailed rules of its finalisation require detailed analysis. Finalisation of the Transaction will be possible, among others, after receiving appropriate corporate approvals and approvals of the competition protection authorities.
According to the assumptions of both parties of the letter of intent, the Transaction is aimed at creating of a strong, integrated company capable of better competing internationally, more resistant to market fluctuations, among others through utilization of operating and costs synergies between PKN ORLEN and Grupa Lotos S.A.
PKN ORLEN indicated that the letter of intent is not a binding commitment to execution of the Transaction.

MARCH 2018

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

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

Changes in the composition of the Management Board
On 22 March 2018 the Supervisory Board of PKN ORLEN has dismissed Mr Krystian Pater from the Company's Management Board with the effect from 22 March 2018.
At the same meeting the Supervisory Board decided to delegate with the effect from 23 March 2018 Ms Jadwiga Lesisz for temporary acting as the Member of the Management Board, Investments and Procurement.
Moreover the Supervisory Board appointed to the Management Board:
- Mr Ryszard Lorek to the position of the Member of the Management Board, Trade, with the effect from 10 April 2018,
- Mr Józef Węgrecki to the position of the Member of the Management Board, Operations, with the effect from 23 March 2018.

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

APRIL 2018

The issue of PKN ORLEN Series C bonds within the Programme from 2017
On 24 April 2018 the Company's Management Board decided to launch the issue of Series C of bearer bonds within the bond issue Programme directed to the individual investors, included in the prospectus approved by the Polish Financial Supervision Authority on 20 July 2017.
The bond issue programme assumes the issue of several bond Series up to the total amount of PLN 1 billion during 12 months from the date of approval of the prospectus. The subsequent Series of bonds will be offered in a public offering. PKN ORLEN plans to introduce the bonds to trading on the Catalyst regulated market operated by the Warsaw Stock Exchange. Series A and B bonds issued within the Programme are listed on the Catalyst market.

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

On 8 May 2018 PKN ORLEN informed that the subscription period for the Series C bonds within the bond issue programme directed to the individual investors was shortened. The last day of subscription, defined in the final terms and conditions of the offer on 21 May 2018, was moved for 8 May 2018. Date of Series C bonds allocation was changed. PKN ORLEN will allocate Series C bonds on 10 May 2018.
On 21 May 2018 the Central Securities Depository of Poland ("KDPW") issued a statement on conclusion of the agreement with PKN ORLEN regarding registration in a securities depository of 2,000,000 Series C bonds, with the unit nominal value of PLN 100. The registration date was set for 23 May 2018. The bonds will be registered under the ISIN code PLPKN0000174.
On 29 May 2018 the Management Board of the Warsaw Stock Exchange adopted a resolution regarding admission of 2,000,000 Series C bonds to exchange trading on the Catalyst market.
On 30 May 2018 the Management Board of the Warsaw Stock Exchange adopted a resolution determining the first day of trading of Series C bonds on 4 June 2018.

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

MAY 2018

Signing a non-disclosure agreement concerning the intent to start the works and analysis on potential transaction on certain logistic assets of PKN ORLEN
On 11 May 2018 was signed a non-disclosure agreement between: PKN ORLEN, PERN, Operator Gazociągów Przesyłowych GAZ-SYSTEM („GAZ-SYSTEM"), Inowrocławskie Kopalnie Soli SOLINO („IKS SOLINO") and Kopalnia Soli Lubień Sp. z o.o. („KS Lubień"). The agreement defines the conditions of disclosing information in connection with the intent to cooperate in potential sales transaction of the part of PKN ORLEN logistic assets and shares of IKS SOLINO and KS Lubień held by PKN ORLEN as well as in connection with the intent to set the cooperation on further use of abovementioned assets by PKN ORLEN and companies from ORLEN Group in case of their disposal to the benefit of PERN and GAZ-SYSTEM ("Transaction").
PKN ORLEN informs that the Transaction model, the schedule and detailed rules of its finalization require detailed analysis that will be now prepared. Finalization of the Transaction will be possible, among others, after receiving appropriate corporate approvals and approvals of the appropriate administration authorities, if such approvals will be required.
According to the assumptions of the parties of the agreement, the Transaction is aimed at creating a business partnership in transmission and storage infrastructure and in cavern projects that are realized, including energy safety of the State and realization of the "Polish Government Policy on logistic infrastructure in oil and gas sector" targets, described by the Polish Government in the resolution No 182/2017 as of 28 November 2017.
PKN ORLEN indicates that the non-disclosure agreement is not a binding commitment to execution of the Transaction. PKN ORLEN will inform about next steps connected with further Transaction process in separate regulatory announcements.

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

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

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

Series D bond issue terms and conditions:

1. Subscription period: from 21 May 2018 to 4 June 2018 (the period may be shortened when the oversubscription occurs)
2. Date of bonds allocation: 6 June 2018
3. Expected bonds issue date: 19 June 2018
4. Redemption date: 19 June 2022
5. Number of Series D bonds issued: up to 2,000,000
6. The total nominal value of Series D bonds: up to PLN 200,000,000
7. Interest rate: variable
8. Margin: 1,2 %
9. Base rate: 6M WIBOR
10. Nominal value of one bond: PLN 100
11. Issue price: dependent on the day of subscription; in the range from PLN 100.00 to PLN 100.11
12. Rating to the bond issue programme: A (pol)
13. Bond's allocation mechanism: the detailed terms of allocation are available in the final terms of the offer.

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

On 18 June 2018 the Management Board of the Warsaw Stock Exchange adopted a resolution regarding admission of 2.000.000 Series D bonds to exchange trading on the Catalyst regulated market.

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

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

On 22 May 2018 the Company's Supervisory Board approved the purchase by PKN ORLEN of all shares of Unipetrol a.s. ("Unipetrol") held by Unipetrol minority shareholders, i.e. 10 827 673 shares, constituting ca. 5,97% of the Unipetrol's share capital. PKN ORLEN submited an application to the Czech National Bank regarding conducting a buyout of these shares ("Buyout"). In the Buyout the Company intends to offer a price of CZK 380 per share, i.e. the total price of CZK 4,114,515,740. The acquisition by the Company of the above-mentioned shares will be realized by squeeze out of minority shareholders. The Buyout will be realized with an intent of delisting of Unipetrol's shares from trading at the Prague Stock Exchange.

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

JUNE 2018

Petrochemicals development programme by 2023

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

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

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

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

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

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

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

PKN ORLEN Series E bond issue terms and conditions:

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

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

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

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

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

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

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

Changes in the composition of the Management Board

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

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

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

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

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

Changes in the composition of the Supervisory Board

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

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

Realisation of the Power plant in Płock investment process completed

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

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

AUGUST 2018

Filing the statement of claim for repealing of the resolutions of Ordinary General Meeting

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

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

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

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

Changes in the composition of the Management Board

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

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

SEPTEMBER 2018

Shutdown of the CCGT unit in Włocławek

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

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

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

OCTOBER 2018

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

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

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

Acquisition of Bank Ochrony Środowiska S.A. shares

On 1 October 2018, the shares of Bank Ochrony Środowiska S.A. acquired by PKN ORLEN were introduced to stock exchange trading (further on BOŚ S.A.). PKN ORLEN acquired the package of 2,500,000 ordinary bearer shares (as part of issue of series V) at the issue price of 10 PLN per 1 share. This package of shares constitutes 2.69% of the BOŚ SA share capital. BOŚ S.A. shares were booked on financial assets of PKN ORLEN (as well as on the brokerage account) on 23 July 2018.They are presented as financial assets measured at fair value through other comprehensive income.

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

PKN ORLEN informed about the costs of the programme of public bonds issue dedicated to individual investors. The total costs of the Programme under which five issues including 2 000 000 of Series A bonds, 2 000 000 of Series B bonds, 2 000 000 of Series C bonds,

(in PLN million)

2 000 000 of Series D bonds, and 2 000 000 of Series E bonds were conducted approximately amounted to PLN 5.5 million. The above mentioned amount includes the following:
- costs of preparing and conducting of the bonds offers – approximately PLN 3.1 million
- costs of preparing of the prospectus including consulting costs – approximately PLN 1.3 million
- costs of promoting of the bonds offers – approximately PLN 1.1 million.

The average cost of the offers per bond of the nominal value of PLN 100 amounted to PLN 0,13 p.a.
PKN ORLEN did not incurred the costs of underwriters fees, due to the fact that no underwriting agreement was signed by PKN ORLEN in connection with the offers of the bonds.
The expenses of the Programme (excluding costs of promoting of the bonds offers) were included as prepayments and systematically charges the financial result from the day of Series A bonds issue (6 October 2017) to the day of Series E bonds maturity day (13 July 2022). The costs of promoting of the bonds offers were included in the financial result when they were incurred.
As far as taxes are concerned the transaction costs constitute tax deductible costs and are charged as of the dates of their enter into books.

The consent to change the bond issue programme agreement from 2006 and commencement of works on issue of new series of bonds
PKN ORLEN informed that the Supervisory Board of PKN ORLEN following its meeting on 24 October 2018 gave consent to change the Agreement for a Bond Issue Programme, signed on 27 November 2006 (with subsequent annexes) by the Company as the issuer and the consortium of banks ("Programme Agreement"), including increase of the programme limit to PLN 4 billion and to incur, by the Company, liabilities resulting from the changed Programme Agreement.
The Company plans to start works on conducting the issue of unsecured, bearer bonds, which will be proposed to buy in the manner specified in Art. 33 point 2 of the Law on Bonds dated 15 January 2015 (Journal of Laws, 2018 point 483 with subsequent changes) under the bonds issue programme based on the Programme Agreement.

3. Other information

3.1. Composition of the Management Board and the Supervisory Board

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

Management Board

Daniel Obajtek – President of the Management Board, General Director
Armen Konrad Artwich – Member of the Management Board, Corporate Affairs
Patrycja Klarecka – Member of the Management Board, Retail Sales
Zbigniew Leszczyński – Member of the Management Board, Development
Wiesław Protasewicz – Member of the Management Board, Chief Financial Officer
Michał Róg – Member of the Management Board, Wholesale and International Trades
Józef Węgrecki – Member of the Management Board, Operations

Supervisory Board

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

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

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

*According to the information from the Extraordinary General Shareholders' Meeting of PKN ORLEN of 17 July 2018

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

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

ORLEN GROUP (in PLN million)

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

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

	Nominal value					Value of guarantee issued	
	EUR	PLN	Subscription date	Expiration date	Rating	EUR	PLN
Eurobonds	750	3 318 **	7.06.2016	7.06.2023	BBB-, Baa2	1 100	4 699
Eurobonds	500	2 131 *	30.06.2014	30.06.2021	BBB-, Baa2	1 000	4 271
	1 250	**5 449**				**2 100**	**8 970**

The bonds have a fixed interest rate of 2.5%.
* translated using exchange rate as at 31 December 2014
** translated using exchange rate as at 31 December 2016
The value of guarantees granted was translated using the exchange rate as at 30 September 2018

Moreover, as at 30 September 2018 and as at 31 December 2017, the Group granted sureties and guarantees to subsidiaries for third parties amounted to PLN 1,529 million and PLN 1,457 million, respectively, and mainly related to the timely payment of liabilities.

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

The ORLEN Group did not publish forecasts of its results.

QUARTERLY FINANCIAL INFORMATION
PKN ORLEN S.A.

FOR THE 3rd QUARTER 2018

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

QUARTERLY FINANCIAL INFORMATION OF PKN ORLEN (in PLN million)

C. QUARTERLY FINANCIAL INFORMATION OF PKN ORLEN

Separate statement of profit or loss and other comprehensive income

	9 MONTHS ENDED 30/09/2018 (unaudited)	3 MONTHS ENDED 30/09/2018 (unaudited)	9 MONTHS ENDED 30/09/2017 (unaudited)	3 MONTHS ENDED 30/09/2017 (unaudited)
Sales revenues	63 701	24 495	51 821	18 224
revenues from sales of finished goods and services	*34 304*	*13 115*	*25 109*	*8 945*
revenues from sales of merchandise and raw materials	*29 397*	*11 380*	*26 712*	*9 279*
Cost of sales	(57 033)	(22 042)	(46 138)	(16 177)
cost of finished goods and services sold	*(28 605)*	*(11 005)*	*(20 258)*	*(7 232)*
cost of merchandise and raw materials sold	*(28 428)*	*(11 037)*	*(25 880)*	*(8 945)*
Gross profit on sales	**6 668**	**2 453**	**5 683**	**2 047**
Distribution expenses	(2 101)	(731)	(1 877)	(652)
Administrative expenses	(594)	(199)	(573)	(190)
Other operating income	458	73	280	120
Other operating expenses	(175)	(55)	(139)	(45)
(Loss)/reversal of loss due to impairment of financial instruments	(2)	7	-	-
Profit from operations	**4 254**	**1 548**	**3 374**	**1 280**
Finance income	2 060	389	2 478	217
Finance costs	(1 351)	(123)	(1 335)	(392)
Net finance income and costs	**709**	**266**	**1 143**	**(175)**
(Loss)/reversal of loss due to impairment of financial instruments	8	2	-	-
Profit before tax	**4 971**	**1 816**	**4 517**	**1 105**
Tax expense	(766)	(330)	(671)	(212)
current tax	*(753)*	*(302)*	*(593)*	*(235)*
deferred tax	*(13)*	*(28)*	*(78)*	*23*
Net profit	**4 205**	**1 486**	**3 846**	**893**
Other comprehensive income:				
which will not be reclassified subsequently into profit or loss	**(6)**	**(1)**	**-**	**-**
gains/(losses) on investments in equity instruments at fair value through other comprehensive income	*(7)*	*(1)*	-	-
deferred tax	*1*	*-*	-	-
which will be reclassified into profit or loss	**(124)**	**60**	**497**	**(75)**
hedging instruments	*(229)*	*48*	*613*	*(93)*
hedging costs	*76*	*26*	-	-
deferred tax	*29*	*(14)*	*(116)*	*18*
	(130)	**59**	**497**	**(75)**
Total net comprehensive income	**4 075**	**1 545**	**4 343**	**818**
Net profit and diluted net profit per share (in PLN per share)	9.83	3.47	8.99	2.09

(in PLN million)

Separate statement of financial position

	30/09/2018 (unaudited)	31/12/2017
ASSETS		
Non-current assets		
Property, plant and equipment	15 576	15 690
Intangible assets	760	772
Shares in related parties	13 412	9 564
Derivatives	139	189
Other assets	258	192
	30 145	**26 407**
Current assets		
Inventories	10 362	8 239
Trade and other receivables	10 354	7 335
Current tax assets	58	58
Cash	5 423	5 477
Non-current assets classified as held for sale	130	170
Derivatives	555	396
Other assets	1 043	1 270
	27 925	**22 945**
Total assets	**58 070**	**49 352**
EQUITY AND LIABILITIES		
EQUITY		
Share capital	1 058	1 058
Share premium	1 227	1 227
Hedging reserve	129	253
Revaluation reserve	(6)	-
Retained earnings	27 925	25 027
Total equity	**30 333**	**27 565**
LIABILITIES		
Non-current liabilities		
Loans, borrowings and bonds	8 557	6 736
Provisions	440	440
Deferred tax liabilities	761	782
Derivatives	46	75
Other liabilities	259	220
	10 063	**8 253**
Current liabilities		
Trade and other liabilities	12 206	9 897
Liabilities from contracts with customers	174	-
Loans, borrowings and bonds	1 416	552
Provisions	314	321
Current tax liabilities	406	66
Derivatives	451	278
Other liabilities	2 707	2 420
	17 674	**13 534**
Total liabilities	**27 737**	**21 787**
Total equity and liabilities	**58 070**	**49 352**

(in PLN million)

Separate statement of changes in equity

	Share capital and share premium	Hedging reserve	Revaluation reserve	Retained earnings	Total equity
01/01/2018 (approved data)	2 285	253	-	25 027	27 565
Impact of IFRS 9 adoption	-	-	-	(24)	(24)
01/01/2018 (converted data)	2 285	253	-	25 003	27 541
Net profit	-	-	-	4 205	4 205
Items of other comprehensive income	-	(124)	(6)	-	(130)
Total net comprehensive income	**-**	**(124)**	**(6)**	**4 205**	**4 075**
Dividends	-	-	-	(1 283)	(1 283)
30/09/2018	**2 285**	**129**	**(6)**	**27 925**	**30 333**
(unaudited)					
01/01/2017	2 285	(327)	-	20 210	22 168
Net profit	-	-	-	3 846	3 846
Items of other comprehensive income	-	497	-	-	497
Total net comprehensive income	**-**	**497**	**-**	**3 846**	**4 343**
Dividends	-	-	-	(1 283)	(1 283)
30/09/2017	**2 285**	**170**	**-**	**22 773**	**25 228**
(unaudited)					

QUARTERLY FINANCIAL INFORMATION OF PKN ORLEN (in PLN million)

Separate statement of cash flows

	9 MONTHS ENDED 30/09/2018 (unaudited)	3 MONTHS ENDED 30/09/2018 (unaudited)	9 MONTHS ENDED 30/09/2017 (unaudited)	3 MONTHS ENDED 30/09/2017 (unaudited)
Cash flows from operating activities				
Profit before tax	**4 971**	**1 816**	**4 517**	**1 105**
Adjustments for:				
Depreciation and amortisation	1 007	344	903	311
Foreign exchange (gain)/loss	207	(140)	33	69
Interest, net	182	57	128	42
Dividends	(840)	-	(1 524)	-
(Profit)/Loss on investing activities	(276)	(180)	754	127
Change in provisions	160	59	108	41
Change in working capital	(1 633)	589	(757)	(428)
inventories	*(2 122)*	*(873)*	*(16)*	*166*
receivables	*(2 228)*	*(625)*	*(1 241)*	*(2 036)*
liabilities	*2 717*	*2 087*	*500*	*1 442*
Other adjustments, incl.:	(146)	(31)	(139)	(2)
rights received free of charge	*(202)*	*(75)*	*(140)*	*(62)*
Income tax (paid)	(413)	(135)	(985)	(138)
Net cash from operating activities	**3 219**	**2 379**	**3 038**	**1 127**
Cash flows from investing activities				
Acquisition of property, plant and equipment, intangible assets and perpetual usufruct of land	(1 242)	(403)	(1 163)	(318)
Acquisition of shares, incl.:	(4 502)	(745)	(350)	(123)
redemption of non-controlling shares Unipetrol a.s.	*(4 222)*	*(691)*	-	-
Outflows from additional payments to subsidiaries' equity	(48)	(48)	-	-
Disposal of property, plant and equipment, intangible assets and perpetual usufruct of land	168	11	162	19
Interest received	24	9	16	6
Dividends received	666	190	1 526	387
Expenses from non-current loans granted	(50)	(15)	-	-
Proceeds from non-current loans granted	4	1	4	1
Proceeds/(Expenses) from current loans granted	(60)	-	4	31
Proceeds/(Outflows) from cash pool facility	222	(67)	(114)	(92)
Settlement of derivatives not designated as hedge accounting	175	65	(30)	(42)
Other	-	1	4	7
Net cash from/(used in) investing activities	**(4 643)**	**(1 001)**	**59**	**(124)**
Cash flows from financing activities				
Proceeds from loans received	2 075	-	-	-
Bonds issued	1 271	522	1 048	355
Repayments of loans	-	-	(822)	-
Redemption of bonds	(810)	(300)	(1 587)	(299)
Interest paid	(273)	(72)	(232)	(26)
Dividends paid	(1 283)	(1 283)	(1 283)	(1 283)
Proceeds from cash pool facility	407	627	795	889
Other	(20)	(7)	(18)	(4)
Net cash from/(used in) financing activities	**1 367**	**(513)**	**(2 099)**	**(368)**
Net increase/(decrease) in cash and cash equivalents	**(57)**	**865**	**998**	**635**
Effect of exchange rate changes	3	(47)	9	10
Cash, beginning of the period	5 477	4 605	2 563	2 925
Cash, end of the period	**5 423**	**5 423**	**3 570**	**3 570**

The foregoing quarterly report was approved by the Management Board of the Parent Company on 24 October 2018.

………………………
Daniel Obajtek
President of the Board

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Armen Artwich
Member of the Board

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Patrycja Klarecka
Member of the Board

……………………………
Zbigniew Leszczyński
Member of the Board

……………………………
Wiesław Protasewicz
Member of the Board

……………………………
Michał Róg
Member of the Board

………………………
Józef Węgrecki
Member of the Board

Signature of a person responsible for keeping accounting books

…………………………………….……

Rafał Warpechowski
Executive Director
Planning and Reporting