Polski Koncern Naftowy ORLEN
Spółka Akcyjna

ORLEN GROUP

CONSOLIDATED QUARTERLY REPORT

FOR THE 3rd QUARTER OF 2016

ORLEN GROUP - SELECTED DATA

	PLN million		EUR million	
	9 MONTHS ENDED 30/09/2016	9 MONTHS ENDED 30/09/2015	9 MONTHS ENDED 30/09/2016	9 MONTHS ENDED 30/09/2015
Sales revenues	56 651	68 249	12 967	15 622
Profit from operations increased by depreciation and amortisation (EBITDA)	6 303	5 914	1 443	1 354
Profit from operations (EBIT)	4 743	4 529	1 086	1 037
Profit before tax	4 397	4 040	1 006	925
Net profit attributable to equity owners of the parent	3 472	2 918	795	668
Net profit	3 697	3 302	846	756
Total net comprehensive income attributable to equity owners of the parent	3 543	4 026	811	922
Total net comprehensive income	3 754	4 421	859	1 012
Net cash from operating activities	6 788	3 791	1 554	867
Net cash (used) in investing activities	(3 597)	(1 909)	(823)	(437)
Net cash (used) in financing activities	(1 650)	(993)	(378)	(227)
Net increase in cash and cash equivalents	1 541	889	353	203
Net profit and diluted net profit per share attributable to equity owners of the parent (in PLN/EUR per share)	8.12	6.82	1.86	1.56

	30/09/2016	31/12/2015	30/09/2016	31/12/2015
Non-current assets	29 189	27 362	6 769	6 345
Current assets	22 415	20 775	5 198	4 818
Total assets	51 604	48 137	11 967	11 163
Share capital	1 058	1 058	245	245
Equity attributable to owners of the parent	24 860	22 173	5 765	5 142
Total equity	27 081	24 244	6 280	5 622
Non-current liabilities	9 862	10 227	2 287	2 372
Current liabilities	14 661	13 666	3 400	3 169
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)	58.12	51.84	13.48	12.02

PKN ORLEN - SELECTED DATA

	PLN million		EUR million	
	9 MONTHS ENDED 30/09/2016	9 MONTHS ENDED 30/09/2015	9 MONTHS ENDED 30/09/2016	9 MONTHS ENDED 30/09/2015
Sales revenues	37 324	47 237	8 543	10 812
Profit from operations increased by depreciation and amortisation (EBITDA)	3 267	2 658	748	608
Profit from operations (EBIT)	2 420	1 840	554	421
Profit before tax	3 656	1 711	837	392
Net profit	3 235	1 382	740	316
Total net comprehensive income	3 294	2 533	754	580
Net cash from/(used in) operating activities	3 811	(262)	872	(60)
Net cash from/(used in) investing activities	(656)	343	(150)	79
Net cash (used) in financing activities	(1 706)	(13)	(390)	(3)
Net increase in cash	1 449	68	332	16
Net profit and diluted net profit per share (in PLN/EUR per share)	7.56	3.23	1.73	0.74

	30/09/2016	31/12/2015	30/09/2016	31/12/2015
Non-current assets	23 674	23 146	5 490	5 368
Current assets	15 293	13 835	3 547	3 208
Total assets	38 967	36 981	9 037	8 576
Share capital	1 058	1 058	245	245
Total equity	20 285	17 846	4 704	4 139
Non-current liabilities	9 056	9 459	2 100	2 194
Current liabilities	9 626	9 676	2 233	2 243
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)	47.43	41.72	11.00	9.68

The above data for the 9 month period of 2016 and 2015 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 the month during the reporting period: from 1 January to 30 September 2016 – 4.3688 EUR/PLN;
- items of assets, equity and liabilities – by the average exchange rate published by the National Bank of Poland as at 30 September 2016 – 4.3120 EUR/PLN.

TABLE OF CONTENTS

A. INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION 4
Consolidated statement of profit or loss and other comprehensive income 4
Consolidated statement of financial position 5
Consolidated statement of changes in equity 6
Consolidated statement of cash flows 7

EXPLANATORY NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS 8
1. Information on principles adopted for the preparation of the interim condensed consolidated financial statements 8
1.1. Statement of compliance and general principles for preparation 8
1.2. Applied accounting principles and amendments to International Financial Reporting Standards (IFRS) 8
1.3. Functional currency and presentation currency of financial statements and methods applied to translation of financial data 8
1.4. Information concerning the seasonal or cyclical character of the ORLEN Group's operations in the presented period 8
2. Segment reporting 8
3. Other notes 11
3.1. Operating expenses 11
3.2. Impairment allowances of inventories to net realizable value 11
3.3. Impairment allowances of assets 11
3.4. Other operating income and expenses 12
3.5. Finance income and costs 13
3.6. Other financial assets 13
3.7. Loans, borrowings and bonds 13
3.8. Provisions 14
3.9. Other financial liabilities 14
3.10. Methods applied in determining fair value (fair value hierarchy) 14
3.11. Finance lease payments 14
3.12. Future commitments resulting from signed investment contracts 14
3.13. Issue, redemption and repayment of debt securities 15
3.14. Distribution of the profit for 2015, the information concerning the payment of dividends in 2016 15
3.15. Contingent assets and liabilities 15
3.16. Guarantees 15
3.17. Events after the end of the reporting period 15

B. OTHER INFORMATION TO CONSOLIDATED QUARTERLY REPORT 17
1. Principal activity of the ORLEN Group 17
2. Organization of the ORLEN Group 17
2.1. Changes in the structure of the ORLEN Group from 1 January 2016 up to the date of preparation of the foregoing report 17
3. Financial situation 18
3.1. ORLEN Group's achievements accompanied by factors having a significant impact on interim condensed consolidated financial statement 18
3.2. The most significant events in the period from 1 January 2016 up to the date of preparation of the foregoing report 20
4. Related parties transactions 21
5. Information concerning significant proceedings in front of court, body appropriate for arbitration proceedings or in front of public administration bodies 22
5.1. Proceedings in which the ORLEN Group entities act as the defendant 22
5.2. Court proceedings in which the ORLEN Group entities act as a plaintiff 23
6. Other information 24
6.1. 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 24
6.2. Changes in the number of the Parent Company's shares held by the Management Board and the Supervisory Board Members 24
6.3. Information on loan sureties or guarantees of at least 10% of the Parent Company's equity granted by the Parent Company or its subsidiaries to one entity or its subsidiary 24
6.4. Statement of the Management Board regarding the possibility to realize previously published forecasts of the current year results 24

C. QUARTERLY FINANCIAL INFORMATION OF PKN ORLEN 26
Separate statement of profit or loss and other comprehensive income 26
Separate statement of financial position 27
Separate statement of changes in equity 28
Separate statement of cash flows 29

Statements of the Management Board 30

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE 9 AND 3 MONTH PERIOD ENDED 30 SEPTEMBER 2016

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

ORLEN GROUP (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 30/09/2016 (unaudited)	3 MONTHS ENDED 30/09/2016 (unaudited)	9 MONTHS ENDED 30/09/2015 (unaudited)	3 MONTHS ENDED 30/09/2015 (unaudited)
Sales revenues		56 651	21 083	68 249	23 468
revenues from sales of finished goods and services		*40 670*	*14 626*	*53 516*	*18 445*
revenues from sales of merchandise and raw materials		*15 981*	*6 457*	*14 733*	*5 023*
Cost of sales	3.1	(49 146)	(18 349)	(59 376)	(20 973)
cost of finished goods and services sold		*(34 369)*	*(12 414)*	*(45 774)*	*(16 306)*
cost of merchandise and raw materials sold		*(14 777)*	*(5 935)*	*(13 602)*	*(4 667)*
Gross profit on sales		**7 505**	**2 734**	**8 873**	**2 495**
Distribution expenses		(3 059)	(1 054)	(2 910)	(990)
Administrative expenses		(1 055)	(323)	(1 122)	(332)
Other operating income	3.4	1 360	444	272	75
Other operating expenses	3.4	(260)	(95)	(773)	(177)
Share in profit from investments accounted for under equity method		252	68	189	85
Profit from operations		**4 743**	**1 774**	**4 529**	**1 156**
Finance income	3.5	125	194	260	101
Finance costs	3.5	(471)	(41)	(749)	(202)
Net finance income and costs		**(346)**	**153**	**(489)**	**(101)**
Profit before tax		**4 397**	**1 927**	**4 040**	**1 055**
Tax expense		(700)	(358)	(738)	(170)
current tax		*(383)*	*(274)*	*(324)*	*(136)*
deferred tax		*(317)*	*(84)*	*(414)*	*(34)*
Net profit		**3 697**	**1 569**	**3 302**	**885**
Other comprehensive income:					
which will be reclassified into profit or loss					
hedging instruments		*(67)*	*277*	*1 332*	*1 008*
foreign exchange differences on subsidiaries from consolidation		*116*	*(300)*	*41*	*(7)*
deferred tax		*8*	*(57)*	*(254)*	*(192)*
		57	**(80)**	**1 119**	**809**
Total net comprehensive income		**3 754**	**1 489**	**4 421**	**1 694**
Net profit attributable to		**3 697**	**1 569**	**3 302**	**885**
equity owners of the parent		*3 472*	*1 527*	*2 918*	*795*
non-controlling interest		*225*	*42*	*384*	*90*
Total net comprehensive income attributable to		**3 754**	**1 489**	**4 421**	**1 694**
equity owners of the parent		*3 543*	*1 508*	*4 026*	*1 576*
non-controlling interest		*211*	*(19)*	*395*	*118*
Net profit and diluted net profit per share attributable to equity owners of the parent (in PLN per share)		8.12	3.57	6.82	1.86

The accompanying notes disclosed on pages 8 – 15 are an integral part of the foregoing interim condensed consolidated financial statements.

ORLEN GROUP (PLN million)

Consolidated statement of financial position

	NOTE	30/09/2016 (unaudited)	31/12/2015
ASSETS			
Non-current assets			
Property, plant and equipment		26 520	24 536
Intangible assets		1 176	1 298
Investments accounted for under equity method		846	774
Deferred tax assets		311	365
Other financial assets	3.6	85	147
Other assets		251	242
		29 189	**27 362**
Current assets			
Inventories		10 388	10 715
Trade and other receivables		7 770	6 641
Other financial assets	3.6	372	974
Cash and cash equivalents		3 858	2 348
Non-current assets classified as held for sale		27	97
		22 415	**20 775**
Total assets		**51 604**	**48 137**
EQUITY AND LIABILITIES			
EQUITY			
Share capital		1 058	1 058
Share premium		1 227	1 227
Hedging reserve		(103)	(80)
Foreign exchange differences on subsidiaries from consolidation		631	537
Retained earnings		22 047	19 431
Equity attributable to owners of the parent		**24 860**	**22 173**
Non-controlling interests		**2 221**	**2 071**
Total equity		**27 081**	**24 244**
LIABILITIES			
Non-current liabilities			
Loans, borrowings and bonds	3.7	7 624	8 131
Provisions	3.8	767	710
Deferred tax liabilities		928	674
Other financial liabilities	3.9	543	712
		9 862	**10 227**
Current liabilities			
Trade and other liabilities		12 444	10 820
Loans and borrowings	3.7	1 187	1 027
Provisions	3.8	465	749
Deferred income		193	128
Other financial liabilities	3.9	372	870
Liabilities directly associated with assets classified as held for sale		-	72
		14 661	**13 666**
Total liabilities		**24 523**	**23 893**
Total equity and liabilities		**51 604**	**48 137**

The accompanying notes disclosed on pages 8 – 15 are an integral part of the foregoing interim condensed consolidated financial statements.

ORLEN GROUP (PLN million)

Consolidated statement of changes in equity

	Equity attributable to owners of the parent						
	Share capital and share premium	Hedging reserve	Foreign exchange differences on subsidiaries from consolidation	Retained earnings	Total	Non-controlling interests	Total equity
01/01/2016	2 285	(80)	537	19 431	22 173	2 071	24 244
Net profit	-	-	-	3 472	3 472	225	3 697
Items of other comprehensive income	-	(23)	94	-	71	(14)	57
Total net comprehensive income	**-**	**(23)**	**94**	**3 472**	**3 543**	**211**	**3 754**
Change in the structure of non-controlling interest	-	-	-	(1)	(1)	(1)	(2)
Dividends	-	-	-	(855)	(855)	(60)	(915)
30/09/2016	**2 285**	**(103)**	**631**	**22 047**	**24 860**	**2 221**	**27 081**
(unaudited)							
01/01/2015	2 285	(1 319)	509	17 296	18 771	1 615	20 386
Net profit	-	-	-	2 918	2 918	384	3 302
Items of other comprehensive income	-	1 104	4	-	1 108	11	1 119
Total net comprehensive income	**-**	**1 104**	**4**	**2 918**	**4 026**	**395**	**4 421**
Dividends	-	-	-	(706)	(706)	-	(706)
30/09/2015	**2 285**	**(215)**	**513**	**19 508**	**22 091**	**2 010**	**24 101**
(unaudited)							

The accompanying notes disclosed on pages 8 – 15 are an integral part of the foregoing interim condensed consolidated financial statements.

ORLEN GROUP (PLN million)

Consolidated statement of cash flows

	NOTE	9 MONTHS ENDED 30/09/2016 (unaudited)	3 MONTHS ENDED 30/09/2016 (unaudited)	9 MONTHS ENDED 30/09/2015 (unaudited)	3 MONTHS ENDED 30/09/2015 (unaudited)
Cash flows from operating activities					
Profit before tax		**4 397**	**1 927**	**4 040**	**1 055**
Adjustments for:					
Share in profit from investments accounted for under equity method		(252)	(68)	(189)	(85)
Depreciation and amortisation		1 560	537	1 385	469
Foreign exchange (profit)/loss		251	(28)	(14)	48
Interest, net		164	36	151	46
Dividends		(5)	-	(2)	-
(Profit)/Loss on investing activities		(46)	(2)	708	107
Change in provisions		128	79	337	139
Change in working capital		1 257	204	(2 272)	(1 482)
inventories		*354*	*172*	*(1 914)*	*(1 143)*
receivables		*(740)*	*158*	*(166)*	*1 381*
liabilities		*1 643*	*(126)*	*(192)*	*(1 720)*
Other adjustments		(397)	(445)	(197)	(114)
Income tax (paid)		(269)	(143)	(156)	(51)
Net cash from operating activities		**6 788**	**2 097**	**3 791**	**132**
Cash flows from investing activities					
Acquisition of property, plant and equipment, intangible assets and perpetual usufruct of land		(3 953)	(1 149)	(1 850)	(605)
Acquisition of shares adjusted for received cash		(2)	-	(35)	-
Disposal of property, plant and equipment, intangible assets and perpetual usufruct of land		93	10	70	16
Sale of subsidiary		74	-	1	-
Dividends received		187	5	118	115
Other		4	(8)	(213)	(117)
Net cash (used) in investing activities		**(3 597)**	**(1 142)**	**(1 909)**	**(591)**
Cash flows from financing activities					
Proceeds from loans and borrowings received		4 089	35	1 986	1 989
Bonds issued		3 257	-	-	-
Repayments of loans and borrowings		(7 867)	(229)	(2 047)	(72)
Interest paid		(189)	(38)	(208)	(56)
Dividends paid		(909)	(909)	(706)	(706)
equity owners of the parent	*3.14*	*(855)*	*(855)*	*(706)*	*(706)*
non-controlling interest		*(54)*	*(54)*	-	-
Payments of liabilities under finance lease agreements		(21)	(6)	(21)	(8)
Other		(10)	(5)	3	3
Net cash from / (used in) financing activities		**(1 650)**	**(1 152)**	**(993)**	**1 150**
Net increase/(decrease) in cash and cash equivalents		**1 541**	**(197)**	**889**	**691**
Effect of exchange rate changes		(31)	(39)	43	38
Cash and cash equivalents, beginning of the period		2 348	4 094	3 937	4 140
Cash and cash equivalents, end of the period		**3 858**	**3 858**	**4 869**	**4 869**

Beginning with the 1st quarter of 2016, the Group presents cash flows from operating activities starting from the profit before tax.

The accompanying notes disclosed on pages 8 – 15 are an integral part of the foregoing interim condensed consolidated financial statements.

EXPLANATORY NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

1.1. 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 19 February 2009 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 (consolidated text: Official Journal 2014, item 133, as amended Official Journal 2016, item 860) ("Regulation") and present the Polski Koncern Naftowy ORLEN S.A. Capital Group's ("Group", "ORLEN Group") financial position as at 30 September 2016 and as at 31 December 2015, financial results and cash flows for the 9 and 3 month period ended 30 September 2016 and 30 September 2015.

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.

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

In the foregoing interim condensed consolidated financial statements, the significant assumptions made by the Management Board regarding adoption of accounting principles and main uncertainties were the same as those presented in note 8.6 and 8.7 in the Consolidated Financial Statements for the year 2015.
The Group intends to adopt IFRS amendments, published but not effective as at the date of publication of the foregoing interim condensed consolidated financial statements, in accordance with their effective date. An estimate of the impact of changes and new IFRS on future consolidated financial statements was presented in the Consolidated Financial Statements for the year 2015 in note 8.6.1.

1.3. Functional currency and presentation currency of financial statements and methods applied to translation of financial data

1.3.1. 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.

1.3.2. 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.

Foreign exchange differences resulting from the above recalculations are recognized in equity as foreign exchange differences on subsidiaries from consolidation.

CURRENCY	Average exchange rate for the reporting period				Exchange rate as at the end of the reporting period	
	9 MONTHS ENDED 30/09/2016	3 MONTHS ENDED 30/09/2016	9 MONTHS ENDED 30/09/2015	3 MONTHS ENDED 30/09/2015	30/09/2016	31/12/2015
EUR/PLN	4.3602	4.3420	4.1578	4.1894	4.3120	4.2615
USD/PLN	3.9080	3.8904	3.7305	3.7652	3.8558	3.9011
CZK/PLN	0.1613	0.1606	0.1520	0.1547	0.1596	0.1577
CAD/PLN	2.9553	2.9836	2.9643	2.8793	2.9290	2.8102

1.4. 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.

2. Segment reporting

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

and Corporate Functions, which include activities related to management and administration and support functions 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 section Other information to the consolidated quarterly report in note B2.

ORLEN GROUP (PLN million)

Financial result by operating segments

for the 9 month period ended 30 September 2016

	NOTE	Downstream Segment (unaudited)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
External revenues		34 454	21 844	304	49	-	56 651
Inter-segment revenues		7 762	270	-	214	(8 246)	-
Sales revenues		42 216	22 114	304	263	(8 246)	56 651
Operating expenses		(39 283)	(21 027)	(402)	(794)	8 246	(53 260)
Other operating income	3.4	1 276	48	2	34	-	1 360
Other operating expenses	3.4	(137)	(70)	(5)	(48)	-	(260)
Share in profit from investments accounted for under equity method		253	-	(1)	-	-	252
Profit/(Loss) from operations		**4 325**	**1 065**	**(102)**	**(545)**	**-**	**4 743**
Net finance income and costs	3.5						(346)
Profit before tax							**4 397**
Tax expense							(700)
Net profit							**3 697**

ADDITIONAL INFORMATION	Downstream Segment (unaudited)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
Depreciation and amortisation	**964**	**295**	**228**	**73**	**-**	**1 560**
EBITDA	**5 289**	**1 360**	**126**	**(472)**	**-**	**6 303**
CAPEX	**2 738**	**244**	**400**	**75**	**-**	**3 457**

for the 3 month period ended 30 September 2016

	NOTE	Downstream Segment (unaudited)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
External revenues		12 961	7 992	115	15	-	21 083
Inter-segment revenues		2 890	119	-	76	(3 085)	-
Sales revenues		15 851	8 111	115	91	(3 085)	21 083
Operating expenses		(14 841)	(7 572)	(139)	(259)	3 085	(19 726)
Other operating income	3.4	423	12	2	7	-	444
Other operating expenses	3.4	(50)	(32)	(3)	(10)	-	(95)
Share in profit from investments accounted for under equity method		69	-	(1)	-	-	68
Profit/(Loss) from operations		**1 452**	**519**	**(26)**	**(171)**	**-**	**1 774**
Net finance income and costs	3.5						153
Profit before tax							**1 927**
Tax expense							(358)
Net profit							**1 569**

ADDITIONAL INFORMATION	Downstream Segment (unaudited)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
Depreciation and amortisation	**328**	**99**	**85**	**25**	**-**	**537**
EBITDA	**1 780**	**618**	**59**	**(146)**	**-**	**2 311**
CAPEX	**997**	**96**	**94**	**20**	**-**	**1 207**

ORLEN GROUP (PLN million)

for the 9 month period ended 30 September 2015

	NOTE	Downstream Segment (unaudited)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
External revenues		44 504	23 515	162	68	-	68 249
Inter-segment revenues		9 764	52	-	148	(9 964)	-
Sales revenues		54 268	23 567	162	216	(9 964)	68 249
Operating expenses		(49 781)	(22 666)	(235)	(690)	9 964	(63 408)
Other operating income	3.4	196	35	1	40	-	272
Other operating expenses	3.4	(223)	(39)	(429)	(82)	-	(773)
Share in profit from investments accounted for under equity method		189	-	-	-	-	189
Profit/(Loss) from operations		**4 649**	**897**	**(501)**	**(516)**	**-**	**4 529**
Net finance income and costs	3.5						(489)
Profit before tax							**4 040**
Tax expense							(738)
Net profit							**3 302**

ADDITIONAL INFORMATION	Downstream Segment (unaudited)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
Depreciation and amortisation	**942**	**273**	**109**	**61**	**-**	**1 385**
EBITDA	**5 591**	**1 170**	**(392)**	**(455)**	**-**	**5 914**
CAPEX	**1 302**	**247**	**195**	**143**	**-**	**1 887**

for the 3 month period ended 30 September 2015

	NOTE	Downstream Segment (unaudited)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
External revenues		15 060	8 333	49	26	-	23 468
Inter-segment revenues		3 404	18	-	51	(3 473)	-
Sales revenues		18 464	8 351	49	77	(3 473)	23 468
Operating expenses		(17 575)	(7 897)	(76)	(220)	3 473	(22 295)
Other operating income	3.4	53	12	1	9	-	75
Other operating expenses	3.4	(130)	(14)	-	(33)	-	(177)
Share in profit from investments accounted for under equity method		85	-	-	-	-	85
Profit/(Loss) from operations		**897**	**452**	**(26)**	**(167)**	**-**	**1 156**
Net finance income and costs	3.5						(101)
Profit before tax							**1 055**
Tax expense							(170)
Net profit							**885**

ADDITIONAL INFORMATION	Downstream Segment (unaudited)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
Depreciation and amortisation	**318**	**92**	**36**	**23**	**-**	**469**
EBITDA	**1 215**	**544**	**10**	**(144)**	**-**	**1 625**
CAPEX	**448**	**97**	**98**	**79**	**-**	**722**

CAPEX - increases of non-current assets together with the capitalisation of borrowing costs

Assets by operating segments

	30/09/2016 (unaudited)	31/12/2015
Downstream Segment	36 307	34 282
Retail Segment	5 889	5 683
Upstream Segment	3 652	3 380
Segment assets	**45 848**	**43 345**
Corporate Functions	5 850	4 995
Adjustments	(94)	(203)
	51 604	**48 137**

ORLEN GROUP (PLN million)

3. Other notes

3.1. Operating expenses

Cost by nature

	9 MONTHS ENDED 30/09/2016 (unaudited)	3 MONTHS ENDED 30/09/2016 (unaudited)	9 MONTHS ENDED 30/09/2015 (unaudited)	3 MONTHS ENDED 30/09/2015 (unaudited)
Materials and energy	(30 508)	(11 295)	(42 628)	(14 937)
Cost of merchandise and raw materials sold	(14 777)	(5 935)	(13 602)	(4 667)
External services	(3 009)	(1 044)	(3 221)	(1 079)
Employee benefits	(1 659)	(526)	(1 573)	(503)
Depreciation and amortisation	(1 560)	(537)	(1 385)	(469)
Taxes and charges	(814)	(270)	(862)	(290)
Other	(630)	(219)	(1 071)	(270)
	(52 957)	**(19 826)**	**(64 342)**	**(22 215)**
Change in inventories	(797)	(66)	(8)	(302)
Cost of products and services for own use	234	71	169	45
Operating expenses	**(53 520)**	**(19 821)**	**(64 181)**	**(22 472)**
Distribution expenses	3 059	1 054	2 910	990
Administrative expenses	1 055	323	1 122	332
Other operating expenses	260	95	773	177
Cost of sales	**(49 146)**	**(18 349)**	**(59 376)**	**(20 973)**

3.2. Impairment allowances of inventories to net realizable value

	9 MONTHS ENDED 30/09/2016 (unaudited)	3 MONTHS ENDED 30/09/2016 (unaudited)	9 MONTHS ENDED 30/09/2015 (unaudited)	3 MONTHS ENDED 30/09/2015 (unaudited)
Increase	(137)	(32)	(99)	(43)
Decrease	258	38	908	58

During the 9 month period ended 30 September 2015, the item decrease includes above all usage in the 1st quarter of 2015 of impairment allowances recorded mainly in the 4th quarter of 2014 due to a decrease in crude oil and petroleum products' prices.

3.3. Impairment allowances of assets

	9 MONTHS ENDED 30/09/2016 (unaudited)	3 MONTHS ENDED 30/09/2016 (unaudited)	9 MONTHS ENDED 30/09/2015 (unaudited)	3 MONTHS ENDED 30/09/2015 (unaudited)
Property, plant and equipment				
Recognition	(28)	(7)	(568)	(105)
Reversal	15	5	12	4
Intangible assets				
Recognition	-	-	(1)	(1)
Reversal	-	-	1	1
Receivables				
Recognition	(20)	(4)	(35)	(10)
Reversal	10	1	18	7

3.3.1. Impairment allowances of non-current assets

As at 30 September 2016 the ORLEN Group did not identify new impairment indications of non-current assets.
As a consequence of the accident at the installation for the production of ethylene in Litvinov (Unipetrol Group) in August 2015, impairment of property, plant and equipment of PLN (93) million translated using the exchange rate as at 30 September 2015 (representing approximately CZK 597 million) was recorded in the 3rd quarter of 2015.
As part of the Upstream segment ORLEN Upstream Group determined in the 2nd quarter of 2015, on the basis of previously gathered data, the most promising areas for further exploration of hydrocarbon in Poland. Narrowing the search area influenced the partial impairment of assets related to exploration and recognition of mineral resources in the amount of PLN (429) million recognized in the 2nd quarter of 2015.
The value in use of assets due to exploration and evaluation of mineral resources has been established in accordance with IAS 36 "Impairment of Assets" and results from the analysis of future cash flows which take into account current and forecasted hydrocarbon prices, expected changes in the regulatory environment and the probability of success/failure and long-term production forecasts. Net cash flow projections used for the purposes of estimating the value in use of the assets were discounted to their present value using a discount rate at 8.99%, which reflects the current market assessment of the time value of money and the risks specific to the respective assets on the Polish market.

Sensitivity analysis of the ORLEN Upstream assets value in use within an impairment test performed as at 30 June 2015

PLN million — HYDROCARBONS PRICES

DISCOUNT RATE change	-5% *	0%	5%
- 0.5 p.p.	increase in allowance (25)	decrease in allowance 12	decrease in allowance 51
0.0 p.p.	increase in allowance (25)	-	decrease in allowance 37
+ 0.5 p.p.	increase in allowance (25)	increase in allowance (11)	decrease in allowance 24

* while lowering prices by 5% the entire value of the tested assets is impaired, with each of the analyzed discount rates

3.4. Other operating income and expenses

Other operating income

	9 MONTHS ENDED 30/09/2016 (unaudited)	3 MONTHS ENDED 30/09/2016 (unaudited)	9 MONTHS ENDED 30/09/2015 (unaudited)	3 MONTHS ENDED 30/09/2015 (unaudited)
Profit on sale of subsidiaries	60	-	-	-
Profit on sale of non-current non-financial assets	45	8	17	6
Gain on bargain purchase of shares	-	-	63	-
Reversal of provisions	21	7	10	4
Reversal of receivables impairment allowances	8	1	14	5
Reversal of impairment allowances of property, plant and equipment and intangible assets	15	5	13	5
Penalties and compensation	1 093	395	44	20
Other	118	28	111	35
	1 360	**444**	**272**	**75**

The line penalties and compensation in the 9 and 3 month period ended 30 September 2016 includes mainly the amount of partial compensation received from insurers related to the steam cracker unit accident in the Unipetrol Group in August 2015 in the amount of PLN 983 million and PLN 348 million, respectively. Detailed information is presented in note 3.15.

The line other in the 9 and 3 month period ended 30 September 2016 and 30 September 2015 includes mainly recognition of due energy certificates effect in the amount of PLN 35 million and PLN 20 million, PLN 42 million and PLN 11 million, respectively.

Other operating expenses

	9 MONTHS ENDED 30/09/2016 (unaudited)	3 MONTHS ENDED 30/09/2016 (unaudited)	9 MONTHS ENDED 30/09/2015 (unaudited)	3 MONTHS ENDED 30/09/2015 (unaudited)
Loss on sale of non-current non-financial assets	(25)	(5)	(21)	(9)
Recognition of provisions	(42)	(21)	(58)	(21)
Recognition of receivables impairment allowances	(18)	(4)	(32)	(9)
Recognition of impairment allowances of property, plant and equipment and intangible assets	(28)	(7)	(569)	(106)
Penalties, damages and compensation	(82)	(48)	(28)	(13)
Other	(65)	(10)	(65)	(19)
	(260)	**(95)**	**(773)**	**(177)**

The line recognition of impairment allowances of property, plant and equipment and intangible assets in the 9 month period ended 30 September 2015, included mainly impairment allowances of Unipetrol Group's property, plant and equipment of PLN (93) million recognized in the 3rd quarter of 2015 and impairment allowances of exploration assets of ORLEN Upstream Group in Poland recognized in the 2nd quarter of 2015 in the amount of PLN (429) million. Additional information is presented in note 3.3.1.

ORLEN GROUP (PLN million)

3.5. Finance income and costs

Finance income

	9 MONTHS ENDED 30/09/2016 (unaudited)	3 MONTHS ENDED 30/09/2016 (unaudited)	9 MONTHS ENDED 30/09/2015 (unaudited)	3 MONTHS ENDED 30/09/2015 (unaudited)
Interest	42	15	66	29
Foreign exchange gain surplus	-	168	-	-
Dividends	5	-	2	-
Settlement and valuation of derivative financial instruments	60	9	164	67
Reversal of receivables impairment allowances	2	-	4	2
Other	16	2	24	3
	125	**194**	**260**	**101**

Finance costs

	9 MONTHS ENDED 30/09/2016 (unaudited)	3 MONTHS ENDED 30/09/2016 (unaudited)	9 MONTHS ENDED 30/09/2015 (unaudited)	3 MONTHS ENDED 30/09/2015 (unaudited)
Interest	(157)	(23)	(161)	(52)
Foreign exchange loss, net	(221)	-	(184)	(73)
Settlement and valuation of derivative financial instruments	(66)	(12)	(374)	(70)
Recognition of receivables impairment allowances	(2)	-	(3)	(1)
Other	(25)	(6)	(27)	(6)
	(471)	**(41)**	**(749)**	**(202)**

Borrowing costs capitalized in the 9 and 3 month period ended 30 September 2016 and 30 September 2015 amounted to PLN (48) million and PLN (18) million, PLN (42) million and PLN (15) million, respectively.

3.6. Other financial assets

	Non-current		Current		Total	
	30/09/2016 (unaudited)	31/12/2015	30/09/2016 (unaudited)	31/12/2015	30/09/2016 (unaudited)	31/12/2015
Cash flows hedging intruments	62	135	284	797	346	932
currency forwards	*37*	*45*	*102*	*78*	*139*	*123*
commodity swaps	*25*	*90*	*182*	*719*	*207*	*809*
Derivatives not designated as hedge accounting	-	-	7	8	7	8
currency forwards	-	-	*3*	*2*	*3*	*2*
commodity swaps	-	-	*4*	*6*	*4*	*6*
Embedded derivatives	-	-	1	1	1	1
currency swaps	-	-	*1*	*1*	*1*	*1*
Receivables on cash flows settled hedging intruments	-	-	77	159	77	159
Other	23	12	3	9	26	21
	85	**147**	**372**	**974**	**457**	**1 121**

3.7. Loans, borrowings and bonds

	Non-current		Current		Total	
	30/09/2016 (unaudited)	31/12/2015	30/09/2016 (unaudited)	31/12/2015	30/09/2016 (unaudited)	31/12/2015
Loans	674	3 975	747	1 025	1 421	5 000
Borrowings	-	1	2	2	2	3
Bonds	6 950	4 155	438	-	7 388	4 155
	7 624	**8 131**	**1 187**	**1 027**	**8 811**	**9 158**

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.

ORLEN GROUP (PLN million)

3.8. Provisions

	Non-current		Current		Total	
	30/09/2016 (unaudited)	31/12/2015	30/09/2016 (unaudited)	31/12/2015	30/09/2016 (unaudited)	31/12/2015
Environmental	503	450	12	39	515	489
Jubilee bonuses and post-employment benefits	223	217	37	36	260	253
CO_2 emissions, energy certificates	-	-	254	466	254	466
Other	41	43	162	208	203	251
	767	**710**	**465**	**749**	**1 232**	**1 459**

3.9. Other financial liabilities

	Non-current		Current		Total	
	30/09/2016 (unaudited)	31/12/2015	30/09/2016 (unaudited)	31/12/2015	30/09/2016 (unaudited)	31/12/2015
Cash flows hedging intruments	135	239	241	764	376	1 003
currency forwards	*2*	-	-	*11*	*2*	*11*
interest rate swaps	-	*92*	-	-	-	*92*
commodity swaps	*28*	*48*	*240*	*753*	*268*	*801*
currency interest rate swaps	*105*	*99*	*1*	-	*106*	*99*
Derivatives not designated as hedge accounting	114	-	5	1	119	1
currency forwards	-	-	-	*1*	-	*1*
commodity swaps	-	-	*5*	-	*5*	-
interest rate swaps	*114*	-	-	-	*114*	-
Embedded derivatives	-	-	1	2	1	2
currency swaps	-	-	*1*	*2*	*1*	*2*
Liabilities on cash flows settled hedging intruments	-	-	125	103	125	103
Investment liabilities	118	300	-	-	118	300
Finance lease	139	140	-	-	139	140
Other	37	33	-	-	37	33
	543	**712**	**372**	**870**	**915**	**1 582**

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

As compared to the previous reporting period the Group did not change the valuation methods concerning derivative instruments. Methods applied in determining the fair value were described in the Consolidated Financial Statements for 2015 in note 8.6.3.19.

Fair value hierarchy

	30/09/2016 (unaudited)	31/12/2015
	LEVEL 2	
Financial assets		
Embedded derivatives and hedging	354	941
	354	**941**
Financial liabilities		
Embedded derivatives and hedging	496	1 006
	496	**1 006**

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 input 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.

3.11. Finance lease payments

As at 30 September 2016 and as at 31 December 2015 the Group possessed as a lessee the finance lease agreements, concerning mainly buildings, technical equipment and machinery and means of transportation.

	30/09/2016 (unaudited)	31/12/2015
Value of future minimum lease payments	221	222
Present value of future minimum lease payments	167	166

3.12. Future commitments resulting from signed investment contracts

As at 30 September 2016 and as at 31 December 2015, the value of future commitments resulting from investment contracts signed until that day amounted to PLN 2,178 million and PLN 3,054 million, respectively.

3.13. Issue, redemption and repayment of debt securities

On 7 June 2016 was made the issue of debt securities with a 7-year period of redemption by the ORLEN Capital AB - a special purpose entity. The value of the issue amounted to PLN 3,234 million translated using the exchange rate as at 30 September 2016 (representing EUR 750 million). Additional information is presented in the section Other information to the consolidated quarterly report in note B.6.3.

In the period covered by the foregoing interim condensed consolidated financial statements, short term bonds were issued in favour of the Group companies as a part of liquidity optimisation in the ORLEN Group.

3.14. Distribution of the profit for 2015, the information concerning the payment of dividends in 2016

The Ordinary General Meeting of PKN ORLEN S.A. as of 3 June 2016 decided to distribute the net profit of PKN ORLEN for the year 2015 of PLN 1,047,519,491.84 as follows: PLN 855,418,122 will be allocated as a dividend payment (PLN 2 per 1 share) and the remaining amount of net profit of PLN 192,101,369.84 as reserve capital. The dividend date was set at 15 July 2016 and the dividend payment date at 5 August 2016.

3.15. Contingent assets and liabilities

Contingent assets

On 13 August 2015 the steam cracker unit accident in Unipetrol Group took place. Based on the insurance policies Unipetrol Group expects insurers to cover reconstruction costs of installations, which estimated on 30 September 2016 at approximately PLN 0.6 billion translated using the exchange rate as at 30 September 2016 (representing CZK 3.9 billion), as well as lost business profits (business interruption), which from the accident to the 30 September of 2016 estimated at approximately PLN 1.6 billion translated using the exchange rate as at 30 September 2016 (representing CZK 9.9 billion).

In the 9 and 3 month period ended 30 September of 2016 Unipetrol Group recognized in other operating income (note 3.4) amounts of partial compensation received from insurers in the amount PLN 983 million and PLN 348 million, respectively.

Received cash by 30 September 2016 due to the described above compensations amounted to PLN 622 million translated using the exchange rate as at 30 September 2016 (representing CZK 3.9 billion).

After consideration the amounts recognized in other operating income the value of contingent asset as at 30 September 2016 due to described above damage was estimated in the amount of PLN 1.2 billion translated using the exchange rate of the 30 September 2016 (representing CZK 7.7 billion).

The final amount of compensation will depend on the final agreement with insurers.

On 17 May 2016, following the accident on installation FCC (Fluid Catalytic Cracking) in the Kralupy refinery, crude oil processing was suspended. Based on the insurance policies and the estimates made at the end of September 2016, Unipetrol Group expects insurers to cover reconstruction costs which estimated at approximately PLN 48 million translated using the exchange rate as at 30 September 2016 (representing CZK 0.3 billion) as well as lost business profits (business interruption), which from the accident to the 30 September of 2016 estimated in the amount of approximately PLN 96 million translated using the exchange rate as at 30 September 2016 (representing CZK 0.6 billion).

The final amount of compensation will depend on the final agreement with insurers.

Contingent liabilities

Spolana a.s. currently produces chlorine using mercury electrolysis. In the event that production is terminated, the company is required to present a reclamation program after it stops using its fixed assets. On 9 September 2013, as a result of administrative proceedings, Spolana a.s. received a consent of the Mid-Czech Regional Body to extend the integrated pollution prevention and control license from the end of 2014 until 30 June 2017. At the same time, the company is obliged to submit an action plan aiming to cease production of chlorine using mercury electrolysis by 31 December 2016. The Company is in the process of preparation an appropriate action plan.

Information concerning significant proceedings is presented in the section Other information to the consolidated quarterly report in note B.5.

3.16. Guarantees

Excise tax guarantees and excise tax on goods and merchandise under the excise tax suspension procedure as at 30 September 2016 and as at 31 December 2015 amounted to PLN 1,894 million and PLN 1,815 million, respectively.

3.17. Events after the end of the reporting period

After the end of the reporting period there were no 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

2016

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

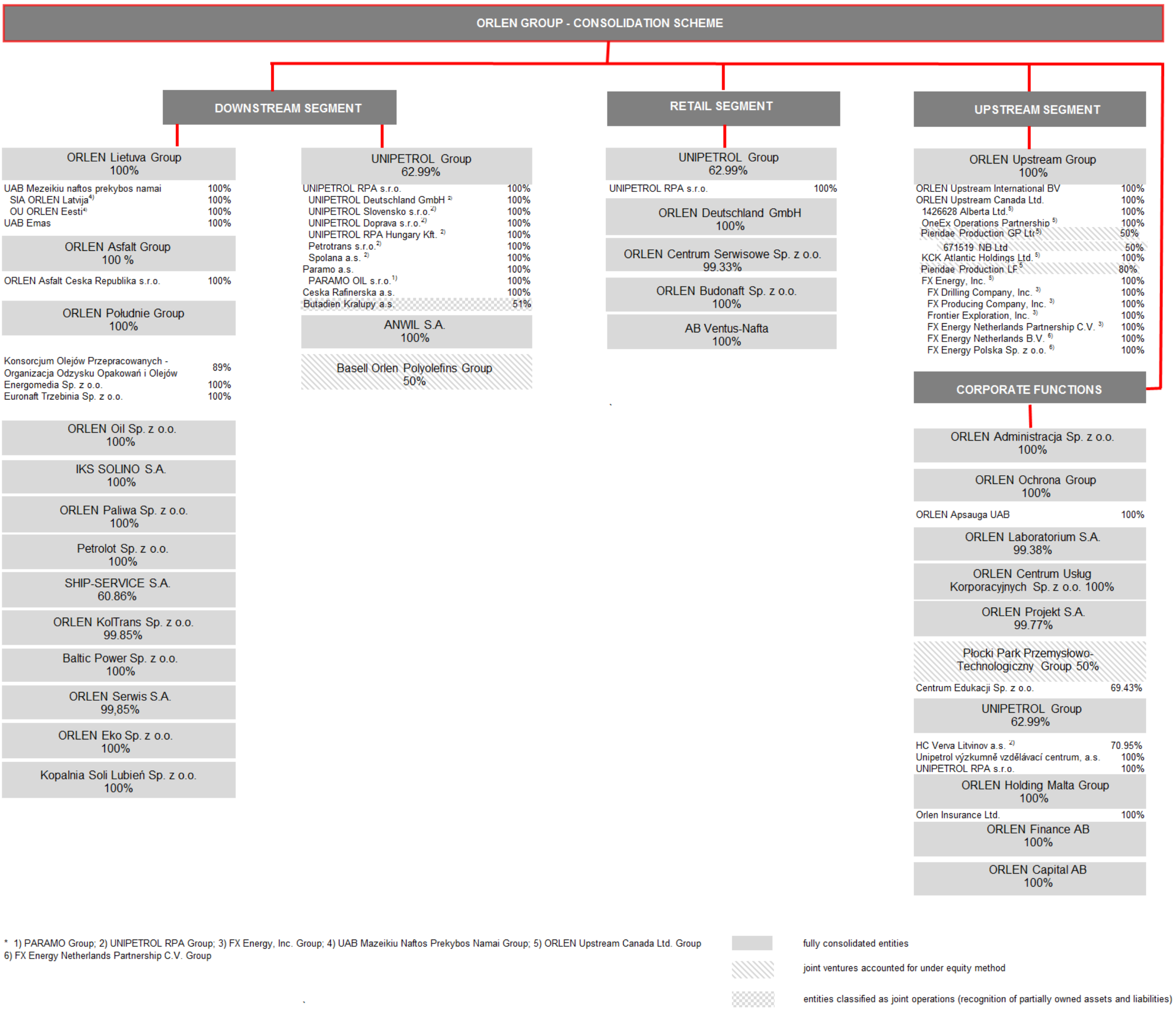
B. OTHER INFORMATION TO CONSOLIDATED QUARTERLY REPORT

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, retail and wholesale of fuel 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. 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, Netherlands, Slovakia, Hungary, Estonia, Latvia and USA and Canada.



2.1. Changes in the structure of the ORLEN Group from 1 January 2016 up to the date of preparation of the foregoing report

- On 1 January 2016, the companies Kicking Horse Energy Inc., KCK Operating Company Ltd., Columbia Natural Resources Canada, Ltd. and Kicking Horse International Exploration Ltd, created a single entity, which then was connected with ORLEN Upstream Canada;
- On 1 January 2016 a merger of Benzina with Unipetrol RPA and Mogul Slovakia with Unipetrol Slovensko took place;
- On 29 February 2016 a merger of ORLEN Serwis S.A. with ORLEN Wir Sp. z o.o. and Przedsiębiorstwo Usług Technicznych Wircom Sp. z o.o. took place;
- On 29 February 2016 PKN ORLEN sold ORLEN Transport S.A. to TP Sp. z o.o., a subsidiary of Trans Polonia S.A. As a result of this transaction Group recognized profit on the sale in the amount of PLN 57 million;
- On 18 April 2016 deletion from the trade registry Pro-Lab Sp. z o.o. in liquidation took place;
- On 17 May 2016 deletion from the trade registry EkoNaft sp. z o.o. in liquidation took place;

- On 25 May 2016 the Extraordinary General Meeting of Shareholders of ORLEN Upstream Sp. z o.o. took place where a resolution on increasing the company's share capital was adopted. The company's share capital was increased from PLN 41 million to PLN 43 million through the creation of 3,478 new and indivisible shares, with a nominal value of PLN 500 each, which were fully subscribed by the existing sole shareholder of the company, ie. PKN ORLEN, in exchange for a cash contribution of PLN 174 million;
  Surplus of cash contribution over total nominal value of the newly issued shares increased the company's reserve capital. The contribution was made on 31 May 2016;
- On 10 June 2016 Unipetrol RPA, a 100% subsidiary of Unipetrol a.s., signed with Anwil S.A. an agreement to acquire 100% of Spolana a.s shares from Anwil Group;
- On 1 August 2016 a merger of Unipetrol Services s.r.o, Unipetrol Refineries s.r.o. and Chemopetrol a.s. with Unipetrol RPA s.r.o. within the Unipetrol Group took place;
- On 10 August 2016 transformation of ORLEN Laboratorium Sp. z o.o. into ORLEN Labolatorium S.A. took place.
- On 9 September 2016 deletion from the trade registry of UNIPETROL AUSTRIA HmbH in liquidation took place.

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.

3. Financial situation

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

Profit or loss for the 9 month period ended 30 September 2016

Profit from operations increased by depreciation and amortization before consideration of changes of crude oil prices on inventory valuation (EBITDA LIFO[1]) and impairment allowances of non-current assets for the 9 months of 2016 amounted to PLN 6,757 million and was lower by PLN (115) million (y/y).

The negative impact of macroeconomic factors amounted to PLN (632) million (y/y) and included mainly the effect of lower margins on light and medium distillates at the positive impact in the Ural/Brent differential, margins in the petrochemical products and depreciation of the PLN exchange rate against the foreign currencies.

Total sales volume increased by 0.7% (y/y) due to higher retail sales by 3.0% (y/y) and upstream segment sales by 79.5% (y/y) at lower downstream segment sales by (0.8) % (y/y).
The negative volume effect in the amount of PLN (1,244) million (y/y) was mainly the result of the lower sales of high margin petrochemical and refinery products in Unipetrol Group due to the steam cracker unit accident in Unipetrol Group.

The positive impact of the other effects amounted to PLN 1,761 million (y/y) and included mainly:

- PLN 1,157 million (y/y) – lack of negative effects from year 2015 related to the settlement of repurchase V and VI tranche of mandatory reserves in the amount of PLN (297) million from January 2015 and PLN (860) million (y/y) from August 2015.

- PLN 1,058 million (y/y) - positive change in the balance of other operating activities, after eliminating the impact of impairment allowances of assets mainly related to the recognition of revenues from insurers due to the steam cracker unit accident in August 2015 in Unipetrol Group in the amount of PLN 983 million.

- PLN (454) million (y/y) - other elements, including the impact of lower trading margins in the area of refinery products.

The net impairment allowances of property, plant and equipment for the 9 month period of 2016 amounted to PLN (13) million. The impairment allowances of property, plant and equipment for the 9 month period of 2015 amounted to PLN (556) million and concerned mainly recognized in the 2nd quarter of 2015 impairment allowances of exploration assets of ORLEN Upstream Group in Poland in the amount of PLN (429) million and recognized in the 3rd quarter of 2015 impairment of petrochemical assets of Unipetrol Group due to the steam cracker unit accident from August 2015 in the amount of PLN (93) million.

After consideration of the above impairment allowances, EBITDA LIFO profit of the ORLEN Group for the 9 months of 2016 amounted to PLN 6,744 million and was higher by PLN 428 million (y/y).

The negative impact of crude oil prices on inventory valuation for the described period amounted to PLN (441) million.
As a result, EBITDA profit of the ORLEN Group for the 9 months of 2016 amounted to PLN 6,303 million.

After consideration of depreciation and amortization expenses profit from operations of the ORLEN Group for the described period amounted to PLN 4,743 million.

Net finance costs for the 9 months of 2016 amounted to PLN (346) million and included mainly foreign exchange losses in the amount of PLN (221) million and net interest expenses in the amount of PLN (115) million.

After consideration of tax charges of PLN (700) million, the net profit of the ORLEN Group for the 9 months of 2016 amounted to PLN 3,697 million.

[1] ORLEN Group's inventories are valued in the financial statements in accordance with International Financial Reporting Standards at the weighted average cost method or purchase price method. Therefore, an upward trend in crude oil prices has a positive effect and a downtrend has a negative impact on reported results. As a result in Other information to consolidated quarterly report the operating results were presented based on both the weighted average cost or purchase price as well as the LIFO method of inventory valuation, which eliminates the above impact.

Profit or loss for the 3 month period ended 30 September 2016

Profit from operations increased by depreciation and amortization before consideration of the impact of crude oil prices on inventory valuation (EBITDA LIFO) and the recognition of impairment allowances of fixed assets for the 3rd quarter of 2016 amounted to PLN 2,226 million and was higher by PLN 166 million (y/y).

The negative impact of macroeconomic factors amounted to PLN (712) million (y/y) and included mainly the effect of lower margins on light and medium distillates and petrochemical products at the positive impact in the Ural/Brent differential and depreciation of the PLN exchange rate against the foreign currencies.

Total sales volume increased by 0.8% (y/y) mainly due to higher volume in retail segment by 1.8% (y/y) and upstream segment by 92% (y/y) at lower by (0.3) % (y/y) volume of downstream segment. The negative volume effect in the amount of PLN (632) million (y/y) was mainly the effect of the lower sales of high margin petrochemical and refinery products in Unipetrol Group as a result of the above described steam cracker unit accident in Unipetrol Group.

The positive impact of the other effects amounted to PLN 1,510 million (y/y) and included mainly:

- PLN 860 million (y/y) – lack of negative effects from year 2015 related to the settlement of repurchase VI tranche of mandatory reserves from August 2015.
- PLN 352 million (y/y) - positive impact of change in the balance of other operating activities, after eliminating the impact of impairment allowances of assets mainly related to the recognition of compensation from insurers due to the steam cracker unit accident in Unipetrol Group in the amount of PLN 348 million.
- PLN 298 million (y/y) - other elements, including mainly the positive impact of net impairment allowances of inventories to net realisable value (so called net realisable value) and lower (y/y) trading margins of refinery products.

The net impairment allowances of non-current assets in the 3rd quarter of 2016 amounted to PLN (2) million, in the 3rd quarter of 2015 amounted to PLN (101) million and concerned mainly part of the plant for ethylene production in Unipetrol Group after steam cracker unit accident from August 2015 in the amount PLN (93) million.

After consideration the above impairment allowances, EBITDA LIFO profit of the ORLEN Group for the 3rd quarter of 2016 amounted to PLN 2,224 million.

The positive impact of crude oil prices on inventory valuation for the 3rd quarter of 2016 amounted PLN 87 million and in the result EBITDA profit of the ORLEN Group for the 3rd quarter of 2016 amounted to PLN 2,311 million.

After consideration of depreciation and amortization expenses profit from operations of the ORLEN Group for the described period amounted to PLN 1,774 million.

Net finance income for the 3rd quarter of 2016 amounted to PLN 153 million and included mainly foreign exchange gains in the amount of PLN 168 million and net interest expenses in the amount of PLN (8) million.

After consideration of tax charges in the amount of PLN (358) million, the net profit of the ORLEN Group for the 3rd quarter of 2016 amounted to PLN 1,569 million.

Statement of financial position

As at 30 September 2016, total assets of the ORLEN Group amounted to PLN 51,604 million and were higher by PLN 3,467 million in comparison with 31 December 2015.

As at 30 September 2016, the value of non-current assets amounted to PLN 29,189 million and were higher by PLN 1,827 million in comparison with the end of the previous year, mainly due to increasing of property, plant and equipment in the amount of PLN 1,984 million. Balance change of property, plant and equipment and intangible assets comprised mainly investment expenditures in the amount of PLN 3,457 million, depreciation and amortization in the amount of PLN (1,560) million and impact of exchange differences in the amount of PLN 130 million.

Current assets increased by PLN 1,640 million, mainly as result of an increase in the balance of cash and cash equivalents by PLN 1,510 million as well as trade and other receivables in the amount of PLN 1,129 million and decrease of PLN (602) million balance of other financial assets which comprised mainly valuations of cash flows hedge instruments.

As at 30 September 2016, total equity amounted to PLN 27,081 million and was higher by PLN 2,837 million in comparison with the end of 2015, mainly as a result of net profit for the 9 months of 2016 in the amount of PLN 3,697 million and the distribution of the net profit for 2015, and the allocation of the dividend for the shareholders of the Parent Company in the amount of PLN (855) million.
As at 30 September 2016, net indebtedness of the ORLEN Group amounted to PLN 4,953 million and was lower by PLN (1,857) million in comparison with the end of 2015. Balance of net indebtedness decreased as a result of net repayment of loans in the amount PLN (459) million, an increase of cash balance by PLN (1,510) million and the net impact of negative exchange differences from revaluation and indebtedness valuation in total amount of PLN 112 million.

Statement of cash flows

Proceeds of net cash from operating activities for the 9 month period of 2016 amounted to PLN 6,788 million and comprised mainly profit from operations increased by depreciation and amortisation in the amount of PLN 6,303 million and the positive impact of decrease in a net working capital of PLN 1,257 million lower by share in financial result from investments accounted for under equity method of PLN (252) million and paid income taxes in the amount of PLN (269) million.
In the 3rd quarter of 2016 net cash flows from operating activities amounted to PLN 2,097 million and comprised mainly profit from operations increased by depreciation and amortisation in the amount PLN 2,311 million and the positive impact of decrease in a net working capital of PLN 204 million lower by paid taxes in the amount of PLN (143) million and other adjustments includes mainly amount from compensation due to the steam cracker unit accident in Unipetrol Group in the amount of PLN (348) million.

Net cash used in investing activities for the 9 month period of 2016 amounted to PLN (3,597) million and comprised mainly net expenses for the acquisition of property, plant and equipment, intangible assets and perpetual usufruct of land of PLN (3,953) million and inflows from the received dividends and sale of ORLEN Transport in the amount of PLN 187 million and PLN 74 million, respectively.
In the 3rd quarter of 2016 net cash used in investing activities amounted to PLN (1,142) million and comprised mainly net expenses for the acquisition of property, plant and equipment, intangible assets and perpetual usufruct of land of PLN (1,149) million.

Net expenses of cash used in financing activities for the 9 month period of 2016 amounted to PLN (1,650) million and comprised mainly the net repayment of loans and borrowings of PLN (3,778) million, proceeds of the bond issue in the amount of PLN 3,257 million, paid dividends in the amount of PLN (909) million including amount for equity owners of the Parent Company of PLN (855) million and non-controlling interest of PLN (54) million and interest paid in the amount of PLN (189) million.
In the 3rd quarter of 2016 net expenses of cash used in financing activities amounted to PLN (1,152) and comprised mainly paid dividend in the amount of PLN (909) million including amount for equity owners of the Parent Company of PLN (855) million and non-controlling interest of PLN (54) million and net proceeds of loans and borrowings in the amount of PLN (194) million.

Taking into account the revaluation of cash due to exchange differences, the cash balance in the 9 and 3 month period of 2016 increased/decreased by PLN 1,510 million and PLN (236) million, respectively and as at 30 September 2016 amounted to PLN 3,858 million.

Factors and events which may influence future results

Similar factors as described above will have influence on future financial results.

3.2. The most significant events in the period from 1 January 2016 up to the date of preparation of the foregoing report

JANUARY 2016

Changes in the Supervisory Board of PKN ORLEN

On 28 January 2016, the Minister of Treasury on behalf of the Company's shareholder, the State Treasury, acting pursuant to § 8 item 2 point 1 of PKN ORLEN's Articles of Association has recalled Mr. Remigiusz Nowakowski from the Supervisory Board of PKN ORLEN.

On 29 January 2016, the Extraordinary General Shareholders' Meeting of PKN ORLEN S.A. recalled Messers Adam Ambroziak, Cezary Banasiński, Grzegorz Borowiec, Cezary Możeński and Leszek Jerzy Pawłowicz from the Supervisory Board and appointed Ms. Agnieszka Krzętowska and Messers Mateusz Henryk Bochacik, Adrian Dworzyński, Remigiusz Nowakowski and Arkadiusz Siwko as the Supervisory Board Members.

FEBRUARY 2016

Changes in the Management Board of PKN ORLEN

On 8 February 2016, the Supervisory Board of PKN ORLEN, dismissed Mr. Marek Podstawa from the Management Board of PKN ORLEN and appointed Mr. Mirosław Kochalski to the position of the Vice-President of the Management Board of the Company and Mr. Zbigniew Leszczyński to the Management Board Member of the Company for a joint three-year term of the Management Board, which terminates on the date of the Ordinary General Meeting approving the financial statements for 2016.

MAY 2016

Fitch Ratings affirmed long-term rating of PKN ORLEN

On 25 May 2016 Fitch Ratings affirmed the BBB- with stable perspective rating of PKN ORLEN.

JUNE 2016

New term of office of PKN ORLEN Supervisory Board

On 3 June 2016 the Ordinary General Meeting of Shareholders of PKN ORLEN S.A. appointed members of PKN ORLEN Supervisory Board for a new term of office as follows:
- Ms. Angelina Anna Sarota to the position of Chairman of PKN ORLEN Supervisory Board,
- Mr. Mateusz Mariusz Bochacik,
- Mr. Adrian Dworzyński,
- Mr. Artur Gabor,
- Ms. Agnieszka Krzętowska,
- Mr. Radosław Leszek Kwaśnicki,
- Mr. Remigiusz Nowakowski,
- Mr. Wiesław Tomasz Protasewicz.

Eurobond issue within the ORLEN Group

Detailed information is presented in the part of the Interim condensed consolidated financial statements in note A 3.13

JULY 2016

PKN ORLEN Management and Supervisory Boards consent for building a metathesis installation in Płock

On 21 July 2016 the Management Board and the Supervisory Board of PKN ORLEN gave consent for realization of project of building a metathesis installation at production plant in Płock. It is one of the key development project in petrochemical segment and its aim is to increase propylene production by 100 thousand tons per year to the level of 550 thousand tons per year. The cost of investment will amount to approximately PLN 400 million.

Termination of talks regarding potential possibilities of chemical and fertilizers sector consolidation

The Management Board of PKN ORLEN hereby informs about termination of talks conducted on the bases of Non-disclosure Agreement concluded in January 2015 between the State Treasury, Grupa Azoty S.A., PKN ORLEN S.A. and Anwil S.A. regarding potential possibilities of chemical and fertilizers sector consolidation. Therefore PKN ORLEN submitted a termination of the Agreement.

ORLEN GROUP (PLN million)

AUGUST 2016

Agreement for building a metathesis installation in Płock

Within the launched on 21 July 2016 project by decisions of the Management Board and the Supervisory Board of PKN ORLEN to build a metathesis plant with a total value of approximately PLN 400 million, on 1 August 2016 PKN ORLEN signed an agreement with ELEKTROBUDOWA S.A. for design, deliveries and building "in turn key" formula a metathesis installation at the production plant in Płock. It is one of the key development project in petrochemical segment and its aim is to increase propylene production by 100 thousand tons per year to the level of 550 thousand tons per year. Estimated net value of the agreement amounts to approximately PLN 250 million.
Completion of the building and start-up of the unit is planned in the second half of 2018.

Fitch Fitch Ratings upgraded PKN ORLEN's national long-term rating

On 3 August 2016 Fitch Ratings ("Agency") upgraded PKN ORLEN's national long-term rating and national senior unsecured rating (referred also to series A, B, C, D, E and F retail bonds, issued within the public bond issue programme) from "A-(pol)" to "A(pol)". The change of national rating of PKN ORLEN follow the recalibration of the Polish national rating scale driven by the downgrade of Poland's long-term local currency Issuer Default Rating ("IDR") assigned by the Agency.

A full list of ratings assigned by the Agency is as follows:
1) Referred to PKN ORLEN:
- National Long-term rating upgraded from 'A-(pol)' to 'A(pol)'; Stable Outlook;
- National senior unsecured rating upgraded from 'A-(pol) to 'A(pol)" ';
- Long-term foreign currency IDR: 'BBB-'; Stable Outlook;
- Long-term local currency IDR 'BBB-'; Stable Outlook;
- Short-term foreign currency IDR: 'F3';
- Short-term local currency IDR: 'F3';
- Foreign currency senior unsecured rating: 'BBB-';
- Local currency senior unsecured rating: 'BBB-'.
2) Referred to ORLEN Capital AB:
- Foreign currency senior unsecured rating: 'BBB-'.
PKN ORLEN owns 100% of the registered capital of ORLEN Capital AB.

SEPTEMBER 2016

Changes in the Supervisory Board of PKN ORLEN

On 14 September 2016 Mr. Remigiusz Nowakowski resigned from the position of PKN ORLEN Supervisory Board Member due to the possibility of potential conflict of interest that may occur between the companies of PKN ORLEN and TAURON Polska Energia in which Mr. Nowakowski holds the position of the President of the Management Board. The potential conflict of interest may occur due to the fact that TAURON Polska Energia approved a new strategy and works on a new strategy of PKN ORLEN are pending.

The conclusion of the contract with Polskie Górnictwo Naftowe i Gazownictwo S.A (PGNiG)

On 28 September 2016 PKN ORLEN Management Board gave consent for conclusion of an individual contract with PGNiG for natural gas deliveries. On 29 September 2016 the contract was concluded.
On its base PGNiG will deliver natural gas to ORLEN Group in Poland in the period of 1 October 2016 to 30 September 2021 (5 gas years). By signing the contract PGNiG will become a strategic provider of the natural gas to ORLEN Group in Poland in the coming years. The estimated value of the contract in the five-year period could amount to over PLN 7 billion (on the base of current market conditions).
The agreement, signed on 2 June 1997 between PKN ORLEN and PGNiG for natural gas deliveries to the Plant in Płock which was to be valid till the end of the gas day on 30 September 2017, was solved because of provisions of the contract.
It was terminated also, by mutual agreement of the parties, the agreement signed on 14 January 1999 for indefinite period, between Anwil S.A. and PGNiG S.A. for natural gas deliveries.

4. Related parties transactions

As at 30 September 2016 and as at 31 December 2015 and for the 9 and 3 month period ended 30 September 2016 and 30 September 2015 there were no material transactions of related parties with:

- members of the Management Board and the Supervisory Board of the Parent Company and their relatives,
- key executive personnel of the Parent Company and ORLEN Group companies.

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

	Sales				Purchases			
	9 MONTHS ENDED 30/09/2016 (unaudited)	3 MONTHS ENDED 30/09/2016 (unaudited)	9 MONTHS ENDED 30/09/2015 (unaudited)	3 MONTHS ENDED 30/09/2015 (unaudited)	9 MONTHS ENDED 30/09/2016 (unaudited)	3 MONTHS ENDED 30/09/2016 (unaudited)	9 MONTHS ENDED 30/09/2015 (unaudited)	3 MONTHS ENDED 30/09/2015 (unaudited)
Jointly-controlled entities	**1 756**	**508**	**2 301**	**718**	**(31)**	**(9)**	**(199)**	**(20)**
joint ventures	*1 750*	*507*	*2 158*	*699*	*(27)*	*(8)*	*(27)*	*(9)*
joint operations	*6*	*1*	*143*	*19*	*(4)*	*(1)*	*(172)*	*(11)*
Associates	**30**	**11**	**37**	**10**	**(5)**	**(1)**	**(22)**	**(12)**
	1 786	**519**	**2 338**	**728**	**(36)**	**(10)**	**(221)**	**(32)**

(PLN million)

	Trade and other receivables		Trade and other liabilities	
	30/09/2016 (unaudited)	31/12/2015	30/09/2016 (unaudited)	31/12/2015
Jointly-controlled entities	**329**	**509**	**2**	**5**
joint ventures	*329*	*508*	*2*	*4*
joint operations	-	*1*	-	*1*
Associates	**17**	**17**	**-**	**8**
	346	**526**	**2**	**13**

The above transactions with related parties include mainly sales and purchases of refinery and petrochemicals products and sales and purchases of services.
In the 9 and 3 month period ended 30 September 2016 and 30 September 2015 there were no material related party transactions in the Group concluded on other than an arm's length basis.

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

5.1. Proceedings in which the ORLEN Group entities act as the defendant

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

5.1.1.1. Risk connected with the disposal of assets and liabilities related to purchase of Unipetrol shares

The claim regarding the payment of compensation for losses related among others, to alleged unfair competition of PKN ORLEN included in Agrofert Holding a.s. (Agrofert) claim and alleged illegal violation of reputation of Agrofert in relation to purchase by PKN ORLEN of UNIPETROL shares. By judgment of 21 October 2010 the Court of Arbitration in Prague ("the Court of Arbitration") dismissed the entire claim of Agrofert against PKN ORLEN regarding the payment of PLN 3,106 million translated using the exchange rate as at 30 September 2016 (representing CZK 19,464 million) with interest and obliged Agrofert to cover the cost of proceedings born by PKN ORLEN. On 3 October 2011 PKN ORLEN received from the upper court in Prague (Czech Republic) Agrofert's claim which repealed the above judgment. The complaint was dismissed by the upper court in Prague with the ruling of 24 January 2014. On 7 April 2014 Agrofert appealed the above decision. On 7 April 2015 the court of appeals dismissed the appeal of Agrofert and therefore confirms the earlier judgment of the court of 24 January 2014 dismissing Agrofert's claim which overruled the sentence of the Court of Arbitration. On 4 September 2015 Agrofert appealed to the Supreme Court against the above judgment. On September 2016, the Czech Supreme Court ruled in favor of PKN ORLEN, Agrofert claim was dismissed.

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

5.1.2.1. Tax proceedings in ORLEN Południe S.A. (previously Rafineria Trzebinia S.A.)

On 14 May 2014 and 20 May 2014 the company received the decisions of the Head of the Customs Office in Kraków determining excise tax liabilities for the months: May - August 2004 in the amount of PLN 132 million. Rafineria Trzebinia S.A. paid the entire liability with interest using at the same time, provisions recognized for this purpose in prior years. Rafineria Trzebnia S.A. appealed to the Voivodship Administrative Court ("VAC") in Kraków against the above decisions. On 26 February 2015 the VAC in Kraków announced a judgment dismissing the company's claims. On 5 May 2015 the company submitted to the Supreme Administrative Court ("SAC") in Warsaw annulment claims against the judgement of the VAC, that were not recognized until the date of approval of the foregoing financial statements.
In view of the issue by the European Court of Justice in Luxembourg judgement in a similar case the company has submitted applications for renewal of administrative proceedings. Director of the Customs Chamber in Kraków by a decision issued on 23 July 2015 refused to reopen the proceedings due to the ongoing proceedings before the SAC in the cases final decisions for May – August 2004. The company filed an appeal regarding the decisions of the Director of the Customs Chamber in Kraków refusing to reopen the proceedings, which were dismissed. The company filed complaints against above decisions on 16 November 2015, which the VAC in Kraków dismissed on 11 February 2016. On 28 April 2016 the company submitted to the SAC annulment claims against the above described proceedings. These annulment claims were not recognized until the date of the approval of the foregoing financial statements.

5.1.2.2. Power transfer fee in settlements with ENERGA – OPERATOR S.A. (legal successor of Zakład Energetyczny Płock S.A.)

Court proceeding concerning the settlement of a disputed system fee of PKN ORLEN with ENERGA-OPERATOR S.A. for the period from 5 July 2001 to 30 June 2002. ENERGA-OPERATOR S.A. claims from PKN ORLEN payment of PLN 46 million plus statutory interest. The District Court in Warsaw (as the initial court) by its judgment from 27 October 2014 ordered PKN ORLEN to pay off to ENERGA-OPERATOR S.A. the claimed amount of PLN 46 million in its entirety, plus statutory interest from 30 June 2004 to the date of payment. PKN ORLEN filed an appeal against above judgment. On 19 April 2016 the Court of Appeal dismissed the claim of ENERGA-OPERATOR S.A in the amount of approximately PLN 30 million and in the remaining part i.e. in the amount of approximately PLN 16 million (plus statutory interest) took into account claims of ENERGA-OPERATOR S.A. Adjudged payments with interest was paid by PKN ORLEN to ENERGA-OPERATOR S.A. On 19 September 2016 PKN ORLEN submitted an annulment claim to the Supreme Court against the above judgment, which was not considered to the date of publication.
On 29 June 2015 PKN ORLEN received consecutive claim on this case, in which ENERGA-OPERATOR S.A. requests approximately PLN 13 million in addition. The case is pending in the District Court in Łódź. On 10 July 2015 a response to the lawsuit was filed, which questioned the claim as unfounded. On 22 December 2015 the District Court in Łódź issued a judgement, which overruled the request of ENERGA-OPERATOR S.A. concerning order to pay by PKN ORLEN of approximately PLN 13 million and adjudged the return of proceeding's expenses by ENERGA-OPERATOR S.A to PKN ORLEN. On 29 January 2016 ENERGA-OPERATOR S.A. appealed against the above judgment of the Appeal Court in Łódź. PKN ORLEN responded to the appeal. On 14 September 2016 after the hearing the Court of Appeal dismissed in its entirety the appeal of ENERGA-OPERATOR S.A. and adjudged also in favour PKN ORLEN reimbursement of the costs of legal representation. The judgment is binding however may be challenged by ENERGA-OPERATOR S.A. to the Supreme Court as an annulment claim.

5.1.2.3. 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 286 million, translated using the exchange rate as at 30 September 2016 (representing CZK 1,789 million). UNIPETROL RPA s.r.o. is one of 8 defendants which the claim was brought against. According to UNIPETROL RPA s.r.o the claim is without merit. The parties expect the further steps in the proceedings.

5.1.2.4. Claim of OBR S.A. for compensation
On 5 September 2014, the company OBR S.A. filled an action against PKN ORLEN with the District Court in Łódź for a claim for payment in respect of an alleged breach by PKN ORLEN of patent rights: 'The technique of the separation of hydrodesulfurization products of heavy residue after extractive distillation of crude oil'. The amount of the claim in the lawsuit has been estimated by OBR S.A. of approximately PLN 83 million. The claim covers the adjudged sum of money from PKN ORLEN for OBR S.A. in the amount corresponding to the value of the license fee for the use of the solution under the above patent and adjudge the obligation to repay the benefits derived from the use of this solution. On 16 October 2014, PKN ORLEN responded to the lawsuit. By the procedural document from 11 December 2014, the value of the dispute was referred to by the plaintiff in the amount of approximately PLN 247 million. By the court order from 21 May 2015 the parties were directed to mediation. Mediation proceedings were completed. The case was referred to the District Court in Łódź. The first hearing was held on 19 October 2016. The court fixed the next date of hearing on 4 January 2017. In the opinion of PKN ORLEN the above claims are without merit.

5.2. Court proceedings in which the ORLEN Group entities act as a plaintiff

5.2.1. Compensations due to damages suffered by ORLEN Południe S.A (previously Rafineria Trzebinia S.A.)
ORLEN Południe S.A. acts as an auxiliary prosecutor in proceedings started in 2010 concerning abuses associated with the realization of an investment - installation for the esterification of biodiesel oils, in which Rafineria Trzebinia S.A. claims to have incurred a loss estimated at PLN 79 million. The company filled a motion requesting to oblige the defendants to compensate the incurred damages. Criminal proceedings concerning the accused who acted against the company's interest are ongoing. Further hearings, during which the accused and some of the witnesses filled an explanations, were held. Dates of next hearings on which it is planned to examine further witnesses were scheduled for 18 November 2016, 14 December 2016 and 10 January 2017.

5.2.2. Proceeding of ORLEN Lietuva for compensation in respect of an accident at the Terminal in Butingė
AB ORLEN Lietuva is a plaintiff in a court proceeding against RESORT MARITIME S.A., The London Steamship Owners' Mutual Insurance Association Limited, Sigma Tankers Inc., Cardiff Maritime Inc., Heidenreich Marine, Heidenreich Maritime Inc. and Heidmar Inc. regarding compensation payment for damage caused by a collision of a tanker ship into a terminal buoy in Butinge Terminal on 29 December 2005. The proceedings were initiated in December 2006. The total compensation claim amounts to approximately PLN 74 million, translated using the exchange rate as at 30 September 2016 (representing approximately EUR 17.26 million). On October 2014 the parties agreed to change the jurisdiction to English courts. The company expects the further steps in the proceedings.

5.2.3. Tax proceedings in UNIPETROL RPA
UNIPETROL RPA s.r.o., acting as a legal successor of CHEMOPETROL a.s. acted in 2010 to the tax office for a refund of taxes paid for the year 2005 by CHEMOPETROL a.s.. The claim concerns unused investment relief attributable to CHEMOPETROL a.s. The value of the claim amounts to approximately PLN 52 million, translated using the exchange rate as at 30 September 2016 (representing approximately CZK 325 million). The case was examined several times by the tax authorities and courts in the course of instances of appeal. On 14 October 2015 the Czech supreme administrative court after recognizing the annulment claim of UNIPETROL RPA s.r.o overruled the judgment of the Court in Usti by the Elbe River of 25 February 2015 and decided to refer the case to the same Court for its reconsideration. A decision is expected to be announced by the Court in Usti by the Elbe River.

5.2.4. Arbitration proceedings against Basell Europe Holdings B.V.
On 20 December 2012 PKN ORLEN sent an arbitration request to Basell Europe Holdings B.V. regarding an ad hoc proceeding before the Court of Arbitration in London on compensation relating to Joint Venture Agreement signed in 2002 between PKN ORLEN and Basell Europe Holdings B.V.
On 12 May 2016, the Court of Arbitration sent a judgment to the parties in which dismissed all claims of PKN ORLEN and adjudged the return of proceeding's expenses to the Basell Europe Holdings BV. After analysis of the possibilities of appeal PKN ORLEN decided not to complain against an annulment of judgment, which ends the proceedings in the case.
Detailed information about the proceedings is presented in the Consolidated Financial Statements for 2015 in note 8.8.2.

5.2.5. The dispute between ORLEN Lietuva and Lietuvos Geležinkeliai
On 31 December 2014, ORLEN Lietuva filled a motion for arbitration against the company Lietuvos Gelezinkeliai ("LG") in the court of arbitration in Vilnius. Currently in this proceeding ORLEN Lietuva calls for the conversion of tariffs for rail transport in line with the contract with LG. Consideration of the request of ORLEN Lietuva would lead to savings for the company in the amount estimated for December 2015 not less than PLN 164 million translated using the exchange rate as at 30 September 2016 (representing not less than EUR 38 million) due to an incorrect interpretation of the agreement on rail transport by LG by using of excessive rates. The amount of the claim will be updated in accordance with the activity on the base of the agreement. In September 2016, ORLEN Lietuva increased the amount of the claim in the arbitration proceedings to PLN 302 million translated using the exchange rate as at 30 September 2016 (representing EUR 70 million).
Simultaneously, by 30 June 2016, six court proceedings were initiated in which LG demands from ORLEN Lietuva a payment of approximately PLN 133 million translated using the exchange rate as at 30 September 2016 (representing approximately EUR 30.8 million) from fees for rail transport. Three of the above described proceedings were combined and then the court decided that the combined case will not be considered by the state court since the priority of the arbitral tribunal which was confirmed by the court of appeal. Proceedings in the fourth case were suspended by the court until the court of arbitration decide on the claim of ORLEN Lietuva, while in the fifth proceeding the state court refused to open the case due to the jurisdiction of the court of arbitration. LG appealed against the above decisions of state courts and proceedings on appeal are in progress. Proceeding of LG brought in the sixth case is at the early stage.

(PLN million)

6. Other information

6.1. 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 (ING OFE*)	9.30%	39 785 564
Aviva OFE*	7.31%	31 257 000
Other	55.87%	238 956 301
	100.00%	**427 709 061**

* According to the information from the Ordinary General Shareholders' Meeting of PKN ORLEN of 3 June 2016

Percentage share in the share capital of the Parent Company of the above mentioned shareholders is equal to the percentage share in total votes at the General Shareholders' Meeting.

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

	Number of shares as at the submission date of the previous half-year report*	Decrease due to changes in composition	Number of shares as at the submission date of the foregoing quarterly report**
Supervisory Board	**4 800**	**(1 600)**	**3 200**
Artur Gabor	3 200	-	3 200
Remigiusz Nowakowski	1 600	(1 600)	-

* According to the received confirmations as at 14 July 2016
** According to the received confirmations as at 13 October 2016

6.3. Information on loan sureties or guarantees of at least 10% of the Parent Company's equity granted by the Parent Company or its subsidiaries to one entity or its subsidiary

PKN ORLEN is the guarantor of the 2 tranches of bonds issued by an irrevocable and unconditional guarantees issued to the bondholders. The guarantees were granted for the duration of the Eurobond issue, i.e. to 7 June 2023 and to 30 June 2021.

	Nominal value					Value of guarantee issued	
30/09/2016	EUR	PLN	Subscription date	Expiration date	Rating	EUR	PLN
Eurobonds	750	3 234	7.06.2016	7.06.2023	BBB-, Baa3	1 100	4 743
Eurobonds	500	2 156	30.06.2014	30.06.2021	BBB-, Baa3	1 000	4 312
	1 250	**5 390**				**2 100**	**9 055**

The bonds have a fixed interest rate of 2.5%.

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

The ORLEN Group did not publish forecasts of its results.

QUARTERLY FINANCIAL INFORMATION
PKN ORLEN

FOR THE 3rd QUARTER 2016

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

QUARTERLY FINANCIAL INFORMATION OF PKN ORLEN (PLN million)

C. QUARTERLY FINANCIAL INFORMATION OF PKN ORLEN

Separate statement of profit or loss and other comprehensive income

	9 MONTHS ENDED 30/09/2016 (unaudited)	3 MONTHS ENDED 30/09/2016 (unaudited)	9 MONTHS ENDED 30/09/2015 (unaudited)	3 MONTHS ENDED 30/09/2015 (unaudited)
Sales revenues	37 324	13 906	47 237	16 384
revenues from sales of finished goods and services	*21 862*	*8 162*	*27 472*	*9 479*
revenues from sales of merchandise and raw materials	*15 462*	*5 744*	*19 765*	*6 905*
Cost of sales	(32 676)	(11 960)	(43 067)	(15 313)
cost of finished goods and services sold	*(17 711)*	*(6 393)*	*(23 780)*	*(8 576)*
cost of merchandise and raw materials sold	*(14 965)*	*(5 567)*	*(19 287)*	*(6 737)*
Gross profit on sales	**4 648**	**1 946**	**4 170**	**1 071**
Distribution expenses	(1 709)	(582)	(1 698)	(577)
Administrative expenses	(546)	(163)	(645)	(185)
Other operating income	162	103	126	40
Other operating expenses	(135)	(42)	(113)	(41)
Profit from operations	**2 420**	**1 262**	**1 840**	**308**
Finance income	1 626	217	635	43
Finance costs	(390)	(55)	(764)	(148)
Net finance income and costs	**1 236**	**162**	**(129)**	**(105)**
Profit before tax	**3 656**	**1 424**	**1 711**	**203**
Tax expense	(421)	(263)	(329)	(45)
current tax	*(213)*	*(213)*	*(60)*	*(49)*
deferred tax	*(208)*	*(50)*	*(269)*	*4*
Net profit	**3 235**	**1 161**	**1 382**	**158**
Other comprehensive income:				
which will be reclassified into profit or loss				
hedging instruments	*73*	*313*	*1 421*	*1 010*
deferred tax	*(14)*	*(59)*	*(270)*	*(192)*
	59	**254**	**1 151**	**818**
Total net comprehensive income	**3 294**	**1 415**	**2 533**	**976**
Net profit and diluted net profit per share (in PLN per share)	7.56	2.71	3.23	0.37

(PLN million)

Separate statement of financial position

	30/09/2016 (unaudited)	31/12/2015
ASSETS		
Non-current assets		
Property, plant and equipment	14 818	14 303
Intangible assets	837	962
Shares in related parties	7 783	7 568
Other financial assets	101	179
Other assets	135	134
	23 674	**23 146**
Current assets		
Inventories	6 963	7 715
Trade and other receivables	5 329	4 291
Other financial assets	562	788
Cash	2 414	964
Non-current assets classified as held for sale	25	77
	15 293	**13 835**
Total assets	**38 967**	**36 981**
EQUITY AND LIABILITIES		
EQUITY		
Share capital	1 058	1 058
Share premium	1 227	1 227
Hedging reserve	(84)	(143)
Retained earnings	18 084	15 704
Total equity	**20 285**	**17 846**
LIABILITIES		
Non-current liabilities		
Loans, borrowings and bonds	7 644	8 125
Provisions	343	317
Deferred tax liabilities	602	380
Other financial liabilities	467	637
	9 056	**9 459**
Current liabilities		
Trade and other liabilities	7 227	6 651
Loans, borrowings and bonds	1 405	1 117
Provisions	234	383
Deferred income	144	116
Other financial liabilities	616	1 409
	9 626	**9 676**
Total liabilities	**18 682**	**19 135**
Total equity and liabilities	**38 967**	**36 981**

QUARTERLY FINANCIAL INFORMATION OF PKN ORLEN (PLN million)

Separate statement of changes in equity

	Share capital and share premium	Hedging reserve	Retained earnings	Total equity
01/01/2016	2 285	(143)	15 704	17 846
Net profit	-	-	3 235	3 235
Items of other comprehensive income	-	59	-	59
Total net comprehensive income	**-**	**59**	**3 235**	**3 294**
Dividends	-	-	(855)	(855)
30/09/2016	**2 285**	**(84)**	**18 084**	**20 285**
(unaudited)				
01/01/2015	2 285	(1 370)	15 387	16 302
Net profit	-	-	1 382	1 382
Items of other comprehensive income	-	1 151	-	1 151
Total net comprehensive income	**-**	**1 151**	**1 382**	**2 533**
Equity resulting from merger under common control	-	-	(29)	(29)
Dividends	-	-	(706)	(706)
30/09/2015	**2 285**	**(219)**	**16 034**	**18 100**
(unaudited)				

QUARTERLY FINANCIAL INFORMATION OF PKN ORLEN (PLN million)

Separate statement of cash flows

	9 MONTHS ENDED 30/09/2016 (unaudited)	3 MONTHS ENDED 30/09/2016 (unaudited)	9 MONTHS ENDED 30/09/2015 (unaudited)	3 MONTHS ENDED 30/09/2015 (unaudited)
Cash flows from operating activities				
Profit before tax	**3 656**	**1 424**	**1 711**	**203**
Adjustments for:				
Depreciation and amortisation	847	288	818	275
Foreign exchange (profit)/loss	181	(99)	30	88
Interest, net	156	54	141	58
Dividends	(1 480)	(17)	(526)	-
(Profit)/Loss on investing activities	(45)	(6)	446	5
Change in provisions	96	42	113	55
Change in working capital	455	10	(2 852)	(1 875)
inventories	*753*	*101*	*(1 991)*	*(1 721)*
receivables	*(1 250)*	*(92)*	*(583)*	*1 402*
liabilities	*952*	*1*	*(278)*	*(1 556)*
Other adjustments	(56)	(30)	(145)	(69)
Income tax received/(paid)	1	(1)	2	(2)
Net cash from/(used in) operating activities	**3 811**	**1 665**	**(262)**	**(1 262)**
Cash flows from investing activities				
Acquisition of property, plant and equipment, intangible assets and perpetual usufruct of land	(1 968)	(535)	(1 170)	(355)
Acquisition of shares	(176)	-	(130)	-
Outflows on acquisition of project	-	-	(172)	-
Disposal of property, plant and equipment, intangible assets and perpetual usufruct of land	114	6	86	16
Disposal of shares	88	-	-	-
Interest received	4	2	16	-
Dividends received	1 491	454	525	127
Proceeds from non-current loans granted	4	1	607	-
Proceeds/(Expenses) from current loans granted	(202)	(111)	320	23
Proceeds/(Outflows) from cash pool facility	2	(12)	162	14
Other	(13)	(11)	99	41
Net cash from/(used in) investing activities	**(656)**	**(206)**	**343**	**(134)**
Cash flows from financing activities				
Proceeds from loans and borrowings received	7 320	12	2 390	2 730
Bonds issued	1 250	346	988	450
Repayments of loans and borrowings	(7 898)	(189)	(1 584)	-
Redemption of bonds	(1 037)	(463)	(746)	(258)
Interest paid	(210)	(41)	(209)	(58)
Dividends paid	(855)	(855)	(706)	(706)
Outflows from cash pool facility	(261)	(27)	(132)	(35)
Other	(15)	(4)	(14)	(5)
Net cash from/(used in) financing activities	**(1 706)**	**(1 221)**	**(13)**	**2 118**
Net increase in cash and cash equivalents	**1 449**	**238**	**68**	**722**
Effect of exchange rate changes	1	1	5	(1)
Cash and cash equivalents, beginning of the period	964	2 175	3 475	2 827
Cash, end of the period	**2 414**	**2 414**	**3 548**	**3 548**

Beginning with the 1st quarter of 2016, the Company presents cash flows from operating activities starting from the profit/(loss) before tax.

Statements of the Management Board

Reliability of the interim condensed consolidated financial statements

Under the Regulation, the Management Board of Polski Koncern Naftowy ORLEN S.A. hereby declares that to the best of its knowledge the foregoing interim condensed consolidated financial statements and comparative data were prepared in compliance with the accounting principles applicable to the Group and present a true and fair view on financial position and financial result of the Group.

Entity authorized to conduct review of the interim condensed consolidated financial statements

The Management Board of Polski Koncern Naftowy ORLEN S.A. declares that KPMG Audyt Sp. z o.o., as the entity authorized to conduct a review of the interim condensed consolidated financial statements, was selected in compliance with the law.

The foregoing quarterly report was approved by the Management Board of the Parent Company on 19 October 2016.

…………………………..
Wojciech Jasiński
President of the Board

…………………………
Sławomir Jędrzejczyk
Vice-President of the Board

…………………………..
Mirosław Kochalski
Vice-President of the Board

…………………………..
Piotr Chełmiński
Member of the Board

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

…………………………
Krystian Pater
Member of the Board

Signature of a person responsible for keeping accounting books

…………………………………..……

Rafał Warpechowski
Executive Director
Planning and Reporting