



**ORLEN**

**Polski Koncern Naftowy ORLEN**  
Spółka Akcyjna

# ORLEN GROUP

CONSOLIDATED QUARTERLY REPORT

**FOR THE 1<sup>st</sup> QUARTER**

**2017**

## ORLEN GROUP - SELECTED DATA

	PLN million		EUR million	
	3 MONTHS ENDED 31/03/2017	3 MONTHS ENDED 31/03/2016	3 MONTHS ENDED 31/03/2017	3 MONTHS ENDED 31/03/2016
Sales revenues	22,875	16,213	5,333	3,780
Profit from operations increased by depreciation and amortisation (EBITDA)	2,838	993	662	232
Profit from operations (EBIT)	2,276	478	531	111
Profit before tax	2,539	434	592	101
Net profit attributable to equity owners of the parent	1,920	337	448	79
Net profit	2,088	336	487	78
Total net comprehensive income attributable to equity owners of the parent	2,101	254	490	59
Total net comprehensive income	2,164	216	505	50
Net cash from operating activities	673	2,927	156	683
Net cash (used) in investing activities	(907)	(1,399)	(211)	(326)
Net cash (used) in financing activities	(808)	(311)	(188)	(73)
Net increase/(decrease) in cash and cash equivalents	(1,042)	1,217	(243)	284
Net profit and diluted net profit per share attributable to equity owners of the parent (in PLN/EUR per share)	4.49	0.79	1.05	0.18

	31/03/2017	31/12/2016	31/03/2017	31/12/2016
Non-current assets	30,309	30,321	7,183	7,185
Current assets	24,286	25,238	5,755	5,981
Total assets	54,595	55,559	12,938	13,166
Share capital	1,058	1,058	251	251
Equity attributable to owners of the parent	28,864	26,763	6,840	6,342
Total equity	31,449	29,285	7,453	6,940
Non-current liabilities	8,814	9,652	2,089	2,287
Current liabilities	14,332	16,622	3,396	3,939
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)	67.49	62.57	15.99	14.83

## PKN ORLEN - SELECTED DATA

	PLN million		EUR million	
	3 MONTHS ENDED 31/03/2017	3 MONTHS ENDED 31/03/2016	3 MONTHS ENDED 31/03/2017	3 MONTHS ENDED 31/03/2016
Sales revenues	17,051	10,568	3,975	2,464
Profit from operations increased by depreciation and amortisation (EBITDA)	1,582	170	369	40
Profit/(Loss) from operations (EBIT)	1,285	(115)	300	(27)
Profit/(Loss) before tax	1,582	(77)	369	(18)
Net profit/(loss)*	1,275	(80)	297	(19)
Total net comprehensive income	1,896	(83)	442	(19)
Net cash from/(used in) operating activities	(105)	1,104	(25)	257
Net cash (used) in investing activities	(323)	(1,496)	(75)	(348)
Net cash from/(used in) financing activities	(824)	184	(192)	43
Net (decrease) in cash	(1,252)	(208)	(292)	(48)
Net profit/(loss) and diluted net profit/(loss) per share (in PLN/EUR per share)	2.98	(0.19)	0.70	(0.04)

	31/03/2017	31/12/2016	31/03/2017	31/12/2016
Non-current assets	24,732	25,109	5,861	5,950
Current assets	17,060	17,963	4,043	4,257
Total assets	41,792	43,072	9,904	10,207
Share capital	1,058	1,058	251	251
Total equity	24,064	22,168	5,703	5,254
Non-current liabilities	8,124	8,918	1,925	2,113
Current liabilities	9,604	11,986	2,276	2,840
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)	56.26	51.83	13.33	12.28

\* Net result for the 1<sup>st</sup> quarter of 2017 includes impairment allowance of shares of ORLEN Lietuva in the amount of PLN (517) million.

The above data for the 3 month period of 2017 and 2016 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 March 2017 – 4.2891 EUR/PLN;
- items of assets, equity and liabilities – by the average exchange rate published by the National Bank of Poland as at 31 March 2017– 4.2198 EUR/PLN.

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# INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE 3 MONTH PERIOD ENDED 31 MARCH

2017

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	3 MONTHS ENDED 31/03/2017 (unaudited)	3 MONTHS ENDED 31/03/2016 (unaudited)
Sales revenues		22,875	16,213
<i>revenues from sales of finished goods and services</i>		17,787	11,993
<i>revenues from sales of merchandise and raw materials</i>		5,088	4,220
Cost of sales	3.1.	(19,449)	(14,574)
<i>cost of finished goods and services sold</i>		(14,753)	(10,612)
<i>cost of merchandise and raw materials sold</i>		(4,696)	(3,962)
<b>Gross profit on sales</b>		<b>3,426</b>	<b>1,639</b>
Distribution expenses		(1,037)	(1,001)
Administrative expenses		(367)	(362)
Other operating income	3.3.	249	198
Other operating expenses	3.3.	(64)	(81)
Share in profit from investments accounted for under equity method		69	85
<b>Profit from operations</b>		<b>2,276</b>	<b>478</b>
Finance income	3.4.	679	45
Finance costs	3.4.	(416)	(89)
<b>Net finance income and costs</b>		<b>263</b>	<b>(44)</b>
<b>Profit before tax</b>		<b>2,539</b>	<b>434</b>
Tax expense		(451)	(98)
<i>current tax</i>		(338)	(60)
<i>deferred tax</i>		(113)	(38)
<b>Net profit</b>		<b>2,088</b>	<b>336</b>
<b>Other comprehensive income:</b>			
<b>which will be reclassified into profit or loss</b>			
<i>hedging instruments</i>		832	(131)
<i>exchange differences on translating foreign operations</i>		(598)	(14)
<i>deferred tax</i>		(158)	25
		<b>76</b>	<b>(120)</b>
<b>Total net comprehensive income</b>		<b>2,164</b>	<b>216</b>
<b>Net profit attributable to</b>		<b>2,088</b>	<b>336</b>
<i>equity owners of the parent</i>		1,920	337
<i>non-controlling interest</i>		168	(1)
<b>Total net comprehensive income attributable to</b>		<b>2,164</b>	<b>216</b>
<i>equity owners of the parent</i>		2,101	254
<i>non-controlling interest</i>		63	(38)
Net profit and diluted net profit per share attributable to equity owners of the parent (in PLN per share)		4.49	0.79

The accompanying notes disclosed on pages 9 – 16 are an integral part of the foregoing interim condensed consolidated financial statements.

**Consolidated statement of financial position**

	NOTE	31/03/2017 (unaudited)	31/12/2016
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		27,364	27,671
Intangible assets		1,529	1,377
Investments accounted for under equity method		830	763
Deferred tax assets		132	167
Embedded derivatives and hedging instruments	3.6	168	66
Other assets	3.6	286	277
		<b>30,309</b>	<b>30,321</b>
<b>Current assets</b>			
Inventories		11,946	11,182
Trade and other receivables		7,896	8,553
Current tax assets		74	121
Cash and cash equivalents		3,816	5,072
Non-current assets classified as held for sale		25	61
Embedded derivatives and hedging instruments	3.6	435	97
Other assets	3.6	94	152
		<b>24,286</b>	<b>25,238</b>
<b>Total assets</b>		<b>54,595</b>	<b>55,559</b>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
Share capital		1,058	1,058
Share premium		1,227	1,227
Hedging reserve		297	(355)
Revaluation reserve		5	5
Exchange differences on translating foreign operations		475	946
Retained earnings		25,802	23,882
<b>Equity attributable to owners of the parent</b>		<b>28,864</b>	<b>26,763</b>
<b>Non-controlling interests</b>		<b>2,585</b>	<b>2,522</b>
<b>Total equity</b>		<b>31,449</b>	<b>29,285</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Loans, borrowings and bonds	3.5	6,536	7,446
Provisions	3.7	813	828
Deferred tax liabilities		1,045	809
Embedded derivatives and hedging instruments	3.6	127	280
Other liabilities	3.6	293	289
		<b>8,814</b>	<b>9,652</b>
<b>Current liabilities</b>			
Trade and other liabilities		11,977	13,591
Loans, borrowings and bonds	3.5	933	989
Provisions	3.7	724	666
Current tax liabilities		215	659
Embedded derivatives and hedging instruments	3.6	149	403
Other liabilities	3.6	334	314
		<b>14,332</b>	<b>16,622</b>
<b>Total liabilities</b>		<b>23,146</b>	<b>26,274</b>
<b>Total equity and liabilities</b>		<b>54,595</b>	<b>55,559</b>

The accompanying notes disclosed on pages 9 – 16 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		
01/01/2017	2,285	(355)	5	946	23,882	26,763	2,522	29,285
Net profit	-	-	-	-	1,920	1,920	168	2,088
Items of other comprehensive income	-	652	-	(471)	-	181	(105)	76
<b>Total net comprehensive income</b>	-	<b>652</b>	-	<b>(471)</b>	<b>1,920</b>	<b>2,101</b>	<b>63</b>	<b>2,164</b>
<b>31/03/2017</b>	<b>2,285</b>	<b>297</b>	<b>5</b>	<b>475</b>	<b>25,802</b>	<b>28,864</b>	<b>2,585</b>	<b>31,449</b>
(unaudited)								
01/01/2016	2,285	(80)	-	537	19,431	22,173	2,071	24,244
Net profit/(loss)	-	-	-	-	337	337	(1)	336
Items of other comprehensive income	-	(65)	-	(18)	-	(83)	(37)	(120)
<b>Total net comprehensive income</b>	-	<b>(65)</b>	-	<b>(18)</b>	<b>337</b>	<b>254</b>	<b>(38)</b>	<b>216</b>
<b>31/03/2016</b>	<b>2,285</b>	<b>(145)</b>	-	<b>519</b>	<b>19,768</b>	<b>22,427</b>	<b>2,033</b>	<b>24,460</b>
(unaudited)								

The accompanying notes disclosed on pages 9 – 16 are an integral part of the foregoing interim condensed consolidated financial statements.

**Consolidated statement of cash flows**

	3 MONTHS ENDED 31/03/2017 (unaudited)	3 MONTHS ENDED 31/03/2016 (unaudited)
<b>Cash flows from operating activities</b>		
<b>Profit before tax</b>	<b>2,539</b>	<b>434</b>
Adjustments for:		
Share in profit from investments accounted for under equity method	(69)	(85)
Depreciation and amortisation	562	515
Foreign exchange (profit)/loss	(137)	41
Interest, net	50	50
(Profit)/Loss on investing activities	110	(43)
Change in provisions	71	30
Change in working capital	(1,735)	1,766
<i>inventories</i>	(930)	1,477
<i>receivables</i>	(72)	32
<i>liabilities</i>	(733)	257
Other adjustments	11	307
Income tax (paid)	(729)	(88)
<b>Net cash from operating activities</b>	<b>673</b>	<b>2,927</b>
<b>Cash flows from investing activities</b>		
Acquisition of property, plant and equipment, intangible assets and perpetual usufruct of land	(889)	(1,533)
Disposal of property, plant and equipment, intangible assets and perpetual usufruct of land	50	61
Sale of subsidiary	-	71
Other	(68)	2
<b>Net cash (used) in investing activities</b>	<b>(907)</b>	<b>(1,399)</b>
<b>Cash flows from financing activities</b>		
Proceeds from loans and borrowings received	19	2,130
Repayments of loans and borrowings	(785)	(2,383)
Interest paid	(34)	(52)
Payments of liabilities under finance lease agreements	(7)	(7)
Other	(1)	1
<b>Net cash (used) in financing activities</b>	<b>(808)</b>	<b>(311)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(1,042)</b>	<b>1,217</b>
Effect of exchange rate changes	(214)	(98)
Cash and cash equivalents, beginning of the period	5,072	2,348
<b>Cash and cash equivalents, end of the period</b>	<b>3,816</b>	<b>3,467</b>

The accompanying notes disclosed on pages 9 – 16 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 March 2017 and as at 31 December 2016, financial results and cash flows for the 3 month period ended 31 March 2017 and 31 March 2016.

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 the notes to the Consolidated Financial Statements for the year 2016.

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 2016 in note 5.5.

**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	
	3 MONTHS ENDED	3 MONTHS ENDED	31/03/2017	31/12/2016
	31/03/2017	31/03/2016		
EUR/PLN	4.3229	4.3674	4.2198	4.4240
USD/PLN	4.0597	3.9626	3.9455	4.1793
CZK/PLN	0.1600	0.1615	0.1559	0.1637
CAD/PLN	3.0681	2.8800	2.9564	3.0995

**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 ORLEN Group is conducted in:

- the Downstream segment, which includes integrated areas of refining, petrochemical production and sales and operations in the energy production activity,
  - the Retail segment, which includes activity carried out at the petrol stations,
  - the Upstream segment, which includes the activity related to exploration and extraction of mineral resources,
- and Corporate Functions, which include activities related to management, administration and remaining activities not allocated to separate operating segments i.e. reconciling items.

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.

**Revenues, costs, financial results, investments expenditures  
for the 3 month period ended 31 March 2017**

	NOTE	Downstream Segment (unaudited)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
External revenues		14,833	7,892	134	16	-	22,875
Inter-segment revenues		3,220	11	-	74	(3,305)	-
Sales revenues		18,053	7,903	134	90	(3,305)	22,875
Operating expenses		(16,141)	(7,634)	(129)	(254)	3,305	(20,853)
Other operating income	3.3	223	17	-	9	-	249
Other operating expenses	3.3	(26)	(17)	(1)	(20)	-	(64)
Share in profit from investments accounted for under equity method		69	-	-	-	-	69
<b>Profit/(Loss) from operations</b>		<b>2,178</b>	<b>269</b>	<b>4</b>	<b>(175)</b>	<b>-</b>	<b>2,276</b>
Net finance income and costs	3.4						263
<b>Profit before tax</b>							<b>2,539</b>
Tax expense							(451)
<b>Net profit</b>							<b>2,088</b>
<b>Depreciation and amortisation</b>	3.1	<b>361</b>	<b>103</b>	<b>75</b>	<b>23</b>	<b>-</b>	<b>562</b>
<b>EBITDA</b>		<b>2,539</b>	<b>372</b>	<b>79</b>	<b>(152)</b>	<b>-</b>	<b>2,838</b>
<b>CAPEX</b>		<b>446</b>	<b>88</b>	<b>153</b>	<b>36</b>	<b>-</b>	<b>723</b>

**for the 3 month period ended 31 March 2016**

	NOTE	Downstream Segment (unaudited)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
External revenues		9,838	6,264	92	19	-	16,213
Inter-segment revenues		2,105	43	-	65	(2,213)	-
Sales revenues		11,943	6,307	92	84	(2,213)	16,213
Operating expenses		(11,652)	(6,104)	(136)	(258)	2,213	(15,937)
Other operating income	3.3	163	14	-	21	-	198
Other operating expenses	3.3	(51)	(14)	-	(16)	-	(81)
Share in profit from investments accounted for under equity method		85	-	-	-	-	85
<b>Profit/(Loss) from operations</b>		<b>488</b>	<b>203</b>	<b>(44)</b>	<b>(169)</b>	<b>-</b>	<b>478</b>
Net finance income and costs	3.4						(44)
<b>Profit before tax</b>							<b>434</b>
Tax expense							(98)
<b>Net profit</b>							<b>336</b>
<b>Depreciation and amortisation</b>	3.1	<b>324</b>	<b>97</b>	<b>71</b>	<b>23</b>	<b>-</b>	<b>515</b>
<b>EBITDA</b>		<b>812</b>	<b>300</b>	<b>27</b>	<b>(146)</b>	<b>-</b>	<b>993</b>
<b>CAPEX</b>		<b>784</b>	<b>72</b>	<b>126</b>	<b>20</b>	<b>-</b>	<b>1,002</b>

EBITDA – profit/(loss) from operations increased by depreciation and amortization

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

**Assets by operating segments**

	31/03/2017 (unaudited)	31/12/2016
Downstream Segment	39,004	38,770
Retail Segment	6,025	6,139
Upstream Segment	3,758	3,840
<b>Segment assets</b>	<b>48,787</b>	<b>48,749</b>
Corporate Functions	5,839	6,943
Adjustments	(31)	(133)
	<b>54,595</b>	<b>55,559</b>

### 3. Other notes

#### 3.1. Operating expenses

##### Cost by nature

	3 MONTHS ENDED 31/03/2017 (unaudited)	3 MONTHS ENDED 31/03/2016 (unaudited)
Materials and energy	(14,062)	(9,090)
Cost of merchandise and raw materials sold	(4,696)	(3,962)
External services	(1,010)	(958)
Employee benefits	(586)	(567)
Depreciation and amortisation	(562)	(515)
Taxes and charges	(284)	(274)
Other	(167)	(195)
	<b>(21,367)</b>	<b>(15,561)</b>
Change in inventories	393	(515)
Cost of products and services for own use	57	58
<b>Operating expenses</b>	<b>(20,917)</b>	<b>(16,018)</b>
Distribution expenses	1,037	1,001
Administrative expenses	367	362
Other operating expenses	64	81
<b>Cost of sales</b>	<b>(19,449)</b>	<b>(14,574)</b>

#### 3.2. Impairment allowances of inventories to net realizable value

	3 MONTHS ENDED 31/03/2017 (unaudited)	3 MONTHS ENDED 31/03/2016 (unaudited)
Increase	(15)	(80)
Decrease	12	147

#### 3.3. Other operating income and expenses

##### Other operating income

	3 MONTHS ENDED 31/03/2017 (unaudited)	3 MONTHS ENDED 31/03/2016 (unaudited)
Profit on sale of subsidiaries	-	57
Profit on sale of non-current non-financial assets	12	20
Reversal of provisions	7	10
Reversal of receivables impairment allowances	4	4
Reversal of impairment allowances of property, plant and equipment and intangible assets	7	-
Penalties and compensation	176	36
Other	43	71
	<b>249</b>	<b>198</b>

The line penalties and compensation in the 3 month period ended 31 March 2017 includes mainly the impact of partial settlement of damage related to the accident on installation FCC (Fluid Catalytic Cracking) in Unipetrol Group of May 2016 in the amount of PLN 163 million.

##### Other operating expenses

	3 MONTHS ENDED 31/03/2017 (unaudited)	3 MONTHS ENDED 31/03/2016 (unaudited)
Loss on sale of non-current non-financial assets	(9)	(13)
Recognition of provisions	(9)	(11)
Recognition of receivables impairment allowances	(5)	(9)
Recognition of impairment allowances of property, plant and equipment and intangible assets	(9)	(7)
Penalties, damages and compensation	(9)	(20)
Other	(23)	(21)
	<b>(64)</b>	<b>(81)</b>

### 3.4. Finance income and costs

#### Finance income

	3 MONTHS ENDED 31/03/2017 (unaudited)	3 MONTHS ENDED 31/03/2016 (unaudited)
Interest	9	14
Foreign exchange gain surplus	364	-
Settlement and valuation of derivative financial instruments	299	21
Other	7	10
	<b>679</b>	<b>45</b>

#### Finance costs

	3 MONTHS ENDED 31/03/2017 (unaudited)	3 MONTHS ENDED 31/03/2016 (unaudited)
Interest	(55)	(50)
Foreign exchange loss, net	-	(1)
Settlement and valuation of derivative financial instruments	(351)	(28)
Other	(10)	(10)
	<b>(416)</b>	<b>(89)</b>

Borrowing costs capitalized in the 3 month period ended 31 March 2017 and 31 March 2016 amounted to PLN (18) million and PLN (16) million, respectively.

### 3.5. Loans, borrowings and bonds

	Non-current		Current		Total	
	31/03/2017 (unaudited)	31/12/2016	31/03/2017 (unaudited)	31/12/2016	31/03/2017 (unaudited)	31/12/2016
Loans	-	653	125	286	125	939
Borrowings	-	-	1	1	1	1
Bonds	6,536	6,793	807	702	7,343	7,495
	<b>6,536</b>	<b>7,446</b>	<b>933</b>	<b>989</b>	<b>7,469</b>	<b>8,435</b>

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.

### 3.6. Embedded derivatives and hedging instruments and other assets and liabilities

#### Embedded derivatives and hedging instruments and other assets

	Non-current		Current		Total	
	31/03/2017 (unaudited)	31/12/2016	31/03/2017 (unaudited)	31/12/2016	31/03/2017 (unaudited)	31/12/2016
Cash flows hedging instruments	168	66	325	92	493	158
<i>currency forwards</i>	158	12	184	32	342	44
<i>commodity swaps</i>	10	54	141	60	151	114
Derivatives not designated as hedge accounting	-	-	107	5	107	5
<i>currency forwards</i>	-	-	92	5	92	5
<i>commodity swaps</i>	-	-	5	-	5	-
<i>currency interest rate swaps</i>	-	-	10	-	10	-
Embedded derivatives	-	-	3	-	3	-
<i>currency swaps</i>	-	-	3	-	3	-
<b>Embedded derivatives and hedging instruments</b>	<b>168</b>	<b>66</b>	<b>435</b>	<b>97</b>	<b>603</b>	<b>163</b>
Other financial assets	19	33	94	152	113	185
<i>receivables on cash flows settled</i>	-	-	91	149	91	149
<i>hedging instruments</i>	-	-	-	-	-	-
<i>other</i>	19	33	3	3	22	36
Other non-financial assets	267	244	-	-	267	244
<i>investment property</i>	95	97	-	-	95	97
<i>perpetual usufruct of land</i>	108	107	-	-	108	107
<i>financial assets available for sale</i>	41	40	-	-	41	40
<i>other</i>	23	-	-	-	23	-
<b>Other assets</b>	<b>286</b>	<b>277</b>	<b>94</b>	<b>152</b>	<b>380</b>	<b>429</b>

**Embedded derivatives and hedging instruments and other liabilities**

	Non-current		Current		Total	
	31/03/2017 (unaudited)	31/12/2016	31/03/2017 (unaudited)	31/12/2016	31/03/2017 (unaudited)	31/12/2016
Cash flows hedging instruments	1	190	118	376	119	566
<i>currency forwards</i>	-	42	25	117	25	159
<i>commodity swaps</i>	1	28	93	228	94	256
<i>currency interest rate swaps</i>	-	120	-	31	-	151
Derivatives not designated as hedge accounting	126	90	31	25	157	115
<i>currency forwards</i>	-	-	27	4	27	4
<i>commodity swaps</i>	1	-	-	21	1	21
<i>interest rate swaps</i>	76	90	-	-	76	90
<i>currency interest rate swaps</i>	49	-	4	-	53	-
Embedded derivatives	-	-	-	2	-	2
<i>currency swaps</i>	-	-	-	2	-	2
<b>Embedded derivatives and hedging instruments</b>	<b>127</b>	<b>280</b>	<b>149</b>	<b>403</b>	<b>276</b>	<b>683</b>
Other financial liabilities	284	280	51	169	335	449
<i>liabilities on cash flows settled hedging instruments</i>	-	-	51	169	51	169
<i>investment liabilities</i>	112	111	-	-	112	111
<i>finance lease</i>	146	141	-	-	146	141
<i>other</i>	26	28	-	-	26	28
Other non-financial liabilities	9	9	283	145	292	154
<i>deferred income</i>	9	9	283	145	292	154
<b>Other liabilities</b>	<b>293</b>	<b>289</b>	<b>334</b>	<b>314</b>	<b>627</b>	<b>603</b>

**3.7. Provisions**

	Non-current		Current		Total	
	31/03/2017 (unaudited)	31/12/2016	31/03/2017 (unaudited)	31/12/2016	31/03/2017 (unaudited)	31/12/2016
Environmental	561	570	36	38	597	608
Jubilee bonuses and post-employment benefits	211	212	32	33	243	245
CO <sub>2</sub> emissions, energy certificates	-	-	428	365	428	365
Other	41	46	228	230	269	276
	<b>813</b>	<b>828</b>	<b>724</b>	<b>666</b>	<b>1,537</b>	<b>1,494</b>

**3.8. Methods applied in determining fair value (fair value hierarchy)**

As compared to the previous reporting period the Group did not change the valuation methods concerning instruments. Methods applied in determining the fair value were described in the Consolidated Financial Statements for the year 2016 in note 7.3.3.

**Fair value hierarchy**

	31/03/2017 (unaudited)	31/12/2016
	Level 2	
<b>Financial assets</b>		
Embedded derivatives and hedging instruments	603	163
	<b>603</b>	<b>163</b>
<b>Financial liabilities</b>		
Embedded derivatives and hedging instruments	276	683
	<b>276</b>	<b>683</b>

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.

**3.9. Finance lease payments**

As at 31 March 2017 and as at 31 December 2016 the Group possessed as a lessee the finance lease agreements, concerning mainly buildings, technical equipment and machinery and means of transportation.

	31/03/2017 (unaudited)	31/12/2016
Value of future minimum lease payments	231	223
Present value of future minimum lease payments	176	170

### 3.10. Future commitments resulting from signed investment contracts

As at 31 March 2017 and as at 31 December 2016, the value of future commitments resulting from investment contracts signed until that day amounted to PLN 1,924 million and PLN 1,941 million, respectively.

### 3.11. Issue, redemption and repayment of debt securities

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

### 3.12. Proposal to distribution of the profit for 2016

A dividend policy assumes a gradual increase in the level of dividend per share by taking into account the implementation of strategic financial objectives and forecasts of the macroeconomic situation. This method does not relate the rate of dividend to net profit, which in the ORLEN Group's area of operations is subject to high fluctuations and can include non-cash items, such as revaluation of assets, inventories or loans, distorting the view of the current financial situation of the Group.

The Management Board of PKN ORLEN, after considering the liquidity situation and achievement of strategic financial objectives, proposes to distribute the net profit of PKN ORLEN for the year 2016 in the amount of PLN 5,364,455,552.64 as follows: the amount of PLN 1,283,127,183 will be allocated as a dividend payment (PLN 3 per 1 share) and the remaining amount of net profit of PLN 4,081,328,369.64 as reserve capital of the Parent Company. The Management Board of PKN ORLEN recommends 14 July 2017 as the dividend date and 4 August 2017 as the payment date. The Management Board's recommendation will be presented to the General Shareholders' Meeting of PKN ORLEN, which will make a conclusive decision in this matter.

### 3.13. Contingent asset

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 at approximately PLN 0.6 billion translated using the exchange rate as at 31 March 2017 (representing CZK 3.9 billion), as well as lost business profits (business interruption), which estimated at approximately PLN 1.6 billion translated using the exchange rate as at 31 March 2017 (representing CZK 10.1 billion).

In 2016 Unipetrol Group recognized in other operating income amounts of partial compensation received from insurers in the amount of PLN 1,280 million. After consideration the above amount the value of contingent asset as at 31 March 2017 due to described above damage Unipetrol Group estimated in the amount of PLN 1 billion translated using the exchange rate as at 31 March 2017 (representing CZK 6.1 billion).

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

Part of the cash for the above compensation in the amount of PLN 202 million translated using the exchange rate as at 31 March 2017 (representing CZK 1.3 billion), Unipetrol Group received in the 1<sup>st</sup> quarter of 2017.

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, Unipetrol Group expects insurers to cover reconstruction costs which estimated at approximately PLN 47 million translated using the exchange rate as at 31 March 2017 (representing CZK 0.3 billion) as well as lost business profits, which estimated in the amount of approximately PLN 140 million translated using the exchange rate as at 31 March 2017 (representing CZK 0.9 billion).

In February 2017 Unipetrol Group signed the agreement related to partial compensation due to the above accident, which was recognized in other operating income in the 1<sup>st</sup> quarter of 2017 the amount of PLN 163 million. The final amount of compensation will depend on the final agreement with insurers.

Described above installation of Unipetrol Group resumed work in the 4<sup>th</sup> quarter of 2016.

### 3.14. Information concerning significant proceedings in front of court, body appropriate for arbitration proceedings or in front of public administration bodies, including contingent liabilities

#### 3.14.1. Proceedings in which the ORLEN Group entities act as the defendant

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

#### **Risk connected with the disposal of assets and liabilities related to purchase of Unipetrol shares**

The claim regarding the payment of compensation for losses related among others, to alleged unfair competition of PKN ORLEN included in Agrofert Holding a.s. (Agrofert) claim and alleged illegal violation of reputation of Agrofert in relation to purchase by PKN ORLEN of UNIPETROL shares. By judgment of 21 October 2010 the Court of Arbitration ("the Court of Arbitration") in Prague (Czech Republic) dismissed the entire claim of Agrofert against PKN ORLEN regarding the payment of PLN 3,034 million translated using the exchange rate as at 31 March 2017 (representing CZK 19,464 million) with interest and obliged Agrofert to cover the cost of proceedings born by PKN ORLEN. On 3 October 2011 PKN ORLEN received from the upper court in Prague Agrofert's claim which repealed the above judgment. The complaint was dismissed by the court with the ruling of 24 January 2014. On 7 April 2014 Agrofert appealed the above decision. On 7 April 2015 the court of appeals dismissed the appeal of Agrofert. On 4 September 2015 Agrofert appealed to the Czech Supreme Court against the above judgment. In September 2016, the Supreme Court dismissed Agrofert claim. In November 2016 Agrofert appealed to the Czech Constitutional Court against that decision. PKN ORLEN is taking legal actions in order to retain the above mentioned favorable judgments issued in this case.

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

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

On 14 May 2014 and 20 May 2014 the company received the decisions of the Head of the Customs Office in Kraków determining excise tax liabilities for the months: May - August 2004 in the amount of PLN 132 million. Rafineria Trzebinia S.A. paid the entire liability with interest using at the same time, provisions recognized for this purpose in prior years. Rafineria Trzebinia 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.

#### **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 279 million, translated using the exchange rate as at 31 March 2017 (representing CZK 1,789 million). UNIPETROL RPA s.r.o. is one of eight 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.

#### **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 first hearing was held on 19 October 2016. At the hearing on 22 March 2017 witnesses were heard. Dates of next court hearings where it is planned to examine further witnesses were scheduled for September 2017. In the opinion of PKN ORLEN the above claims are without merit.

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

#### **The dispute between ORLEN Lietuva and Lietuvos Geležinkeliai**

On 31 December 2014, ORLEN Lietuva filed 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 in the amount estimated until October 2016 not less than PLN 173 million translated using the exchange rate as at 31 March 2017 (representing not less than EUR 41 million) or to receive compensation for the use of incorrect rates in the amount up to PLN 442 million translated using the exchange rate as at 31 December 2016 (representing EUR 100 million). The amounts of the above mentioned savings and claims for compensation will be updated according to the scale of activity performed under this agreement.

LG questioned the proper jurisdiction of the court of arbitration in front of the state court, which on 2 March 2017 decided that the arbitration court did not have the jurisdiction over the claims of ORLEN Lietuva. On 13 April 2017, ORLEN Lietuva submitted to the Supreme Court an annulment against the sentence of the state court.

Simultaneously, by 31 December 2016, seven court proceedings were initiated in which LG demands from ORLEN Lietuva a payment of approximately PLN 158 million translated using the exchange rate as at 31 March 2017 (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 court of arbitration which was confirmed by the court of appeal order. Then the case was the subject of recognition by the Lithuanian Supreme Court, which decided that the case may be considering on the merits by the state court. Proceeding in the fourth case was suspended by the state 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. ORLEN Lietuva appealed to the court of appeal against the decision to initiate the proceedings in seventh case. Following the sentence of the state court from 2 March 2017 for the jurisdiction of the court of arbitration related to claims of ORLEN Lietuva, the proceedings in particular cases concerning LG's claims for payment for the transport of ORLEN Lietuva products were resumed by a state court.

### 3.15. Related parties transactions

As at 31 March 2017 and as at 31 December 2016 and for the 3 month period ended 31 March 2017 and 31 March 2016 there were no material transactions (which value would exceed PLN 0.2 million) 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 and their relatives.

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

	Sales		Purchases	
	3 MONTHS ENDED	3 MONTHS ENDED	3 MONTHS ENDED	3 MONTHS ENDED
	31/03/2017 (unaudited)	31/03/2016 (unaudited)	31/03/2017 (unaudited)	31/03/2016 (unaudited)
Jointly-controlled entities	<b>683</b>	<b>610</b>	<b>(35)</b>	<b>(12)</b>
<i>joint ventures</i>	651	605	(10)	(9)
<i>joint operations</i>	32	5	(25)	(3)
Associates	7	8	(1)	(3)
	<b>690</b>	<b>618</b>	<b>(36)</b>	<b>(15)</b>

	Trade and other receivables		Trade and other liabilities	
	31/03/2017	31/12/2016	31/03/2017	31/12/2016
	(unaudited)		(unaudited)	
Jointly-controlled entities	<b>515</b>	<b>430</b>	<b>12</b>	<b>15</b>
<i>joint ventures</i>	504	415	4	3
<i>joint operations</i>	11	15	8	12
Associates	14	15	-	-
	<b>529</b>	<b>445</b>	<b>12</b>	<b>15</b>

The above transactions with related parties include mainly sales and purchases of refinery and petrochemicals products and of services. In the 3 month period ended 31 March 2017 and 31 March 2016 there were no material related party transactions in the Group concluded on other than an arm's length basis.

**Relationship with the State Treasury**

As at 31 March 2017 and 31 December 2016 and for the 3 month period ended 31 March 2017 and 31 March 2016, the Group concluded transactions with related parties through the State Treasury. These transactions were concluded on an arm's length basis and were related to the Group's current operating activities.

**3.16. Guarantees**

Excise tax guarantees and excise tax on goods and merchandise under the excise tax suspension procedure as at 31 March 2017 and as at 31 December 2016 amounted to PLN 2,564 million and PLN 2,066 million, respectively.

**3.17. Events after the end of the reporting period**

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



OTHER INFORMATION TO CONSOLIDATED QUARTERLY  
REPORT

FOR THE 3 MONTH PERIOD ENDED 31 MARCH

2017



## B. OTHER INFORMATION TO CONSOLIDATED QUARTERLY REPORT

### 1. Principal activity of the ORLEN Group

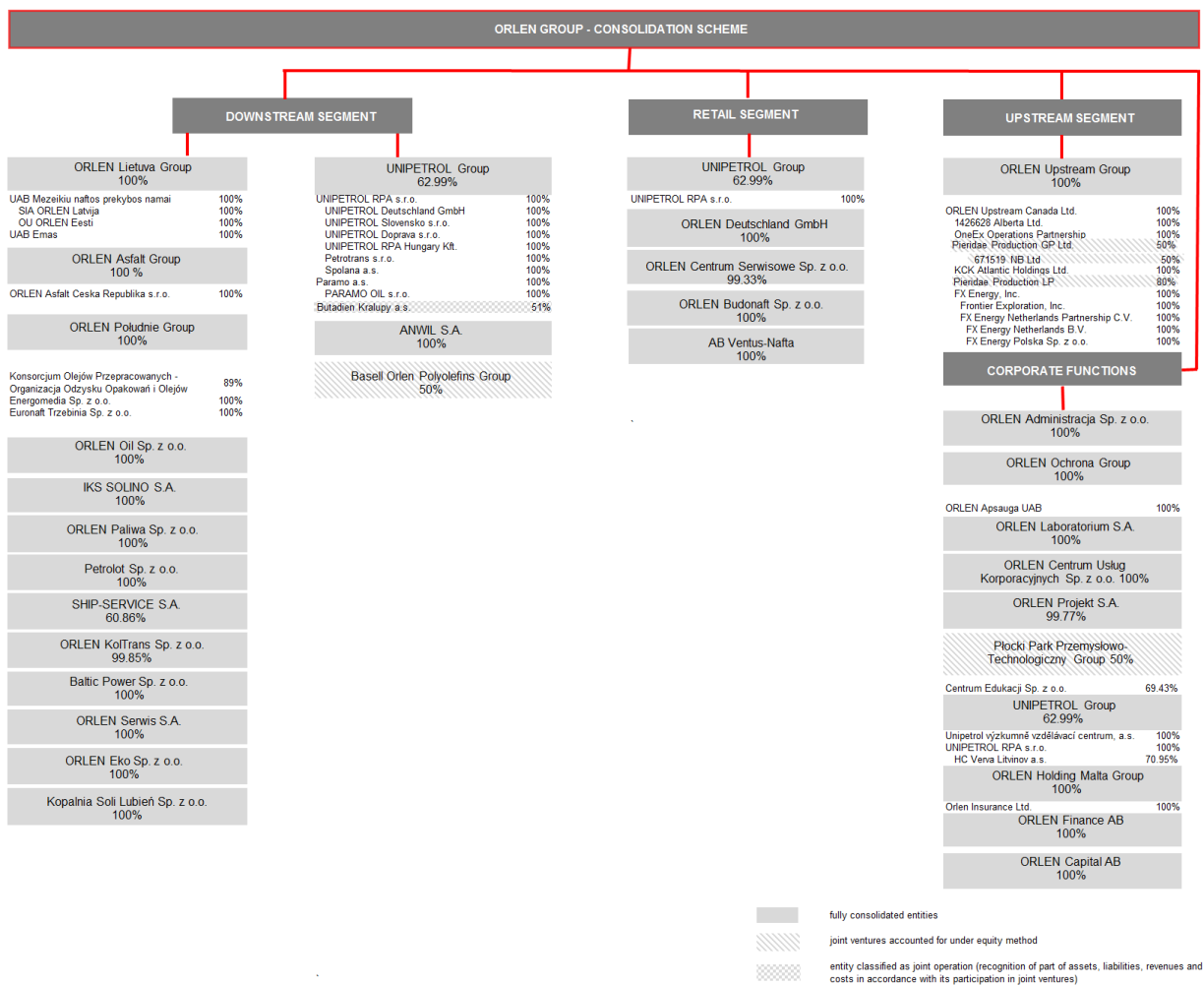
The Parent Company of the Polski Koncern Naftowy ORLEN S.A. Capital Group is Polski Koncern Naftowy ORLEN S.A. ("PKN ORLEN", "Company", "Parent Company") domiciled in Płock, 7 Chemików Street.

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

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

### 2. 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 2017 up to the date of preparation of the foregoing report

- On 1 January 2017 a merger of ČESKÁ RAFINÉRSKÁ a.s. with Unipetrol RPA s.r.o. took place.
- On 10 March 2017 the process of compulsory redemption of shares of ORLEN Laboratorium S.A. from minority shareholders was finished and settled. PKN ORLEN became the sole shareholder.

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 3 month period ended 31 March 2017

Profit from operations increased by depreciation and amortization before consideration of changes of crude oil prices on inventory valuation (EBITDA LIFO<sup>1</sup>) for the 3 months of 2017 amounted to PLN 2,319 million and was higher by PLN 389 million (y/y).

Changes of macroeconomic factors reduced results of the ORLEN Group in described period by PLN (64) million (y/y) and included mainly the net negative effect of higher costs of raw materials used for own energy needs and improvement on margins on downstream segment products at the positive impact of higher by USD 20/bbl (y/y) crude oil prices in upstream segment.

Total sales volume for the 3 month period of 2017 was higher in all operating segments and in total increased by 4% (y/y), which translated into a positive volume effect in the amount of PLN 197 million (y/y).

The positive impact of the other factors amounted to PLN 256 million (y/y) and included mainly:

- positive change in the balance of other operating activities in the amount of PLN 68 million (y/y), mainly related to the recognition of partial compensation from insurers related to the accident on installation FCC in Unipetrol Group of May 2016 in the amount of PLN 163 million and lack of profit from disposal of ORLEN Transport recognized in 1<sup>st</sup> quarter of 2016 in the amount of PLN 54 million,
- lack of negative effects from 1<sup>st</sup> quarter of 2016 related to the sale of products made in previous periods at the higher crude oil prices due to maintenance overhaul at PKN ORLEN.

The positive impact of crude oil prices on inventory valuation for the described period amounted to PLN 519 million and as a result EBITDA profit of the ORLEN Group for the 3 months of 2017 amounted to PLN 2,838 million.

After consideration of depreciation and amortization expenses of PLN (562) million profit from operations of the ORLEN Group for the 3 months of 2017 amounted to PLN 2,276 million.

Net finance income in the described period amounted to PLN 263 million and included mainly foreign exchange gains in the amount of PLN 364 million, settlement and valuation of net financial instruments in the amount of PLN (52) million and net interest expenses in the amount of PLN (46) million.

After consideration of tax charges in the amount of PLN (451) million, the net profit of the ORLEN Group for the 3 months of 2017 amounted to PLN 2,088 million and was higher by PLN 1,752 million (y/y).

##### Statement of financial position

As at 31 March 2017, total assets of the ORLEN Group amounted to PLN 54,595 million and was lower by PLN (964) million in comparison with 31 December 2016.

As at 31 March 2017, the value of non-current assets amounted to PLN 30,309 million and was lower by PLN (12) million in comparison with the end of the previous year, mainly due to decreasing of property, plant and equipment and intangible assets by PLN (155) million increasing valuation of financial instruments and investments accounted for under equity method by PLN 102 million and PLN 67 million, respectively.

Balance change of property, plant and equipment and intangible assets comprised mainly investment expenditures in the amount of PLN 723 million, mainly for the projects of Construction of the Polyethylene 3 installation in Unipetrol Group, heat and power plants CCGT in Plock with the infrastructure and Metathesis Installation in Plock, received free of charge rights in the amount of PLN 156 million decreased by depreciation and amortization in the amount of PLN (562) million and exchange differences from recalculation of balances of foreign entities of the ORLEN Group on PLN in the amount of PLN (464) million.

Current assets decreased by PLN (952) million, mainly as result of decrease in the balance of cash and cash equivalents by PLN (1,256) million as well as trade and other receivables by PLN (657) million at increase on inventories by PLN 764 million and other financial assets which comprised mainly valuations of cash flows hedge instruments by PLN 338 million.

As at 31 March 2017, total equity amounted to PLN 31,449 million and was higher by PLN 2,164 million in comparison with the end of 2016, mainly as a result of net profit for the 3 months of 2017 in the amount of PLN 2,088 million.

As at 31 March 2017, net financial indebtedness of the ORLEN Group amounted to PLN 3,653 million and was higher by PLN 290 million in comparison with the end of 2016. Change of net financial indebtedness included net repayment of loans and borrowings in the amount of PLN (740) million, decrease of cash balance by PLN 1,256 million and the net impact of positive exchange differences from revaluation and indebtedness valuation in total amount of PLN (226) million.

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<sup>1</sup> 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.

## Statement of cash flows

Proceeds of net cash from operating activities for the 3 month period of 2017 amounted to PLN 673 million and comprised mainly profit from operations increased by depreciation and amortisation in the amount of PLN 2,838 million and the negative impact of increase in a net working capital by PLN (1,735) million decreased by share in financial result from investments accounted for under equity method in the amount of PLN (69) million, paid income taxes in the amount of PLN (729) million and other adjustments includes mainly amount from compensation due to the steam cracker unit accident in Unipetrol Group in the amount of PLN 200 million.

Net cash used in investing activities for the 3 month period of 2017 amounted to PLN (907) million and comprised mainly net expenses for the acquisition of property, plant and equipment, intangible assets and perpetual usufruct of land in the amount of PLN (889) million

Net expenses of cash used in financing activities for the 3 month period of 2017 amounted to PLN (808) million and comprised mainly the net repayment of loans and borrowings of PLN (766) million and interest paid in the amount of PLN (34) million.

Taking into account the revaluation of cash due to exchange differences, the cash balance in the 3 month period of 2017 decreased by PLN (1,256) million and as at 31 March 2017 amounted to PLN 3,816 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 2017 up to the date of preparation of the foregoing report

#### JANUARY 2017

##### Power plant in Włocławek

PKN ORLEN informs that the Power plant in Włocławek is expected to be commissioned by the consortium of companies (General Electric International Inc. acting via General Electric International S.A., office in Poland and SNC-LAVALIN POLSKA sp. z o.o.) in the 2<sup>nd</sup> quarter of 2017. Currently the Power plant is shut down and the contractor is conducting the repairs of earlier detected defects. After their completion guarantee measurements and trial run will be conducted, and next the Power plant will be commissioned by the contractor to PKN ORLEN.

#### APRIL 2017

##### Moody's Investors Service upgraded PKN ORLEN's credit assessment

On 13 April 2017 Moody's Investors Service upgraded issuer rating of PKN ORLEN from the level of Baa3 to Baa2 and also upgraded the baseline credit assessment from ba1 to baa3.

Concurrently, the Agency also upgraded the rating, from the level of Baa3 to Baa2, of two Eurobonds programme:

- EUR 500 million due 2021 and

- EUR 750 million due 2023

issued by ORLEN Capital AB and guaranteed by PKN ORLEN.

The outlook on all of upgraded ratings is stable.

##### Consent of the Supervisory Board of PKN ORLEN for public issue of bonds

On 26 April 2017 the Supervisory Board of PKN ORLEN gave consent for issue by PKN ORLEN bonds within the second retail bond issue programme. The bond issue programme assumes the issue of several bond series up to the total amount of PLN 1 billion during 12 months. The bonds will be offered in a public offering. PKN ORLEN plans to introduce the bonds to trading on the Catalyst regulated market. The parameters of each issue will be determined based on the current market environment and PKN ORLEN needs.

The public offering within the second retail bond issue programme requires the prior approval of the prospectus relating to this offer by the Polish Financial Supervision Authority.

## 4. Other information

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

Shareholder	Percentage share in total voting rights at Shareholder's Meeting as at submission date	Number of shares as at submission date
State Treasury	27.52%	117,710,196
Nationale-Nederlanden OFE*	8.32%	35,590,112
Aviva OFE*	7.01%	30,000,000
Other	57.15%	244,408,753
	<b>100.00%</b>	<b>427,709,061</b>

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

**4.2. 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*
<b>Supervisory Board</b>	<b>3,200</b>
Artur Gabor	3,200

\* According to the received confirmations as at 20 April 2017

**4.3. 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 Eurobonds issued by an irrevocable and unconditional guarantees issued to the bondholders. The guarantees were granted for the duration of the Eurobond issue, i.e. to 7 June 2023 and to 30 June 2021.

	Nominal value		Subscription date	Expiration date	Rating	Value of guarantee issued	
	EUR	PLN				EUR	PLN
Eurobonds	750	3,318 **	7.06.2016	7.06.2023	BBB-, Baa2	1,100	4,866 **
Eurobonds	500	2,131 *	30.06.2014	30.06.2021	BBB-, Baa2	1,000	4,262 *
	<b>1,250</b>	<b>5,449</b>				<b>2,100</b>	<b>9,129</b>

The bonds have a fixed interest rate of 2.5%.

\* translated using exchange rate as at 31 December 2014

\*\* translated using exchange rate as at 31 December 2016

**4.4. 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 1<sup>st</sup> QUARTER**

**2017**

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**

	3 MONTHS ENDED 31/03/2017 (unaudited)	3 MONTHS ENDED 31/03/2016 (unaudited)
Sales revenues	17,051	10,568
<i>revenues from sales of finished goods and services</i>	8,371	6,155
<i>revenues from sales of merchandise and raw materials</i>	8,680	4,413
Cost of sales	(14,989)	(9,898)
<i>cost of finished goods and services sold</i>	(6,531)	(5,627)
<i>cost of merchandise and raw materials sold</i>	(8,458)	(4,271)
<b>Gross profit on sales</b>	<b>2,062</b>	<b>670</b>
Distribution expenses	(597)	(572)
Administrative expenses	(190)	(191)
Other operating income	51	25
Other operating expenses	(41)	(47)
<b>Profit/(Loss) from operations</b>	<b>1,285</b>	<b>(115)</b>
Finance income	1,186	117
Finance costs, incl.:	(889)	(79)
<i>recognition of impairment allowance of shares of ORLEN Lietuva</i>	(517)	-
<b>Net finance income and costs</b>	<b>297</b>	<b>38</b>
<b>Profit/(Loss) before tax</b>	<b>1,582</b>	<b>(77)</b>
Tax expense	(307)	(3)
<i>current tax</i>	(219)	-
<i>deferred tax</i>	(88)	(3)
<b>Net profit/(loss)</b>	<b>1,275</b>	<b>(80)</b>
<b>Other comprehensive income:</b>		
<b>which will be reclassified into profit or loss</b>		
<i>hedging instruments</i>	767	(4)
<i>deferred tax</i>	(146)	1
	<b>621</b>	<b>(3)</b>
<b>Total net comprehensive income</b>	<b>1,896</b>	<b>(83)</b>
Net profit/(loss) and diluted net profit/(loss) per share (in PLN per share)	2.98	(0.19)



Separate statement of financial position

	31/03/2017 (unaudited)	31/12/2016
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	15,069	15,112
Intangible assets	935	853
Shares in related parties	8,389	8,905
Embedded derivatives and hedging instruments	168	66
Other assets	171	173
	<b>24,732</b>	<b>25,109</b>
<b>Current assets</b>		
Inventories	8,035	7,309
Trade and other receivables	5,730	6,561
Current tax assets	5	51
Cash	1,284	2,563
Non-current assets classified as held for sale	173	210
Embedded derivatives and hedging instruments	378	57
Other assets	1,455	1,212
	<b>17,060</b>	<b>17,963</b>
<b>Total assets</b>	<b>41,792</b>	<b>43,072</b>
<b>EQUITY AND LIABILITIES</b>		
<b>EQUITY</b>		
Share capital	1,058	1,058
Share premium	1,227	1,227
Hedging reserve	294	(327)
Retained earnings	21,485	20,210
<b>Total equity</b>	<b>24,064</b>	<b>22,168</b>
<b>LIABILITIES</b>		
<b>Non-current liabilities</b>		
Loans, borrowings and bonds	6,625	7,503
Provisions	368	369
Deferred tax liabilities	787	553
Embedded derivatives and hedging instruments	127	280
Other liabilities	217	213
	<b>8,124</b>	<b>8,918</b>
<b>Current liabilities</b>		
Trade and other liabilities	7,190	8,850
Loans, borrowings and bonds	1,282	1,335
Provisions	378	342
Current tax liabilities	65	534
Deferred income	193	138
Embedded derivatives and hedging instruments	105	289
Other liabilities	391	498
	<b>9,604</b>	<b>11,986</b>
<b>Total liabilities</b>	<b>17,728</b>	<b>20,904</b>
<b>Total equity and liabilities</b>	<b>41,792</b>	<b>43,072</b>



**Separate statement of changes in equity**

	Share capital and share premium	Hedging reserve	Retained earnings	Total equity
01/01/2017	2,285	(327)	20,210	22,168
Net profit	-	-	1,275	1,275
Items of other comprehensive income	-	621	-	621
<b>Total net comprehensive income</b>	-	<b>621</b>	<b>1,275</b>	<b>1,896</b>
<b>31/03/2017</b>	<b>2,285</b>	<b>294</b>	<b>21,485</b>	<b>24,064</b>
(unaudited)				
01/01/2016	2,285	(143)	15,704	17,846
Net (loss)	-	-	(80)	(80)
Items of other comprehensive income	-	(3)	-	(3)
<b>Total net comprehensive income</b>	-	<b>(3)</b>	<b>(80)</b>	<b>(83)</b>
<b>31/03/2016</b>	<b>2,285</b>	<b>(146)</b>	<b>15,624</b>	<b>17,763</b>
(unaudited)				



Separate statement of cash flows

	3 MONTHS ENDED 31/03/2017 (unaudited)	3 MONTHS ENDED 31/03/2016 (unaudited)
<b>Cash flows from operating activities</b>		
<b>Profit/(Loss) before tax</b>	<b>1,582</b>	<b>(77)</b>
Adjustments for:		
Depreciation and amortisation	297	285
Foreign exchange (profit)/loss	(109)	34
Interest, net	45	52
Dividends	(589)	(23)
(Profit)/Loss on investing activities, incl.:	634	(51)
<i>recognition of impairment allowance of shares of ORLEN Lietuva</i>	517	-
Change in provisions	37	53
Change in working capital	(1,277)	881
<i>inventories</i>	(726)	1,322
<i>receivables</i>	820	(142)
<i>liabilities</i>	(1,371)	(299)
Other adjustments	(83)	(49)
Income tax (paid)	(642)	(1)
<b>Net cash from/(used in) operating activities</b>	<b>(105)</b>	<b>1,104</b>
<b>Cash flows from investing activities</b>		
Acquisition of property, plant and equipment, intangible assets and perpetual usufruct of land	(506)	(989)
Disposal of property, plant and equipment, intangible assets and perpetual usufruct of land	54	47
Disposal of shares	-	85
Interest received	5	1
Dividends received	591	11
Proceeds from non-current loans granted	1	1
Expenses from current loans granted	(403)	(653)
Proceeds/(Outflows) from cash pool facility	(14)	3
Other	(51)	(2)
<b>Net cash (used) in investing activities</b>	<b>(323)</b>	<b>(1,496)</b>
<b>Cash flows from financing activities</b>		
Proceeds from loans and borrowings received	-	2,403
Bonds issued	303	430
Repayments of loans	(783)	(2,144)
Redemption of bonds	(255)	(222)
Interest paid	(36)	(53)
Outflows from cash pool facility	(48)	(225)
Other	(5)	(5)
<b>Net cash from/(used in) financing activities</b>	<b>(824)</b>	<b>184</b>
<b>Net (decrease) in cash</b>	<b>(1,252)</b>	<b>(208)</b>
Effect of exchange rate changes	(27)	(1)
Cash, beginning of the period	2,563	964
<b>Cash, end of the period</b>	<b>1,284</b>	<b>755</b>

## Statements of the Management Board

### In respect of the reliability of preparation of the interim condensed consolidated financial statements

The Management Board of PKN ORLEN 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 ORLEN Group in force and that they reflect true and fair view on financial position and financial result of the ORLEN Group.

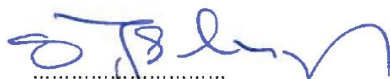
### In respect of the entity authorized to conduct review of the interim condensed consolidated financial statements

The Management Board of PKN ORLEN declares that Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k., as the entity authorized to conduct a review of the interim condensed consolidated financial statements, was selected in compliance with the law.

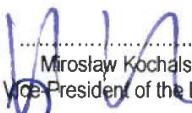
The foregoing quarterly report was approved by the Management Board of the Parent Company on 26 April 2017.




.....  
Wojciech Jasiński  
President of the Board



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



.....  
Mirosław 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