



ORLEN

Polski Koncern Naftowy ORLEN
Spółka Akcyjna

ORLEN GROUP

CONSOLIDATED QUARTERLY REPORT

FOR THE 4th QUARTER

2016



ORLEN GROUP - SELECTED DATA

	PLN million		EUR million	
	12 MONTHS ENDED 31/12/2016	12 MONTHS ENDED 31/12/2015	12 MONTHS ENDED 31/12/2016	12 MONTHS ENDED 31/12/2015
Sales revenues	79 553	88 336	18 181	20 188
Profit from operations increased by depreciation and amortisation (EBITDA)	9 642	6 235	2 204	1 425
EBITDA before net impairments allowances *	9 497	7 228	2 170	1 652
Profit from operations (EBIT)	7 532	4 340	1 721	992
Profit before tax	6 887	3 698	1 574	845
Net profit attributable to equity owners of the parent	5 261	2 837	1 202	648
Net profit	5 740	3 233	1 312	739
Total net comprehensive income attributable to equity owners of the parent	5 445	4 107	1 244	939
Total net comprehensive income	5 957	4 563	1 361	1 043
Net cash from operating activities	9 331	5 354	2 133	1 224
Net cash (used) in investing activities	(4 436)	(4 096)	(1 014)	(936)
Net cash (used) in financing activities	(2 210)	(2 866)	(505)	(655)
Net increase/(decrease) in cash and cash equivalents	2 685	(1 608)	614	(367)
Net profit and diluted net profit per share attributable to equity owners of the parent (in PLN/EUR per share)	12.30	6.63	2.81	1.52

	31/12/2016	31/12/2015	31/12/2016	31/12/2015
Non-current assets	30 321	27 362	6 854	6 185
Current assets	25 238	20 775	5 705	4 696
Total assets	55 559	48 137	12 559	10 881
Share capital	1 058	1 058	239	239
Equity attributable to owners of the parent	26 763	22 173	6 050	5 012
Total equity	29 285	24 244	6 620	5 480
Non-current liabilities	9 652	10 227	2 182	2 312
Current liabilities	16 622	13 666	3 757	3 089
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)	62.57	51.84	14.14	11.72

* Net impairment allowances of property, plant and equipment and intangible assets in 2016: PLN 145 million – mainly PLN 315 million Unipetrol Group, PLN (72) million ORLEN Upstream Group, PLN (55) million ORLEN Oil, in 2015: PLN (993) million mainly - PLN (852) million ORLEN Upstream Group and PLN (93) million Unipetrol Group;

PKN ORLEN - SELECTED DATA

	PLN million		EUR million	
	12 MONTHS ENDED 31/12/2016	12 MONTHS ENDED 31/12/2015	12 MONTHS ENDED 31/12/2016	12 MONTHS ENDED 31/12/2015
Sales revenues	53 633	60 466	12 257	13 819
Profit from operations increased by depreciation and amortisation (EBITDA)	5 011	2 869	1 145	656
Profit from operations (EBIT)	3 869	1 769	884	404
Profit before tax	5 520	1 308	1 262	299
Net profit	4 815	1 048	1 100	240
Net profit before net impairment allowances*	4 247	1 845	971	422
Total net comprehensive income	4 628	2 279	1 058	521
Net cash from operating activities	5 434	948	1 242	217
Net cash (used) in investing activities	(1 873)	(1 669)	(428)	(381)
Net cash (used) in financing activities	(1 970)	(1 796)	(450)	(410)
Net increase/(decrease) in cash	1 591	(2 517)	364	(575)
Net profit and diluted net profit per share (in PLN/EUR per share)	11.26	2.45	2.57	0.56

	31/12/2016	31/12/2015	31/12/2016	31/12/2015
Non-current assets	24 560	23 146	5 552	5 232
Current assets	17 963	13 835	4 060	3 127
Total assets	42 523	36 981	9 612	8 359
Share capital	1 058	1 058	239	239
Total equity	21 619	17 846	4 887	4 034
Non-current liabilities	8 918	9 459	2 016	2 138
Current liabilities	11 986	9 676	2 709	2 187
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)	50.55	41.72	11.43	9.43

* Net impairment allowances of shares in 2016: PLN 568 million: PLN 601 million ORLEN Lietuva and PLN (33) million ORLEN Oil; in 2015: PLN (797) million - mainly PLN (782) million ORLEN Upstream and PLN (18) million Baltic Power;

The above data for the 12 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 31 December 2016 – 4.3757 EUR/PLN;
- items of assets, equity and liabilities – by the average exchange rate published by the National Bank of Poland as at 31 December 2016 – 4.4240 EUR/PLN.

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INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE 12 AND 3 MONTH PERIOD ENDED 31 DECEMBER

2016

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

A. INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION
Consolidated statement of profit or loss and other comprehensive income

	NOTE	12 MONTHS ENDED 31/12/2016 (unaudited)	3 MONTHS ENDED 31/12/2016 (unaudited)	12 MONTHS ENDED 31/12/2015	3 MONTHS ENDED 31/12/2015 (unaudited)
Sales revenues		79 553	22 902	88 336	20 087
<i>revenues from sales of finished goods and services</i>		57 775	17 105	68 768	15 252
<i>revenues from sales of merchandise and raw materials</i>		21 778	5 797	19 568	4 835
Cost of sales	3.1	(68 223)	(19 077)	(77 792)	(18 416)
<i>cost of finished goods and services sold</i>		(47 976)	(13 607)	(59 489)	(13 715)
<i>cost of merchandise and raw materials sold</i>		(20 247)	(5 470)	(18 303)	(4 701)
Gross profit on sales		11 330	3 825	10 544	1 671
Distribution expenses		(4 125)	(1 066)	(3 971)	(1 061)
Administrative expenses		(1 426)	(371)	(1 552)	(430)
Other operating income	3.4	2 163	803	420	148
Other operating expenses	3.4	(707)	(447)	(1 354)	(581)
Share in profit from investments accounted for under equity method		297	45	253	64
Profit/(Loss) from operations		7 532	2 789	4 340	(189)
Finance income	3.5	248	123	390	130
Finance costs	3.5	(893)	(422)	(1 032)	(283)
Net finance income and costs		(645)	(299)	(642)	(153)
Profit/(Loss) before tax		6 887	2 490	3 698	(342)
Tax expense		(1 147)	(447)	(465)	273
<i>current tax</i>		(751)	(368)	(310)	14
<i>deferred tax</i>		(396)	(79)	(155)	259
Net profit/(loss)		5 740	2 043	3 233	(69)
Other comprehensive income:					
which will not be reclassified into profit or loss		(4)	(4)	3	3
<i>fair value measurement of investment property as at the date of reclassification</i>		6	6	-	-
<i>actuarial gains and losses</i>		(10)	(10)	4	4
<i>deferred tax</i>		-	-	(1)	(1)
which will be reclassified into profit or loss		221	164	1 327	208
<i>hedging instruments</i>		(396)	(329)	1 530	198
<i>exchange differences on translating foreign operations</i>		542	426	88	47
<i>deferred tax</i>		75	67	(291)	(37)
Total net comprehensive income		5 957	2 203	4 563	142
Net profit/(loss) attributable to		5 740	2 043	3 233	(69)
<i>equity owners of the parent</i>		5 261	1 789	2 837	(81)
<i>non-controlling interest</i>		479	254	396	12
Total net comprehensive income attributable to		5 957	2 203	4 563	142
<i>equity owners of the parent</i>		5 445	1 902	4 107	81
<i>non-controlling interest</i>		512	301	456	61
Net profit/(loss) and diluted net profit/(loss) per share attributable to equity owners of the parent (in PLN per share)		12.30	4.18	6.63	(0.19)

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

Consolidated statement of financial position

	NOTE	31/12/2016 (unaudited)	31/12/2015
ASSETS			
Non-current assets			
Property, plant and equipment		27 671	24 536
Intangible assets		1 377	1 298
Investments accounted for under equity method		763	774
Deferred tax assets		167	365
Other financial assets	3.6	99	147
Other assets		244	242
		30 321	27 362
Current assets			
Inventories		11 182	10 715
Trade and other receivables		8 674	6 641
Other financial assets		249	974
Cash and cash equivalents		5 072	2 348
Non-current assets classified as held for sale		61	97
		25 238	20 775
Total assets		55 559	48 137
EQUITY AND LIABILITIES			
EQUITY			
Share capital		1 058	1 058
Share premium		1 227	1 227
Hedging reserve		(355)	(80)
Revaluation reserve		5	-
Exchange differences on translating foreign operations		946	537
Retained earnings		23 882	19 431
Equity attributable to owners of the parent		26 763	22 173
Non-controlling interests		2 522	2 071
Total equity		29 285	24 244
LIABILITIES			
Non-current liabilities			
Loans, borrowings and bonds	3.7	7 446	8 131
Provisions	3.8	828	710
Deferred tax liabilities		809	674
Other financial liabilities	3.9	569	712
		9 652	10 227
Current liabilities			
Trade and other liabilities		14 250	10 820
Loans and borrowings	3.7	989	1 027
Provisions	3.8	666	749
Deferred income		145	128
Other financial liabilities	3.9	572	870
Liabilities directly associated with assets classified as held for sale		-	72
		16 622	13 666
Total liabilities		26 274	23 893
Total equity and liabilities		55 559	48 137

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

Consolidated statement of changes in equity

	Equity attributable to owners of the parent							Non-controlling interests	Total equity
	Share capital and share premium	Hedging reserve	Revaluation reserve	Exchange differences on translating foreign operations	Retained earnings	Total			
01/01/2016	2 285	(80)	-	537	19 431	22 173	2 071	24 244	
Net profit	-	-	-	-	5 261	5 261	479	5 740	
Items of other comprehensive income	-	(275)	5	463	(9)	184	33	217	
Total net comprehensive income	-	(275)	5	463	5 252	5 445	512	5 957	
Change in structure	-	-	-	(54)	54	-	(1)	(1)	
<i>purchase of non-controlling interest</i>	-	-	-	-	(1)	(1)	(1)	(2)	
<i>merger/sale of related parties</i>	-	-	-	(54)	55	1	-	1	
Dividends	-	-	-	-	(855)	(855)	(60)	(915)	
31/12/2016	2 285	(355)	5	946	23 882	26 763	2 522	29 285	
(unaudited)									
01/01/2015	2 285	(1 319)	-	509	17 296	18 771	1 615	20 386	
Net profit	-	-	-	-	2 837	2 837	396	3 233	
Items of other comprehensive income	-	1 239	-	28	3	1 270	60	1 330	
Total net comprehensive income	-	1 239	-	28	2 840	4 107	456	4 563	
Change in the structure of non-controlling interest	-	-	-	-	1	1	-	1	
Dividends	-	-	-	-	(706)	(706)	-	(706)	
31/12/2015	2 285	(80)	-	537	19 431	22 173	2 071	24 244	

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

Consolidated statement of cash flows

	NOTE	12 MONTHS ENDED 31/12/2016 (unaudited)	3 MONTHS ENDED 31/12/2016 (unaudited)	12 MONTHS ENDED 31/12/2015	3 MONTHS ENDED 31/12/2015 (unaudited)
Cash flows from operating activities					
Profit/(Loss) before tax		6 887	2 490	3 698	(342)
Adjustments for:					
Share in profit from investments accounted for under equity method		(297)	(45)	(253)	(64)
Depreciation and amortisation		2 110	550	1 895	510
Foreign exchange loss		287	36	24	38
Interest, net		219	55	199	48
Dividends		(5)	-	(2)	-
(Profit)/Loss on investing activities		(299)	(253)	1 106	398
Change in provisions		330	202	463	126
Change in working capital		816	(441)	(1 320)	952
<i>inventories</i>		(287)	(641)	(655)	1 259
<i>receivables</i>		(1 679)	(939)	1 258	1 424
<i>liabilities</i>		2 782	1 139	(1 923)	(1 731)
Other adjustments		(381)	16	(252)	(55)
Income tax (paid)		(336)	(67)	(204)	(48)
Net cash from operating activities		9 331	2 543	5 354	1 563
Cash flows from investing activities					
Acquisition of property, plant and equipment, intangible assets and perpetual usufruct of land		(5 033)	(1 080)	(3 079)	(1 229)
Acquisition of shares adjusted for received cash		(2)	-	(1 195)	(1 160)
Disposal of property, plant and equipment, intangible assets and perpetual usufruct of land		141	48	131	61
Sale of subsidiary		77	3	-	-
Dividends received		317	130	192	75
Other		64	60	(145)	66
Net cash (used) in investing activities		(4 436)	(839)	(4 096)	(2 187)
Cash flows from financing activities					
Proceeds from loans and borrowings received		3 586	44	1 896	288
Bonds issued		3 258	-	-	-
Repayments of loans and borrowings		(7 943)	(623)	(3 771)	(2 102)
Interest paid		(223)	(34)	(258)	(50)
Dividends paid		(912)	(3)	(706)	-
<i>equity owners of the parent</i>	3.14	(855)	-	(706)	-
<i>non-controlling interest</i>		(57)	(3)	-	-
Payments of liabilities under finance lease agreements		(28)	(7)	(28)	(7)
Other		52	63	1	(2)
Net cash (used) in financing activities		(2 210)	(560)	(2 866)	(1 873)
Net increase/(decrease) in cash and cash equivalents		2 685	1 144	(1 608)	(2 497)
Effect of exchange rate changes		39	70	19	(24)
Cash and cash equivalents, beginning of the period		2 348	3 858	3 937	4 869
Cash and cash equivalents, end of the period		5 072	5 072	2 348	2 348

Beginning with the 1st quarter of 2016, the Group presents cash flows from operating activities starting from the profit/(loss) 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 31 December 2016 and as at 31 December 2015, financial results and cash flows for the 12 and 3 month period ended 31 December 2016 and 31 December 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 in the line exchange differences on translating foreign operations.

CURRENCY	Average exchange rate for the reporting period				Exchange rate as at the end of the reporting period	
	12 MONTHS ENDED	3 MONTHS ENDED	12 MONTHS ENDED	3 MONTHS ENDED	31/12/2016	31/12/2015
	31/12/2016	31/12/2016	31/12/2015	31/12/2015		
EUR/PLN	4.3648	4.3787	4.1841	4.2632	4.4240	4.2615
USD/PLN	3.9459	4.0598	3.7717	3.8953	4.1793	3.9011
CZK/PLN	0.1614	0.1620	0.1534	0.1576	0.1637	0.1577
CAD/PLN	2.9772	3.0428	2.9532	2.9199	3.0995	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.

**Financial result by operating segments
for the 12 month period ended 31 December 2016**

NOTE	Downstream Segment (unaudited)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
	49 202	29 841	442	68	-	79 553
	10 892	280	-	283	(11 455)	-
	60 094	30 121	442	351	(11 455)	79 553
	(54 939)	(28 681)	(537)	(1 072)	11 455	(73 774)
3.4	1 964	87	60	53	(1)	2 163
3.4	(324)	(125)	(83)	(176)	1	(707)
	298	-	(1)	-	-	297
	7 093	1 402	(119)	(844)	-	7 532
3.5						(645)
						6 887
						(1 147)
						5 740

ADDITIONAL INFORMATION	Downstream Segment (unaudited)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
Depreciation and amortisation	1 317	392	301	100	-	2 110
EBITDA	8 410	1 794	182	(744)	-	9 642
CAPEX	3 533	479	525	136	-	4 673

for the 3 month period ended 31 December 2016

NOTE	Downstream Segment (unaudited)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
	14 748	7 997	138	19	-	22 902
	3 130	10	-	69	(3 209)	-
	17 878	8 007	138	88	(3 209)	22 902
	(15 656)	(7 654)	(135)	(278)	3 209	(20 514)
3.4	688	39	58	19	(1)	803
3.4	(187)	(55)	(78)	(128)	1	(447)
	45	-	-	-	-	45
	2 768	337	(17)	(299)	-	2 789
3.5						(299)
						2 490
						(447)
						2 043

ADDITIONAL INFORMATION	Downstream Segment (unaudited)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
Depreciation and amortisation	353	97	73	27	-	550
EBITDA	3 121	434	56	(272)	-	3 339
CAPEX	795	235	125	61	-	1 216

for the 12 month period ended 31 December 2015

	NOTE	Downstream Segment	Retail Segment	Upstream Segment	Corporate Functions	Adjustments	Total
External revenues		56 987	31 052	215	82	-	88 336
Inter-segment revenues		12 624	70	-	206	(12 900)	-
Sales revenues		69 611	31 122	215	288	(12 900)	88 336
Operating expenses		(64 963)	(29 934)	(347)	(971)	12 900	(83 315)
Other operating income	3.4	276	50	3	91	-	420
Other operating expenses	3.4	(316)	(67)	(852)	(119)	-	(1 354)
Share in profit from investments accounted for under equity method		253	-	-	-	-	253
Profit/(Loss) from operations		4 861	1 171	(981)	(711)	-	4 340
Net finance income and costs	3.5						(642)
Profit before tax							3 698
Tax expense							(465)
Net profit							3 233

		Downstream Segment	Retail Segment	Upstream Segment	Corporate Functions	Adjustments	Total
ADDITIONAL INFORMATION							
Depreciation and amortisation		1 269	368	173	85	-	1 895
EBITDA		6 130	1 539	(808)	(626)	-	6 235
CAPEX		2 242	448	288	205	-	3 183

for the 3 month period ended 31 December 2015

	NOTE	Downstream Segment	Retail Segment	Upstream Segment	Corporate Functions	Adjustments	Total
		(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
External revenues		12 483	7 537	53	14	-	20 087
Inter-segment revenues		2 860	18	-	58	(2 936)	-
Sales revenues		15 343	7 555	53	72	(2 936)	20 087
Operating expenses		(15 182)	(7 268)	(112)	(281)	2 936	(19 907)
Other operating income	3.4	80	15	2	51	-	148
Other operating expenses	3.4	(93)	(28)	(423)	(37)	-	(581)
Share in profit from investments accounted for under equity method		64	-	-	-	-	64
Profit/(Loss) from operations		212	274	(480)	(195)	-	(189)
Net finance income and costs	3.5						(153)
(Loss) before tax							(342)
Tax expense							273
Net (loss)							(69)

		Downstream Segment	Retail Segment	Upstream Segment	Corporate Functions	Adjustments	Total
		(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
ADDITIONAL INFORMATION							
Depreciation and amortisation		327	95	64	24	-	510
EBITDA		539	369	(416)	(171)	-	321
CAPEX		940	201	93	62	-	1 296

EBITDA – profit/(loss) from operations increased by depreciation and amortization
CAPEX - increases of non-current assets together with the capitalisation of borrowing costs
Assets by operating segments

	31/12/2016 (unaudited)	31/12/2015
Downstream Segment	38 770	34 282
Retail Segment	6 139	5 683
Upstream Segment	3 840	3 380
Segment assets	48 749	43 345
Corporate Functions	6 943	4 995
Adjustments	(133)	(203)
	55 559	48 137

3. Other notes

3.1. Operating expenses

Cost by nature

	12 MONTHS ENDED 31/12/2016 (unaudited)	3 MONTHS ENDED 31/12/2016 (unaudited)	12 MONTHS ENDED 31/12/2015	3 MONTHS ENDED 31/12/2015 (unaudited)
Materials and energy	(43 512)	(13 004)	(54 542)	(11 914)
Cost of merchandise and raw materials sold	(20 247)	(5 470)	(18 303)	(4 701)
External services	(4 073)	(1 064)	(4 352)	(1 131)
Employee benefits	(2 206)	(547)	(2 110)	(537)
Depreciation and amortisation	(2 110)	(550)	(1 895)	(510)
Taxes and charges	(1 129)	(315)	(1 152)	(290)
Other	(1 236)	(606)	(1 835)	(764)
	(74 513)	(21 556)	(84 189)	(19 847)
Change in inventories	(232)	565	(693)	(685)
Cost of products and services for own use	264	30	213	44
Operating expenses	(74 481)	(20 961)	(84 669)	(20 488)
Distribution expenses	4 125	1 066	3 971	1 061
Administrative expenses	1 426	371	1 552	430
Other operating expenses	707	447	1 354	581
Cost of sales	(68 223)	(19 077)	(77 792)	(18 416)

3.2. Impairment allowances of inventories to net realizable value

	12 MONTHS ENDED 31/12/2016 (unaudited)	3 MONTHS ENDED 31/12/2016 (unaudited)	12 MONTHS ENDED 31/12/2015	3 MONTHS ENDED 31/12/2015 (unaudited)
Increase	(153)	(16)	(238)	(139)
Decrease	289	31	925	17

During the 12 month period ended 31 December 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

	12 MONTHS ENDED 31/12/2016 (unaudited)	3 MONTHS ENDED 31/12/2016 (unaudited)	12 MONTHS ENDED 31/12/2015	3 MONTHS ENDED 31/12/2015 (unaudited)
Property, plant and equipment				
Recognition	(218)	(190)	(1 028)	(460)
Reversal	366	351	35	23
Intangible assets				
Recognition	(3)	(3)	(1)	-
Reversal	-	-	1	-
Receivables				
Recognition	(27)	(7)	(51)	(16)
Reversal	15	5	24	6

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

As at 31 December 2016, an impairment indicators were identified in the ORLEN Group in accordance with IAS 36 "Impairment allowances of assets" related to the approval on 15 December 2016 Strategy of the ORLEN Group for the years 2017-2021 ("Strategy") by the Management Board and the Supervisory Board of PKN ORLEN.

The tests were performed on the basis of assets of the ORLEN Group as at 31 December 2016 and net cash flows projected in the approved within the Strategy the Mid-term Plan for the years 2017 to 2021, discounted to their present value using the discount rates which reflect the current market value of money and the specific risks to the valued assets.

At the same time, ORLEN Upstream Sp. z o.o. evaluated the validity of continuing exploration work on the concession areas located in the Mazowieckie, Lubelskie, Łódzkie and Małopolskie province and decided to continue further exploration work on these concessions only in selected, the most promising areas of conventional research.

As a result in the 4th quarter of 2016 recognized effects of reversal of impairment allowance of refinery assets of Unipetrol Group in the amount of PLN 315 million and recognition of impairment allowance of exploration assets of ORLEN Upstream Group in Poland in the amount of PLN (72) million and assets of ORLEN Oil in the amount of PLN (55) million.

As a part of above tests discount rates of 8% were applied for Unipetrol Group refining assets and 9.57% for the ORLEN Oil assets.

In the 4th quarter of 2015 an impairment allowance of evaluation and extraction of mineral resources assets in ORLEN Upstream Canada within ORLEN Upstream Group of PLN (423) million was recognized.

As at 31 December 2015 the fair value of evaluation and extraction of mineral resources assets in Canada was based on the estimated crude oil prices and reserves evaluation prepared by an independent company engaged in the evaluation of the reserves in accordance with professional standards for the Canadian market. Estimated net cash flow used to forecast the fair value of assets were discounted to their present value using a base discount rate which reflects the current market value of money and the specific risks to the assets on the Canadian market, which amounted to 9%.

In the 2nd quarter of 2015 ORLEN Upstream Group has determined, based on the gathered data of previous work, 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.

The fair value of assets due to exploration and evaluation of mineral resources has been established basing on the analysis of future cash flows, which take into account the current and forecasted hydrocarbon prices, expected changes in the regulatory environment, probability of success/failure and long-term production forecasts. Net cash flow projections used for the purposes of estimating the fair value of the assets were discounted to their present value using a discount rate at 8.99%, which reflects current market assessment of the time value of money and the risks specific to the respective assets on the Polish market.

As a consequence of the steam cracker unit accident 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 recognized in the 3rd quarter of 2015.

3.4. Other operating income and expenses

Other operating income

	12 MONTHS ENDED 31/12/2016 (unaudited)	3 MONTHS ENDED 31/12/2016 (unaudited)	12 MONTHS ENDED 31/12/2015	3 MONTHS ENDED 31/12/2015 (unaudited)
Profit on sale of subsidiaries	63	3	-	-
Profit on sale of non-current non-financial assets	60	15	59	42
Reversal of provisions	25	4	32	22
Reversal of receivables impairment allowances	13	5	17	3
Reversal of impairment allowances of property, plant and equipment and intangible assets	366	351	36	23
Penalties and compensation	1 449	356	74	30
Other	187	69	202	28
	2 163	803	420	148

The line reversal of impairment allowances of property, plant and equipment and intangible assets in the 12 and 3 month period ended 31 December 2016 includes the decrease in impairment allowances of downstream segments' refinery assets of Unipetrol Group in the amount of PLN 315 million.

The line penalties and compensation in the 12 and 3 month period ended 31 December 2016 includes mainly the amount of partial compensation received from insurers related to the steam cracker unit accident in Unipetrol Group in August 2015 in the amount of PLN 1,280 million and of PLN 297 million, respectively. Detailed information is presented in note 3.15.

Other operating expenses

	12 MONTHS ENDED 31/12/2016 (unaudited)	3 MONTHS ENDED 31/12/2016 (unaudited)	12 MONTHS ENDED 31/12/2015	3 MONTHS ENDED 31/12/2015 (unaudited)
Loss on sale of non-current non-financial assets	(39)	(14)	(38)	(17)
Recognition of provisions	(178)	(136)	(101)	(43)
Recognition of receivables impairment allowances	(25)	(7)	(47)	(15)
Recognition of impairment allowances of property, plant and equipment and intangible assets	(221)	(193)	(1 029)	(460)
Penalties, damages and compensation	(133)	(51)	(53)	(25)
Other	(111)	(46)	(86)	(21)
	(707)	(447)	(1 354)	(581)

The line recognition of impairment allowances of property, plant and equipment and intangible assets in the 12 and 3 month period ended 31 December 2016 includes mainly allowance recognized in 4th quarter of 2016 in accordance with IAS 36 "Impairment allowances of assets" including impairment allowance of ORLEN Upstream Group's exploration assets in the amount of PLN (72) million and ORLEN Oil assets in the amount of PLN (55) million.

The line recognition of impairment allowances of property, plant and equipment and intangible assets in the 12 month period ended 31 December 2015 includes mainly impairment allowances of ORLEN Upstream Group's exploration assets of PLN (429) million, downstream segment of Unipetrol Group of PLN (93) million and recognized in the 4th quarter of 2015 upstream assets in Canada of PLN (423) million. Additional information is presented in note 3.3.1.

3.5. Finance income and costs

Finance income

	12 MONTHS ENDED 31/12/2016 (unaudited)	3 MONTHS ENDED 31/12/2016 (unaudited)	12 MONTHS ENDED 31/12/2015	3 MONTHS ENDED 31/12/2015 (unaudited)
Interest	59	17	82	16
Dividends	5	-	2	-
Settlement and valuation of derivative financial instruments	156	96	270	106
Reversal of receivables impairment allowances	2	-	7	3
Other	26	10	29	5
	248	123	390	130

Finance costs

	12 MONTHS ENDED 31/12/2016 (unaudited)	3 MONTHS ENDED 31/12/2016 (unaudited)	12 MONTHS ENDED 31/12/2015	3 MONTHS ENDED 31/12/2015 (unaudited)
Interest	(216)	(59)	(205)	(44)
Foreign exchange loss, net	(542)	(321)	(317)	(133)
Settlement and valuation of derivative financial instruments	(98)	(32)	(447)	(73)
Recognition of receivables impairment allowances	(2)	-	(4)	(1)
Other	(35)	(10)	(59)	(32)
	(893)	(422)	(1 032)	(283)

Borrowing costs capitalized in the 12 and 3 month period ended 31 December 2016 and 31 December 2015 amounted to PLN (67) million and PLN (19) million, PLN (63) million and PLN (21) million, respectively.

3.6. Other financial assets

	Non-current		Current		Total	
	31/12/2016 (unaudited)	31/12/2015	31/12/2016 (unaudited)	31/12/2015	31/12/2016 (unaudited)	31/12/2015
Cash flows hedging intruments	66	135	92	797	158	932
<i>currency forwards</i>	12	45	32	78	44	123
<i>commodity swaps</i>	54	90	60	719	114	809
Derivatives not designated as hedge accounting	-	-	5	8	5	8
<i>currency forwards</i>	-	-	5	2	5	2
<i>commodity swaps</i>	-	-	-	6	-	6
Embedded derivatives	-	-	-	1	-	1
<i>currency swaps</i>	-	-	-	1	-	1
Receivables on cash flows settled hedging intruments	-	-	149	159	149	159
Other	33	12	3	9	36	21
	99	147	249	974	348	1 121

3.7. Loans, borrowings and bonds

	Non-current		Current		Total	
	31/12/2016 (unaudited)	31/12/2015	31/12/2016 (unaudited)	31/12/2015	31/12/2016 (unaudited)	31/12/2015
Loans	653	3 975	286	1 025	939	5 000
Borrowings	-	1	1	2	1	3
Bonds	6 793	4 155	702	-	7 495	4 155
	7 446	8 131	989	1 027	8 435	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.

3.8. Provisions

	Non-current		Current		Total	
	31/12/2016 (unaudited)	31/12/2015	31/12/2016 (unaudited)	31/12/2015	31/12/2016 (unaudited)	31/12/2015
Environmental	570	450	38	39	608	489
Jubilee bonuses and post-employment benefits	212	217	33	36	245	253
CO ₂ emissions, energy certificates	-	-	365	466	365	466
Other	46	43	230	208	276	251
	828	710	666	749	1 494	1 459

Increase in environmental provision concerning unused assets was recognized in other operating activities in the net amount of PLN (79) million and the remaining amount of increase in the amount of PLN (55) million was recognized as an increase in gross property, plant and equipment.

3.9. Other financial liabilities

	Non-current		Current		Total	
	31/12/2016 (unaudited)	31/12/2015	31/12/2016 (unaudited)	31/12/2015	31/12/2016 (unaudited)	31/12/2015
Cash flows hedging intruments	190	239	376	764	566	1 003
<i>currency forwards</i>	42	-	117	11	159	11
<i>interest rate swaps</i>	-	92	-	-	-	92
<i>commodity swaps</i>	28	48	228	753	256	801
<i>currency interest rate swaps</i>	120	99	31	-	151	99
Derivatives not designated as hedge accounting	90	-	25	1	115	1
<i>currency forwards</i>	-	-	4	1	4	1
<i>commodity swaps</i>	-	-	21	-	21	-
<i>interest rate swaps</i>	90	-	-	-	90	-
Embedded derivatives	-	-	2	2	2	2
<i>currency swaps</i>	-	-	2	2	2	2
Liabilities on cash flows settled hedging intruments	-	-	169	103	169	103
Investment liabilities	111	300	-	-	111	300
Finance lease	141	140	-	-	141	140
Other	37	33	-	-	37	33
	569	712	572	870	1 141	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

	31/12/2016 (unaudited)	31/12/2015
	LEVEL 2	
Financial assets		
Embedded derivatives and hedging	163	941
	163	941
Financial liabilities		
Embedded derivatives and hedging	683	1 006
	683	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 31 December 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.

	31/12/2016 (unaudited)	31/12/2015
Value of future minimum lease payments	223	222
Present value of future minimum lease payments	170	166

3.12. Future commitments resulting from signed investment contracts

As at 31 December 2016 and as at 31 December 2015, the value of future commitments resulting from investment contracts signed until that day amounted to PLN 1,941 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 3,318 million translated using the exchange rate as at 31 December 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 for 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 31 December 2016 at approximately PLN 0.6 billion translated using the exchange rate as at 31 December 2016 (representing CZK 3.9 billion), as well as lost business profits (business interruption), which from the accident to the 31 December of 2016 estimated at approximately PLN 1.7 billion translated using the exchange rate as at 31 December 2016 (representing CZK 10.1 billion).

In the 12 and 3 month period ended 31 December of 2016 Unipetrol Group recognized in other operating income (note 3.4) amounts of partial compensation received from insurers in the amount PLN 1,280 million and PLN 297 million, respectively.

Received cash by 31 December 2016 due to the described above compensations amounted to PLN 1,080 million translated using the exchange rate as at 31 December 2016 (representing CZK 6.6 billion) of which PLN 45 million translated using the exchange rate as at 31 December 2016 (representing CZK 276 million) received in 4th quarter of 2015.

The remaining part of partial compensation amount recognized in other operating income, Unipetrol Group received in January 2017.

After consideration the amounts recognized in other operating income the value of contingent asset as at 31 December 2016 due to described above damage was estimated in the amount of PLN 1 billion translated using the exchange rate of the 31 December 2016 (representing CZK 6.1 billion).

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

On 17 May 2016, the accident on installation FCC (Fluid Catalytic Cracking) in the Kralupy refinery in Unipetrol Group took place. Based on the insurance policies and the estimates made at the end of December 2016, Unipetrol Group expects insurers to cover reconstruction costs which estimated at approximately PLN 49 million translated using the exchange rate as at 31 December 2016 (representing CZK 0.3 billion) as well as lost business profits (business interruption), which from the accident to the 31 December of 2016 estimated in the amount of approximately PLN 147 million translated using the exchange rate as at 31 December 2016 (representing CZK 0.9 billion).

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

Production in the Kralupy refinery and the steam cracker unit in Unipetrol Group was restored in the 4th quarter of 2016.

Contingent liabilities

Spolana a.s. currently produces chlorine using mercury electrolysis. 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 prepared the relevant action plan, which submitted to the Mid-Czech Regional Body and awaits for authorities' decision. At this stage the plan assumes the continued production of PVC based on the use of semi-finished products from the purchase and end of use of mercury electrolysis.

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 31 December 2016 and as at 31 December 2015 amounted to PLN 2,066 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 the interim condensed consolidated financial statements.

**OTHER INFORMATION TO CONSOLIDATED
QUARTERLY REPORT**

FOR THE 12 AND 3 MONTH PERIOD ENDED 31 DECEMBER

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

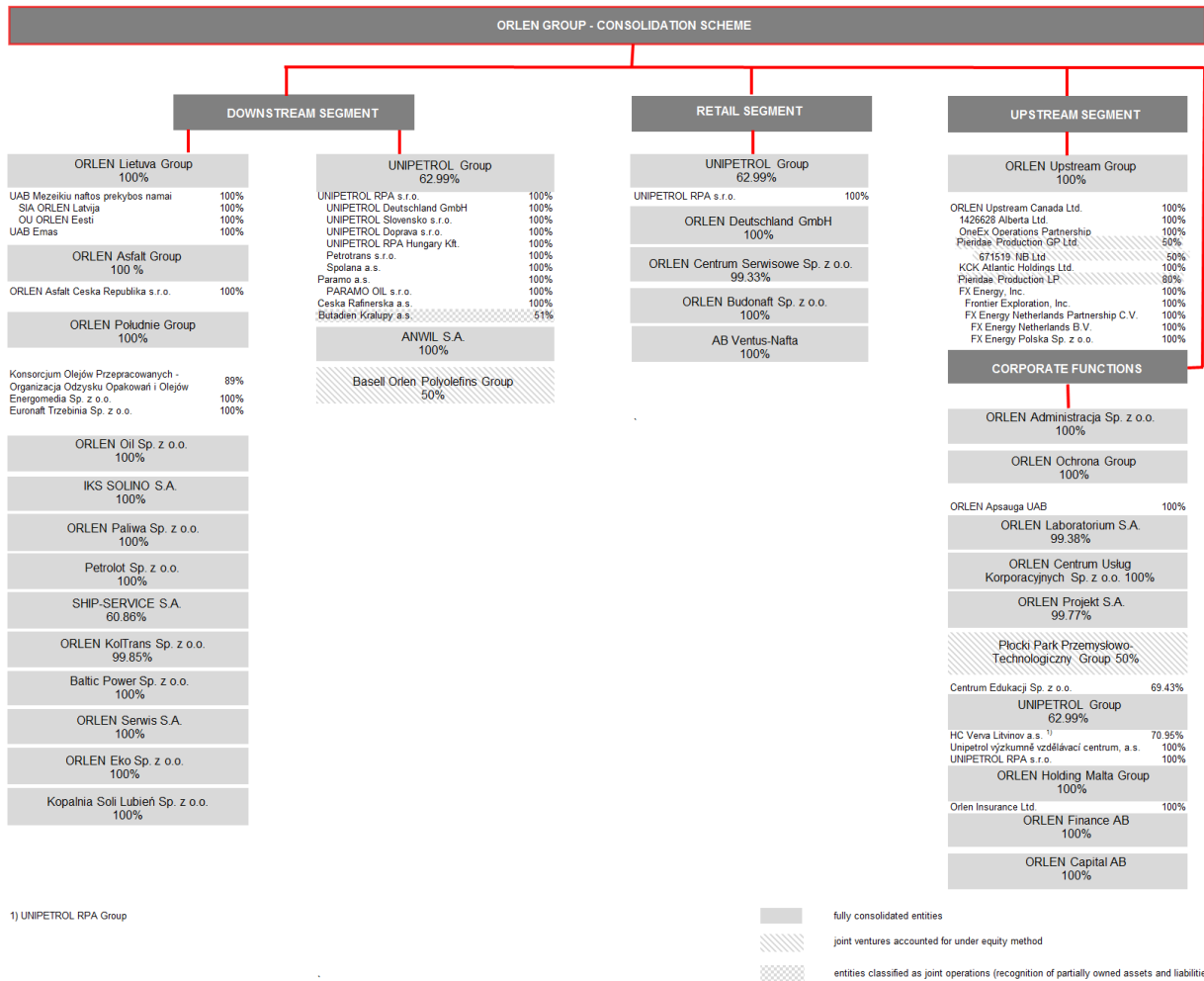
The Parent Company of the Polski Koncern Naftowy ORLEN S.A. Capital Group is Polski Koncern Naftowy ORLEN S.A. ("PKN ORLEN", "Company", "Parent Company") domiciled in Płock, 7 Chemików Street.

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 s.r.o with Unipetrol RPA s.r.o and Mogul Slovakia s.r.o with Unipetrol Slovensko s.r.o. 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.
- 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 was adopted a resolution on increasing the company's share capital 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 s.r.o, 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 Unipetrol Group took place;
- On 10 August 2016 transformation of ORLEN Laboratorium Sp. z o.o. into ORLEN Laboratorium S.A. took place.
- On 9 September 2016 deletion from the trade registry of UNIPETROL AUSTRIA HmbH in liquidation took place.
- On 24 October 2016 a merger of ORLEN Upstream Sp. z o.o. with ORLEN Upstream International B.V. took place.
- On 9 November 2016 PKN ORLEN purchased from Anwil 5.46% shares of ORLEN Service S.A, the remaining shares representing 0.15%, PKN ORLEN acquired on 30 December 2016, as a result of the settlement of compulsory purchase of shares from non-controlling shareholders. As at 31 December 2016 PKN ORLEN holds 100% of the share capital of ORLEN Service S.A.
- On 30 December 2016 a sale of 100% shares of companies from ORLEN Upstream Group: FX Drilling Company, Inc. and FX Producing Company, Inc. took place.
- On 1 January 2017 a merger of ČESKÁ RAFINÉRSKÁ a.s. with Unipetrol RPA s.r.o. 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 statements

Profit or loss for the 12 month period ended 31 December 2016

Profit from operations increased by depreciation and amortization before consideration of changes of crude oil prices on inventory valuation (EBITDA LIFO¹) and impairment allowances of property, plant and equipment and intangible assets for the 12 months of 2016 amounted to PLN 9,412 million and was higher by PLN 674 million compared with the previous year.

The negative impact of macroeconomic factors amounted to PLN (631) million (y/y) and included mainly the effect of lower margins on fuels 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 amounted to 39.5 million tons and was higher by 2.0% (y/y). Downstream segment sales increased by 1.1% due to higher by 4.9% (y/y) refining volumes and lower by 17.5% (y/y) petrochemical volumes. Volume of retail sales was higher by 2.5% (y/y) and upstream segment by 80.0% (y/y).

Despite of higher sales, volume effect was negative and amounted to PLN (880) million (y/y) mainly due to the lower sales of high margin petrochemical products in Unipetrol Group due to unavailability till the start in November of 2016 the steam cracker unit after accident in August 2015.

The positive impact of the other factors amounted to PLN 2,185 million (y/y) and included:

- PLN 1,157 million (y/y) – lack of negative effects from 2015 related to the settlement of repurchase V and VI tranche of mandatory reserves in the amount of PLN (297) million (y/y) from January 2015 and of PLN (860) million (y/y) from August 2015, respectively.
- PLN 1,252 million (y/y) - positive change in the balance of other operating activities, after eliminating the change 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 1,280 million.
- PLN (224) million (y/y) - other elements, including mainly the impact of lower trading margins in the area of refinery products in a part limited by the positive impact of net impairment allowances of inventories to net realisable value.

The positive impact of reversal of net impairment allowances of property, plant and equipment and intangible assets for the 12 months of 2016 amounted to PLN 145 million and includes mainly reversal of the impairment allowance of refinery assets of Unipetrol Group recognized in the 4th quarter of 2016 in the amount of PLN 315 million and recognition of the impairment allowance of exploration assets of ORLEN Upstream Group in Poland of PLN (72) million and ORLEN Oil assets in the amount of PLN (55) million.

The other net operating expenses from impairment allowances of property, plant and equipment for the 12 months of 2015 amounted to PLN (993) 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 in August 2015 in the amount of PLN (93) million and the impairment allowance of exploration assets in Canada of PLN (423) million from the 4th quarter of 2015.

Having considered other impact of changes of impairment allowances of property, plant and equipment and intangible assets, EBITDA LIFO profit of the ORLEN Group for the 12 months of 2016 amounted to PLN 9,557 million.

The positive impact of crude oil prices on inventory valuation for the described period amounted to PLN 85 million.

As a result, EBITDA profit of the ORLEN Group for the 12 months of 2016 amounted to PLN 9,642 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.

After consideration of depreciation and amortization expenses of PLN (2,110) million profit from operations of the ORLEN Group amounted to PLN 7,532 million.

Net finance costs for the 12 months of 2016 amounted to PLN (645) million and included mainly foreign exchange losses in the amount of PLN (542) million, net interest expenses in the amount of PLN (157) million and recognition and valuation of net financial instruments of PLN 58 million.

After consideration of tax charges of PLN (1,147) million, the net profit of the ORLEN Group for the 12 months of 2016 amounted to PLN 5,740 million and was higher by PLN 2,507 million in comparison with the net profit achieved in 2015.

Profit or loss for the 3 month period ended 31 December 2016

Profit from operations increased by depreciation and amortization before consideration of the impact of crude oil prices on inventory valuation (EBITDA LIFO) and impairment allowances of property, plant and equipment and intangible assets for the 4th quarter of 2016 amounted to PLN 2,655 million and was higher by PLN 789 million compared with the previous year.

The impact of lower margins on petrochemical products was offset by higher refining margins and the impact of the depreciation of the PLN exchange rate against the foreign currencies and as a result impact of macroeconomic factors was not significant and amounted to PLN 2 million (y/y).

Restoring the ethylene installation in November 2016 in Unipetrol Group after emergency shutdown in August 2015 had a significant impact on the increase of downstream segment sales by 6.5% (y/y). In the 4th quarter of 2016 the higher sales volumes in the retail segment by 1.0% (y/y) and the upstream segment by 81.5% (y/y) were also noted. The total effect of higher volume sales amounted to PLN 363 million (y/y).

The positive impact of the other factors amounted to PLN 425 million (y/y) and included:

- PLN 194 million (y/y) - positive impact of change in the balance of other operating activities, after eliminating the change 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 297 million, decreased by costs related to the revaluation of provisions in the total amount of PLN (94) million (y/y).
- PLN 231 million (y/y) - other elements, including mainly the positive impact of net impairment allowances of inventories to net realisable value and lower (y/y) trading margins of refinery products.

The net impairment allowances of property, plant and equipment and intangible assets in the 4th quarter of 2016 amounted to PLN 158 million and included mainly reversal of the impairment allowance of refinery assets of Unipetrol Group in the amount of PLN 315 million and recognition of impairment allowance of exploration assets of ORLEN Upstream Group in Poland of PLN (72) million and ORLEN Oil assets in the amount of PLN (55) million.

The net impairment allowances of property, plant and equipment in the 4th quarter of 2015 amounted to PLN (437) million and included mainly the impairment allowance of exploration assets of ORLEN Upstream Group in Canada in the amount of PLN (423) million.

Having considered the impact of changes of impairment allowances of property, plant and equipment and intangible assets, EBITDA LIFO profit of the ORLEN Group for the 4th quarter of 2016 amounted to PLN 2,813 million.

The positive impact of crude oil prices on inventory valuation in the 4th quarter of 2016 amounted to PLN 526 million.

As a result, EBITDA profit of the ORLEN Group for the 4th quarter of 2016 amounted to PLN 3,339 million.

After consideration of depreciation and amortization expenses profit from operations of the ORLEN Group for the described period amounted to PLN 2,789 million.

Net finance costs for the 4th quarter of 2016 amounted to PLN (299) million and included mainly net foreign exchange losses in the amount of PLN (321) million and net interest expenses in the amount of PLN (42) million and the positive impact of recognition and valuation of net financial instruments of PLN 64 million.

After consideration of tax charges the net profit of the ORLEN Group for the 4th quarter of 2016 amounted to PLN 2,043 million and was higher by PLN 2,112 million in comparison with the 4th quarter of 2015.

Statement of financial position

As at 31 December 2016, total assets of the ORLEN Group amounted to PLN 55,559 million and was higher by PLN 7,422 million in comparison with 31 December 2015.

As at 31 December 2016, the value of non-current assets amounted to PLN 30,321 million and was higher by PLN 2,959 million in comparison with the end of the previous year, mainly due to increasing of property, plant and equipment in the amount of PLN 3,135 million. Balance change of property, plant and equipment and intangible assets comprised mainly investment expenditures in the amount of PLN 4,673 million, depreciation and amortization in the amount of PLN (2,110) million, the positive impact of decrease of net impairment allowances of property, plant and equipment and intangible assets in the amount of PLN 145 million and exchange differences from recalculation of balances of foreign entities in the amount of PLN 475 million.

Current assets increased by PLN 4,463 million, mainly as result of an increase in the balance of cash and cash equivalents by PLN 2,724 million as well as trade and other receivables in the amount of PLN 2,033 million and decrease of PLN (725) million balance of other financial assets which comprised mainly valuations of cash flows hedge instruments.

As at 31 December 2016, total equity amounted to PLN 29,285 million and was higher by PLN 5,041 million in comparison with the end of 2015, mainly as a result of net profit for the 12 months of 2016 in the amount of PLN 5,740 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 31 December 2016, net indebtedness of the ORLEN Group amounted to PLN 3,363 million and was lower by PLN (3,447) million in comparison with the end of 2015. Balance of net indebtedness decreased as a result of net repayment of loans in the

amount of PLN (1,052) million, an increase of cash balance by PLN (2,724) million and the net impact of negative exchange differences from revaluation and indebtedness valuation in total amount of PLN 329 million.

Statement of cash flows

Proceeds of net cash from operating activities for the 12 month period of 2016 amounted to PLN 9,331 million and comprised mainly profit from operations increased by depreciation and amortisation in the amount of PLN 9,642 million and the positive impact of decrease in a net working capital of PLN 816 million decreased by share in financial result from investments accounted for under equity method of PLN (297) million, impairment allowance of property, plant and equipment and intangible assets in the amount of PLN (145) million and paid income taxes in the amount of PLN (336) million and other adjustments includes mainly amount from compensation due to the steam cracker unit accident in Unipetrol Group in the amount of PLN (221) million.

In the 4th quarter of 2016 net cash flows from operating activities amounted to PLN 2,543 million and comprised mainly profit from operations increased by depreciation and amortisation in the amount of PLN 3,339 million and the negative impact of increase in a net working capital of PLN (441) million, impairment allowance of property, plant and equipment and intangible assets in the amount of PLN (158) million, paid taxes in the amount of PLN (67) million and other adjustments includes mainly amount from compensation due to the steam cracker unit accident in Unipetrol Group in the amount of PLN 127 million.

Net cash used in investing activities for the 12 month period of 2016 amounted to PLN (4,436) million and comprised mainly net expenses for the acquisition of property, plant and equipment, intangible assets and perpetual usufruct of land of PLN (4,892) million and inflows from the received dividends and sale of ORLEN Transport in the amount of PLN 317 million and of PLN 74 million, respectively.

In the 4th quarter of 2016 net cash used in investing activities amounted to PLN (839) million and comprised mainly net expenses for the acquisition of property, plant and equipment, intangible assets and perpetual usufruct of land of PLN (1,032) million and inflows from the received dividends in the amount of PLN 130 million.

Net expenses of cash used in financing activities for the 12 month period of 2016 amounted to PLN (2,210) million and comprised mainly the net repayment of loans and borrowings of PLN (4,357) million, proceeds of the bond issue in the amount of PLN 3,258 million, paid dividends in the amount of PLN (912) million including amount for equity owners of the Parent Company of PLN (855) million and interest paid in the amount of PLN (223) million.

In the 4th quarter of 2016 net expenses of cash used in financing activities amounted to PLN (560) million and comprised mainly the net repayment of loans and borrowings of PLN (579) million.

Taking into account the revaluation of cash due to exchange differences, the cash balance in the 12 and 3 month period of 2016 increased by PLN 2,724 million and of PLN 1,214 million, respectively and as at 31 December 2016 amounted to PLN 5,072 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 Możejński 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.

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 29 September 2016 PKN ORLEN Management Board concluded contract with PGNiG for natural gas deliveries. 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 (according to market conditions of the date of conclusion of the contract).

DECEMBER 2016**ORLEN Group Strategy for years 2017-2021**

On 15 December 2016 the Management and the Supervisory Boards of PKN ORLEN approved the document "PKN ORLEN Growth Strategy".

Strategy for years 2017-2021 is based on three pillars: value creation, people and financial strength. Detailed information about the Strategy is available on PKN ORLEN website:

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

Appointment of Deloitte Polska as the entity authorized to conduct audit PKN ORLEN financial statements

On 15 December 2016 the PKN ORLEN Supervisory Board has appointed „Deloitte Polska spółka z ograniczoną odpowiedzialnością spółka komandytowa” as the entity authorized to conduct audit and reviews separate financial statements of PKN ORLEN and consolidated financial statements of ORLEN Group for the 1st and 3rd quarters, for the 1st half of year and financial years 2017 and 2018 (with the possibility to extend the cooperation for further periods, subject to prior approval by the PKN ORLEN Supervisory Board).

JANUARY 2017**Extraordinary General Meeting of Shareholders**

On 24 January 2017 the Extraordinary General Meeting of Shareholders at which were adopted resolutions regarding rules of determining the PKN ORLEN Management Board and the Supervisory Board remuneration, took place. The full text of adopted resolutions is available on website:

<http://www.orlen.pl/EN/InvestorRelations/RegulatoryAnnouncements/Pages/Regulatory-announcement-no-14-2017.aspx>

4. Related parties transactions

As at 31 December 2016 and as at 31 December 2015 and for the 12 and 3 month period ended 31 December 2016 and 31 December 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,
- other key executive personnel of the Parent Company and ORLEN Group companies.

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

	Sales				Purchases			
	12 MONTHS ENDED 31/12/2016 (unaudited)	3 MONTHS ENDED 31/12/2016 (unaudited)	12 MONTHS ENDED 31/12/2015	3 MONTHS ENDED 31/12/2015 (unaudited)	12 MONTHS ENDED 31/12/2016 (unaudited)	3 MONTHS ENDED 31/12/2016 (unaudited)	12 MONTHS ENDED 31/12/2015	3 MONTHS ENDED 31/12/2015 (unaudited)
	Jointly-controlled entities	2 148	392	2 954	653	(58)	(27)	(213)
<i>joint ventures</i>	2 115	365	2 806	648	(35)	(8)	(37)	(10)
<i>joint operations</i>	33	27	148	5	(23)	(19)	(176)	(4)
Associates	38	8	48	11	(5)	-	(32)	(10)
	2 186	400	3 002	664	(63)	(27)	(245)	(24)

	Trade and other receivables		Trade and other liabilities	
	31/12/2016 (unaudited)	31/12/2015	31/12/2016 (unaudited)	31/12/2015
Jointly-controlled entities	430	509	15	5
<i>joint ventures</i>	415	508	3	4
<i>joint operations</i>	15	1	12	1
Associates	15	17	-	8
	445	526	15	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 12 and 3 month period ended 31 December 2016 and 31 December 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 3,186 million translated using the exchange rate as at 31 December 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. In November 2016 Agrofert appealed to the Czech Constitutional Court against that decision. PKN ORLEN is taking legal actions in order to retain the above mentioned favorable judgments issued in this case.

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 Trzebnia 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 Trzebnia 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. An annulment claim submitted also ENERGA-OPERATOR SA. There is no decision of the Supreme Court on the annulment claims till now.

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. This judgment is binding and ENERGA-OPERATOR SA did not submit the annulment claim, which means that the proceeding in this case is completed.

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 293 million, translated using the exchange rate as at 31 December 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. filed an action against PKN ORLEN with the District Court in Łódź for a claim for payment in respect of an alleged breach by PKN ORLEN of patent rights: 'The 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 hearing fixed on 4 January 2017 did not take place. The new date of hearing has not been set. In the opinion of PKN ORLEN the above claims are without merit.

5.1.2.5. Claim for payments of author royalty against ORLEN Lietuva

In 2011, seven inventors initiated a court case against ORLEN Lietuva regarding payment of author royalty with interest for use the invention. The case was pending with the participation of the Government of the Republic of Lithuania as a third party, which was represented by the Minister of Energy. After few years of legal proceeding, the Supreme Court of Lithuania by a decision dated 2 December 2016 ordered to pay the amount of PLN 26.1 million translated using the exchange rate as at 31 December 2016 (representing EUR 5.9 million) to the claimants. The court also noted that the claimants are entitled to receive remuneration for the prior period to the expiry date of the patent in which the company allegedly used the invention, i.e. from 2000 to 2004. The court decided that the author royalty for the extended period as well as respective interest should be considered by the court of appeal.

At the court of appeal the claimants request for adjudgement of PLN 22.6 million translated using the exchange rate as at 31 December 2016 (representing EUR 5.1 million) in respect of author royalties and PLN 11.9 million translated using the exchange rate as at 31 December 2016 (representing EUR 2.7 million) in respect of interest for the late payments.

ORLEN Lietuva denies the claims and applied for a renewal of the proceedings at the Supreme Court. The company also filed a request regarding postponement of a hearing at the court of appeal due to proceedings at the Supreme Court.

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 is planned to examine further witnesses were scheduled for 31 January 2017, 14 February 2017 and 21 March 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 Butingė Terminal on 29 December 2005. The proceedings were initiated in December 2006. The total compensation claim amounts to approximately PLN 93 million, translated using the exchange rate as at 31 December 2016 (representing approximately USD 22.3 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 53 million, translated using the exchange rate as at 31 December 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. On 30 November 2016 the Court in Usti by the Elbe River annulled the decision of the tax office from 27 October 2010. The court considered the Unipetrol RPA s.r.o. arguments. The case is pending before the appeal tax office.

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.

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 Geležinkeliai ("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 for the period from January 2014. ORLEN Lietuva applied also for the compensation due to an incorrect interpretation of the agreement on rail transport by LG by using incorrect rates. Consideration of the request of ORLEN Lietuva would lead - depending on the interpretation adopted by the court of arbitration - to save for the company in the amount estimated until October 2016 not less than PLN 181 million translated using the exchange rate as at 31 December 2016 (representing not less than EUR 41 million) or to receive compensation for the use of incorrect rates in the amount of PLN 442 million translated using the exchange rate as at 31 December 2016 (representing EUR 100 million). The above described amounts of savings and compensation claim will be updated according to the range of operations under the agreement.

Simultaneously, by 31 December 2016, seven court proceedings were initiated in which LG demands from ORLEN Lietuva a payment of approximately PLN 166 million translated using the exchange rate as at 31 December 2016 (representing approximately EUR 37.5 million) from fees for rail transport of ORLEN Lietuva products. 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. Currently, the case is in the Supreme Court and awaits for the decision. Proceeding in the fourth case was suspended by the court until the court of arbitration decides on the claim of ORLEN Lietuva, while in the fifth and sixth proceeding the state court refused to open the proceeding also 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. ORLEN Lietuva appealed against the decision to open proceeding in the seventh case and expects the decision of the court of appeal.

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		
	foregoing quarterly report*	change p.p.	previous quarterly report**	foregoing quarterly report*	change	previous quarterly report**
State Treasury	27.52%	-	27.52%	117 710 196	-	117 710 196
Nationale Nederlanden OFE (ING OFE)*	8.32%	-0.98%	9.30%	35 590 112	(4 195 452)	39 785 564
Aviva OFE*	7.01%	-0.30%	7.31%	30 000 000	(1 257 000)	31 257 000
Other	57.15%	1.28%	55.87%	244 408 753	5 452 452	238 956 301
	100.00%		100.00%	427 709 061		427 709 061

* According to the information from the Extraordinary General Shareholders' Meeting of PKN ORLEN of 24 January 2017

** 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 foregoing quarterly report*
Supervisory Board	3 200
Artur Gabor	3 200

* According to the received confirmations as at 19 January 2017

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.

31/12/2016	Nominal value		Subscription date	Expiration date	Rating	Value of guarantee issued	
	EUR	PLN				EUR	PLN
Eurobonds	750	3 318	7.06.2016	7.06.2023	BBB-, Baa3	1 100	4 866
Eurobonds	500	2 212	30.06.2014	30.06.2021	BBB-, Baa3	1 000	4 424
	1 250	5 530				2 100	9 290

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 4th QUARTER

2016

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

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

	12 MONTHS ENDED 31/12/2016 (unaudited)	3 MONTHS ENDED 31/12/2016 (unaudited)	12 MONTHS ENDED 31/12/2015	3 MONTHS ENDED 31/12/2015 (unaudited)
Sales revenues	53 633	16 309	60 466	13 229
<i>revenues from sales of finished goods and services</i>	30 072	8 210	35 170	7 698
<i>revenues from sales of merchandise and raw materials</i>	23 561	8 099	25 296	5 531
Cost of sales	(46 664)	(13 988)	(55 565)	(12 498)
<i>cost of finished goods and services sold</i>	(23 838)	(6 127)	(30 883)	(7 103)
<i>cost of merchandise and raw materials sold</i>	(22 826)	(7 861)	(24 682)	(5 395)
Gross profit on sales	6 969	2 321	4 901	731
Distribution expenses	(2 310)	(601)	(2 306)	(608)
Administrative expenses	(739)	(193)	(867)	(222)
Other operating income	246	84	196	70
Other operating expenses	(297)	(162)	(155)	(42)
Profit/(Loss) from operations	3 869	1 449	1 769	(71)
Finance income, incl.:	2 414	788	872	237
<i>reversal on impairment allowances of shares in related parties</i>	601	601	3	3
Finance costs, incl.:	(763)	(373)	(1 333)	(569)
<i>recognition of impairment allowances of shares in related parties</i>	(33)	(33)	(800)	(383)
Net finance income and costs	1 651	415	(461)	(332)
Profit/(Loss) before tax	5 520	1 864	1 308	(403)
Tax expense	(705)	(284)	(260)	69
<i>current tax</i>	(489)	(276)	-	60
<i>deferred tax</i>	(216)	(8)	(260)	9
Net profit/(loss)	4 815	1 580	1 048	(334)
Other comprehensive income:				
which will not be reclassified into profit or loss	(3)	(3)	4	4
<i>actuarial gains and losses</i>	(3)	(3)	5	5
<i>deferred tax</i>	-	-	(1)	(1)
which will be reclassified into profit or loss	(184)	(243)	1 227	76
<i>hedging instruments</i>	(227)	(300)	1 515	94
<i>deferred tax</i>	43	57	(288)	(18)
	(187)	(246)	1 231	80
Total net comprehensive income	4 628	1 334	2 279	(254)
Net profit/(loss) and diluted net profit/(loss) per share (in PLN per share)	11.26	3.69	2.45	(0.78)

Separate statement of financial position

	31/12/2016 (unaudited)	31/12/2015
ASSETS		
Non-current assets		
Property, plant and equipment	15 112	14 303
Intangible assets	853	962
Shares in related parties	8 356	7 568
Other financial assets	104	179
Other assets	135	134
	24 560	23 146
Current assets		
Inventories	7 309	7 715
Trade and other receivables	6 612	4 291
Other financial assets	1 269	788
Cash	2 563	964
Non-current assets classified as held for sale	210	77
	17 963	13 835
Total assets	42 523	36 981
EQUITY AND LIABILITIES		
EQUITY		
Share capital	1 058	1 058
Share premium	1 227	1 227
Hedging reserve	(327)	(143)
Retained earnings	19 661	15 704
Total equity	21 619	17 846
LIABILITIES		
Non-current liabilities		
Loans, borrowings and bonds	7 503	8 125
Provisions	369	317
Deferred tax liabilities	553	380
Other financial liabilities	493	637
	8 918	9 459
Current liabilities		
Trade and other liabilities	9 384	6 651
Loans, borrowings and bonds	1 335	1 117
Provisions	342	383
Deferred income	138	116
Other financial liabilities	787	1 409
	11 986	9 676
Total liabilities	20 904	19 135
Total equity and liabilities	42 523	36 981

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	-	-	4 815	4 815
Items of other comprehensive income	-	(184)	(3)	(187)
Total net comprehensive income	-	(184)	4 812	4 628
Dividends	-	-	(855)	(855)
31/12/2016	2 285	(327)	19 661	21 619
(unaudited)				
01/01/2015	2 285	(1 370)	15 387	16 302
Net profit	-	-	1 048	1 048
Items of other comprehensive income	-	1 227	4	1 231
Total net comprehensive income	-	1 227	1 052	2 279
Equity resulting from merger under common control	-	-	(29)	(29)
Dividends	-	-	(706)	(706)
31/12/2015	2 285	(143)	15 704	17 846

Separate statement of cash flows

	12 MONTHS ENDED 31/12/2016 (unaudited)	3 MONTHS ENDED 31/12/2016 (unaudited)	12 MONTHS ENDED 31/12/2015	3 MONTHS ENDED 31/12/2015 (unaudited)
Cash flows from operating activities				
Profit/(Loss) before tax	5 520	1 864	1 308	(403)
Adjustments for:				
Depreciation and amortisation	1 142	295	1 100	282
Foreign exchange loss	288	107	95	65
Interest, net	209	53	201	60
Dividends	(1 610)	(130)	(727)	(201)
(Profit)/Loss on investing activities	(623)	(578)	808	362
Change in provisions	181	85	149	36
Change in working capital	502	47	(1 892)	960
<i>inventories</i>	407	(346)	(1 149)	842
<i>receivables</i>	(2 561)	(1 311)	684	1 267
<i>liabilities</i>	2 656	1 704	(1 427)	(1 149)
Other adjustments	(174)	(118)	(95)	50
Income tax received/(paid)	(1)	(2)	1	(1)
Net cash from operating activities	5 434	1 623	948	1 210
Cash flows from investing activities				
Acquisition of property, plant and equipment, intangible assets and perpetual usufruct of land	(2 483)	(515)	(1 847)	(677)
Acquisition of shares	(182)	(6)	(1 684)	(1 554)
Outflows on acquisition of project	-	-	(172)	-
Disposal of property, plant and equipment, intangible assets and perpetual usufruct of land	135	21	131	45
Disposal of shares	88	-	-	-
Interest received	6	2	16	-
Dividends received	1 623	132	729	204
Proceeds from non-current loans granted	6	2	607	-
Proceeds/(Expenses) from current loans granted	(1 052)	(850)	312	(8)
Proceeds from cash pool facility	2	-	162	-
Other	(16)	(3)	77	(22)
Net cash (used) in investing activities	(1 873)	(1 217)	(1 669)	(2 012)
Cash flows from financing activities				
Proceeds from loans and borrowings received	7 307	-	2 138	-
Bonds issued	1 624	374	1 318	330
Repayments of loans and borrowings	(8 261)	(376)	(3 179)	(1 847)
Redemption of bonds	(1 422)	(385)	(1 243)	(497)
Interest paid	(244)	(34)	(261)	(52)
Dividends paid	(855)	-	(706)	-
Proceeds/(Outflows) from cash pool facility	(159)	102	155	287
Other	40	55	(18)	(4)
Net cash (used) in financing activities	(1 970)	(264)	(1 796)	(1 783)
Net increase/(decrease) in cash	1 591	142	(2 517)	(2 585)
Effect of exchange rate changes	8	7	6	1
Cash, beginning of the period	964	2 414	3 475	3 548
Cash, end of the period	2 563	2 563	964	964

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 25 January 2017.

.....
Wojciech Jasiński
President of the Board

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

.....
Miroslaw Kochalski
Vice-President of the Board

.....
Piotr Chelmiński
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