2018

FINANCIAL STATEMENTS OF PKN ORLEN S.A. FOR THE YEAR ENDED 31 DECEMBER 2018

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

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PKN ORLEN (in PLN million)

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

	NOTE	2018	2017	change (y/y) value	%
Sales revenues	7.2, 8.1.1, 8.1.2	86 997	70 012	16 985	24.3
Revenues from sales of finished goods and services		*46 396*	*34 611*	*11 785*	*34.0*
Revenues from sales of merchandise and raw materials		*40 601*	*35 401*	*5 200*	*14.7*
Cost of sales	8.1.8	(78 781)	(62 106)	(16 675)	26.8
cost of finished goods and services sold		*(39 482)*	*(27 855)*	*(11 627)*	*41.7*
cost of merchandise and raw materials sold		*(39 299)*	*(34 251)*	*(5 048)*	*14.7*
Gross profit on sales		**8 216**	**7 906**	**310**	**3.9**
Distribution expenses		(2 850)	(2 547)	(303)	11.9
Administrative expenses		(809)	(799)	(10)	1.3
Other operating income	8.1.9	431	449	(18)	(4.0)
Other operating expenses	8.1.10	(354)	(222)	(132)	59.5
(Loss)/reversal of loss due to impairment of financial instruments	8.1.12	(10)	-	(10)	-
Profit from operations		**4 624**	**4 787**	**(163)**	**(3.4)**
Finance income, incl.:	8.1.11.1	3 275	3 793	(518)	(13.7)
reversal on impairment allowances of shares in related parties		*1 005*	*829*	*176*	*21.2*
Finance costs	8.1.11.2	(1 641)	(1 533)	(108)	7.0
Net finance income and costs		**1 634**	**2 260**	**(626)**	**(27.7)**
(Loss)/reversal of loss due to impairment of financial instruments	8.1.12	(3)	-	(3)	-
Profit before tax		**6 255**	**7 047**	**(792)**	**(11.2)**
Tax expense	8.1.13	(821)	(945)	124	(13.1)
current tax		*(853)*	*(852)*	*(1)*	*0.1*
deferred tax		*32*	*(93)*	*125*	*-*
Net profit		**5 434**	**6 102**	**(668)**	**(10.9)**
Other comprehensive income:					
which will not be reclassified subsequently into profit or loss		**(8)**	**(2)**	**(6)**	**300.0**
actuarial gains and losses		*(2)*	*(2)*	*-*	-
gains/(losses) on investments in equity instruments at fair value through other comprehensive income		*(7)*	-	*(7)*	-
deferred tax	8.1.13.2	*1*	-	*1*	-
which will be reclassified into profit or loss		**(50)**	**580**	**(630)**	**-**
hedging instruments		*(164)*	*716*	*(880)*	-
hedging costs		*102*	-	*102*	-
deferred tax	8.1.13.2	*12*	*(136)*	*148*	-
		(58)	**578**	**(636)**	**-**
Total net comprehensive income		**5 376**	**6 680**	**(1 304)**	**(19.5)**
Net profit and diluted net profit per share (in PLN per share)		12.70	14.27	(1.57)	(11.0)

PKN ORLEN (in PLN million)

2. SEPARATE STATEMENT OF FINANCIAL POSITION

	NOTE	31/12/2018	31/12/2017	change (y/y) value	%
ASSETS					
Non-current assets					
Property, plant and equipment	8.2.1	15 611	15 690	(79)	(0.5)
Intangible assets	8.2.2	755	772	(17)	(2.2)
Shares in related parties	8.2.3	15 090	9 564	5 526	57.8
Derivatives	8.2.8	118	189	(71)	(37.6)
Other assets	8.2.8	1 016	192	824	429.2
		32 590	**26 407**	**6 183**	**23.4**
Current assets					
Inventories	8.2.5.1	9 889	8 239	1 650	20.0
Trade and other receivables	8.2.5.2	7 709	7 335	374	5.1
Current tax assets		8	58	(50)	(86.2)
Cash		3 461	5 477	(2 016)	(36.8)
Non-current assets classified as held for sale		149	170	(21)	(12.4)
Derivatives	8.2.8	450	396	54	13.6
Other assets	8.2.8	541	1 270	(729)	(57.4)
		22 207	**22 945**	**(738)**	**(3.2)**
Total assets		**54 797**	**49 352**	**5 445**	**11.0**
EQUITY AND LIABILITIES					
EQUITY					
Share capital	8.2.7.1	1 058	1 058	-	-
Share premium	8.2.7.2	1 227	1 227	-	-
Hedging reserve	8.3.4	203	253	(50)	(19.8)
Revaluation reserve		(6)	-	(6)	-
Retained earnings	8.2.7.3	29 152	25 027	4 125	16.5
Total equity		**31 634**	**27 565**	**4 069**	**14.8**
LIABILITIES					
Non-current liabilities					
Loans, borrowings and bonds	8.2.6.1	8 641	6 736	1 905	28.3
Provisions	8.2.9	520	440	80	18.2
Deferred tax liabilities		734	782	(48)	(6.1)
Derivatives	8.2.8	84	75	9	12.0
Other liabilities	8.2.8	257	220	37	16.8
		10 236	**8 253**	**1 983**	**24.0**
Current liabilities					
Trade and other liabilities	8.2.5.3	8 853	9 897	(1 044)	(10.5)
Liabilities from contracts with customers	8.2.5.4	213	-	213	-
Loans, borrowings and bonds	8.2.6.1	1 122	552	570	103.3
Provisions	8.2.9	376	321	55	17.1
Current tax liabilities		376	66	310	469.7
Derivatives	8.2.8	324	278	46	16.5
Other liabilities	8.2.8	1 663	2 420	(757)	(31.3)
		12 927	**13 534**	**(607)**	**(4.5)**
Total liabilities		**23 163**	**21 787**	**1 376**	**6.3**
Total equity and liabilities		**54 797**	**49 352**	**5 445**	**11.0**

PKN ORLEN (in PLN million)

3. SEPARATE STATEMENT OF CHANGES IN EQUITY

	Share capital and share premium	Hedging reserve	Revaluation reserve	Retained earnings	Total equity
NOTE	8.2.7.1, 8.2.7.2	8.3.4		8.2.7.3	
01/01/2018 (approved data)	2 285	253	-	25 027	27 565
Impact of IFRS 9 adoption	-	-	-	(24)	(24)
01/01/2018 (converted data)	2 285	253	-	25 003	27 541
Net profit	-	-	-	5 434	5 434
Items of other comprehensive income	-	(50)	(6)	(2)	(58)
Total net comprehensive income	**-**	**(50)**	**(6)**	**5 432**	**5 376**
Dividends	-	-	-	(1 283)	(1 283)
31/12/2018	**2 285**	**203**	**(6)**	**29 152**	**31 634**
01/01/2017	2 285	(327)	-	20 210	22 168
Net profit	-	-	-	6 102	6 102
Items of other comprehensive income	-	580	-	(2)	578
Total net comprehensive income	**-**	**580**	**-**	**6 100**	**6 680**
Dividends	-	-	-	(1 283)	(1 283)
31/12/2017	**2 285**	**253**	**-**	**25 027**	**27 565**

PKN ORLEN (in PLN million)

4. SEPARATE STATEMENT OF CASH FLOWS

	NOTE	2018	2017	change (y/y) value	%
Cash flows from operating activities					
Profit before tax		**6 255**	**7 047**	**(792)**	**(11.2)**
Adjustments for:					
Depreciation and amortisation	8.1.8	1 365	1 241	124	10.0
Foreign exchange (gain)/loss	8.1.11.4	282	(154)	436	-
Interest, net	8.1.11.3	241	172	69	40.1
Dividends		(870)	(1 599)	729	(45.6)
(Profit) on investing activities		(1 354)	(97)	(1 257)	1 295.9
(reversal)/recognition of impairment allowances of shares in related parties		*(1 005)*	*(287)*	*(718)*	250.2
Change in provisions	8.2.9	215	159	56	35.2
Change in working capital	8.2.5	(2 618)	(814)	(1 804)	221.6
inventories		*(1 648)*	*(928)*	*(720)*	*77.6*
receivables		*(394)*	*(722)*	*328*	*(45.4)*
liabilities		*(576)*	*836*	*(1 412)*	-
Other adjustments, incl.:		(273)	(240)	(33)	13.8
rights received free of charge		*(275)*	*(213)*	*(62)*	29.1
Income tax (paid)	8.1.13.3	(548)	(1 270)	722	(56.9)
Net cash from operating activities		**2 695**	**4 445**	**(1 750)**	**(39.4)**
Cash flows from investing activities					
Acquisition of property, plant and equipment, intangible assets and perpetual usufruct of land		(1 610)	(1 614)	4	(0.2)
Acquisition of shares, incl.:		(4 502)	(382)	(4 120)	1 078.5
redemption of non-controlling shares of Unipetrol a.s.		*(4 222)*	-	*(4 222)*	-
Outflows from additional payments to equity		(48)	-	(48)	-
Disposal of property, plant and equipment, intangible assets and perpetual usufruct of land		207	184	23	12.5
Interest received	8.1.11.3	35	24	11	45.8
Dividends received		870	1 604	(734)	(45.8)
Expenses from non-current loans granted		(53)	(1)	(52)	5 200.0
Proceeds from non-current loans granted		6	6	-	-
Proceeds/(Expenses) from current loans granted		(60)	169	(229)	-
Proceeds/(Outflows) from cash pool facility		60	(322)	382	-
Settlement of derivatives not designated as hedge accounting		347	(83)	430	-
Other		(7)	10	(17)	-
Net cash (used) in investing activities		**(4 755)**	**(405)**	**(4 350)**	**1 074.1**
Cash flows from financing activities					
Proceeds from loans received		2 075	-	2 075	-
Bonds issued		1 376	1 676	(300)	(17.9)
Repayments of loans and borrowings		(38)	(822)	784	(95.4)
Redemption of bonds		(1 180)	(2 147)	967	(45.0)
Interest paid	8.1.11.3	(305)	(257)	(48)	18.7
Dividends paid	8.2.7.5	(1 283)	(1 283)	-	-
Proceeds/(Outflows) from cash pool facility		(602)	1 766	(2 368)	-
Payments of liabilities under finance lease agreements		(25)	(22)	(3)	13.6
Other		(2)	(3)	1	(33.3)
Net cash from/(used in) financing activities		**16**	**(1 092)**	**1 108**	**-**
Net increase/(decrease) in cash		**(2 044)**	**2 948**	**(4 992)**	**-**
Effect of exchange rate changes		28	(34)	62	-
Cash, beginning of the period		5 477	2 563	2 914	113.7
Cash, end of the period		**3 461**	**5 477**	**(2 016)**	**(36.8)**
including restricted cash		*58*	-	*58*	-

5. BASIC INFORMATION

5.1. PRINCIPAL ACTIVITY OF PKN ORLEN

PRINCIPAL INFORMATION ABOUT THE COMPANY	
NAME	Polski Koncern Naftowy ORLEN Spółka Akcyjna
REGISTERED OFFICE	ul. Chemików 7, 09-411 Płock
NATIONAL COURT REGISTER NUMBER (KRS)	0000028860
INDUSTRY IDENTIFICATION NUMBER (REGON)	610188201
TAX IDENTIFICATION NUMBER (NIP)	774-00-01-454
PRINCIPAL ACTIVITY	- crude oil processing, - production of fuel, petrochemical and chemical goods, - retail and wholesale of fuel products, - generates, distributes and trades of electricity and heat.

Polski Koncern Naftowy ORLEN Spółka Akcyjna ("Company", "PKN ORLEN", "Issuer", "Parent Company") was funded by incorporation of Petrochemia Płock S.A. with Centrala Produktów Naftowych S.A., on 7 September 1999. PKN ORLEN is one of the biggest and most modern fuel and power companies in Central Europe.
Since 26 November 1999 PKN ORLEN shares are listed on the main market of the Warsaw Stock Exchange (WSE) in the continuous quotatations system.

5.2. PRINCIPLES OF PREPARATION OF FINANCIAL STATEMENTS

The separate financial statements have been prepared in accordance with accounting principles contained in the International Financial Reporting Standards (IFRS), comprising International Accounting Standards (IAS) as well as Interpretations of Standing Interpretation Committee (SIC) and the International Financial Reporting Interpretations Committee (IFRIC), which were adopted by the European Union (EU) and entered in force by the end of 2018. The Company adopted all IASs and IFRSs in accordance with their effective date.
The financial statements have been prepared on historical cost basis, except derivatives measured at fair value and assets measured at fair value through other comprehensive income. The foregoing separate financial statements have been prepared using the accrual basis of accounting except the separate statement from cash flows.
The scope of separate financial statement is compliant with the the Minister of Finance Regulation of 29 March 2018 on current and periodic information provided by issuers of securities and conditions of recognition as equivalent information required by the law of a non member state (Official Journal 2018, item 757) ("Regulation") and covers the annual period from 1 January to 31 December 2018 and the comparative period from 1 January to 31 December 2017.
Presented separate financial statements present a true and fair view of the Company's financial position as at 31 December 2018, results of its operations and cash flows for the year ended 31 December 2018.
The separate financial statements have been prepared assuming that the Company will continue to operate as a going concern in the foreseeable future. As at the date of approval of the foregoing separate financial statements, there is no evidence indicating that the Company will not be able to continue its operations as a going concern. The duration of the Company is unlimited.

5.3. FUNCTIONAL CURRENCY AND PRESENTATION CURRENCY OF FINANCIAL STATEMENTS

The functional currency and presentation currency of the foregoing separate financial statements is Polish Złoty (PLN). The data in the separate financial statements is presented in PLN million, unless in specific situation is stated differently.

5.4. ACCOUNTING PRINCIPLES

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

5.5. IMPACT OF IFRS CHANGES ON SEPARATE FINANCIAL STATEMENTS OF PKN ORLEN

➢ IFRS 9 Financial instruments (IFRS 9)

Selected accounting principles

Measurement of financial assets and liabilities

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

The Company classifies debt financial assets to the appropriate category depending on the business model of financial assets management and on the characteristics of contractual cash flows so called "SPPI criterion" for a given financial asset.

As a result of analysis of intercompany contracts and conditions of other financial instruments, no conditions were identified that caused the SPPI test fail.

The Company as assets measured at amortized cost classifies trade receivables, loans granted, other financial receivables as well as cash and cash equivalents.
At the moment of initial recognition, the Company classifies equity instruments, i.e. shares in other entities, to the category of financial instruments measured at fair value through other comprehensive income.
The Company classifies to assets measured at fair value through profit or loss derivatives that are not designated for hedge accounting and hedged items that are measured in accordance with hedge accounting principles.

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

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

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

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

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

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

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

Impairment of financial assets

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

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

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

PKN ORLEN (in PLN million)

In the general model, the Company monitors the changes in the level of credit risk associated with a given financial asset and classifies financial assets to one of the three stages of impairment allowances based on the observation of the change in the credit risk level in relation to the initial recognition of the instrument.
Depending on the classification to particular stages, the impairment allowance is estimated in the 12-month horizon (stage 1) or in the life horizon of the instrument (stage 2 and stage 3).
On each day ending the reporting period, the Company considers the indications resulting in the classification of financial assets to particular stages of determining impairment allowances. Indications may include changes in the debtor's rating, serious financial problems of the debtor, a significant unfavourable change in its economic, legal or market environment.
For the purposes of estimating the expected credit loss, the Company uses default probability levels based on market credit quotes of derivatives for entities with a given rating and from a given sector.
The Company includes information on the future in the parameters of the expected loss estimation model by calculating the probability parameters of insolvency based on current market quotes.

The simplified model is used by the Company for trade receivables.
In the simplified model, the Company does not monitor changes in the credit risk level during the life of the instrument. From 1 January 2018 the Company estimates the expected credit loss in the horizon up to maturity of the instrument.
In particular, for the insolvency event, the Company recognises when the contractor has not satisfied the obligation after 90 days from the due receivables date.
For the purpose of estimating the expected credit loss, the Company uses a provision matrix estimated on the basis of historical levels of repayment and recoveries from receivables from contractors.
The Company includes information about the future in the parameters used in the expected loss estimation model, through the management adjustment of the basic insolvency probability parameters. To calculate the expected credit loss, the Company determines the probability parameter of receivables defaults estimated on the basis of the analysis of the number of unpaid invoices in the last five years, and the liabilities default rate estimated on the basis of the value of unpaid invoices in the last five years.
The expected credit loss is calculated when the receivable is recognised in the statement of financial position and is updated on each subsequent day ending the reporting period, depending on the number of days for which the receivable is due.

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

Hedge accounting
In the area of hedge accounting, the Company applies the requirements of IFRS 9 in the construction of hedging relationships. In particular, it concerns matching of the definitions of commodity risk hedging to the exposure characteristics and applied risk management strategies. The Company aims to limit the underlying risk in hedging relationships (resulting from various commodity indices on the side of the hedging instrument and the hedged item).
The Company applied principles of recognition the hedging cost within FX hedging transactions, where the forward component and the cross-currency margin is recorded in a separate item in other comprehensive income.
Derivatives designated as hedging instruments from which it is expected that their fair value or resulting from them cash flows will offset changes in fair value or cash flows of hedged item are recognised in accordance with the principles of fair value hedge accounting or cash flows hedges.
The Company assesses the effectiveness of hedging both at the moment of establishing the hedging and in subsequent periods, at least at each end of the reporting period. Verification of satisfaction of the conditions for the effectiveness of linking is made on a prospective basis, based on a qualitative analysis. If necessary, the Company uses a quantitative analysis (linear regression method) to confirm an economic relation between the hedging instrument and the hedged item.
In case of applying cash flows hedge accounting, the Company recognises:
- in other comprehensive income, the part of profits or losses related to the hedging instrument, which constitute an effective hedge due to the hedged risk,
- within the equity in a separate position (hedging cost) in case of currency risk hedge , change in the fair value due to the forward element (including the cross-currency margin),
- in finance result the inefficient part of profits or losses related to the hedging instrument. In case of hedging cash flows from operating activities the ineffective part is recognises in other operating income/expenses, and in case of hedging cash flows of financing activities in finance income/costs and
- reclassifies profits or losses from equity to the statement of profit or loss to the line, in which the hedged item is presented and
- excludes profits or losses from equity and adjusts the initial value of the hedged item (if the realization of the hedged item results in the recognition of a non-financial asset e.g. an inventory).

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

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

Financial instruments by class	Classification		Carrying amount	
	IAS 39	IFRS 9	IAS 39	IFRS 9
Financial assets at fair value through other comprehensive income	Available for sale	At fair value through other comprehensive income	41	41
Loans granted	Loans and receivables	Measured at amortized cost	750	740
Trade	Loans and receivables	Measured at amortized cost	6 711	6 694
Derivatives not designated as hedge accounting	At fair value through profit or loss	At fair value through profit or loss	90	90
Cash flow hedging instruments	Hedging financial instruments	Hedging financial instruments	347	347
Cash	Loans and receivables	Measured at amortized cost	5 477	5 477
Receivables on settled derivatives	Loans and receivables	Measured at amortized cost	204	204

The item of financial assets at fair value through other comprehensive income consists of equity instruments not held for trading, in accordance with IAS 39 classified as available for sale, which were measured by the Company at the purchase price less impairment allowances. The instruments were not acquired for trading in relation to the above, these assets are measured at fair value through other comprehensive income, without the option of subsequent transferring the result from these instruments to the financial result.

PKN ORLEN (in PLN million)

➢ IFRS 15 Revenue from Contracts with Customers (IFRS 15)

Selected accounting principles

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

Requirements to identify a contract with a customer

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

Identification of performance obligations

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

Determination of the transaction price

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

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

Allocating the transaction price to individual performance obligations

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

Recognition of revenue when performance obligations are satisfied

The Company recognises revenue when (or as) the Company satisfies performance obligations by transferring a promised good or service (i.e. an asset) to a customer (the customer obtains control of that asset). Revenues are recognised as amounts equal to the transaction price that has been allocated to a given performance obligation.

The Company transfers control of good or service over time and, therefore, satisfies a performance obligation and recognises revenues over time, if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits from performance as the Company performs,
- the asset is created or enhanced as a result of the performance, and the customer controls the asset as it is created or enhanced,
- as a result of the performance of the service, an alternative component for the Company is not created, and the Company has an enforceable right to payment for performance completed to date.

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

	IFRS / IAS applied	31 December 2017 Carrying amount	Change resulting from change in classification	Change resulting from change in measurement	1 January 2018 Carrying amount	1 January 2018 Impact on retained earnings
Financial assets available for sale	IAS 39	41	(41)	-	-	-
Financial assets at fair value through other comprehensive income	IFRS 9	-	41	-	41	-
Trade and other receivables	IAS39/IFRS 9	7 335	-	(17)	7 318	(17)
Other assets (loans granted)	IAS39/IFRS 9	750	-	(10)	740	(10)
Other short-term liabilities due to loyalty programs	IAS 18	145	(145)	-	-	-
Other short-term liabilities due to prepaid cards	IAS 18	19	(19)	-	-	-
Liabilities from contracts with customers	IFRS 15	-	164	-	164	-
Deferred tax liabilities		782	-	(3)	779	3

The change in trade and other receivables results from the change in the measurement of impairment allowances estimated in accordance with IFRS 9, considering the requirements of the expected credit losses model.

The impact of the application of IFRS 15 on the items of the financial statements of PKN ORLEN in the 2018 compared to IAS 11, IAS 18 and related interpretations was immaterial.

➢ IFRS 16 Lease (IFRS 16)

Selected accounting principles

IFRS 16 Leases was published on 13 January 2016 and was adopted by the European Union on 31 October 2017.

In accordance with the requirements of IFRS, from 1 January 2019, the Company will apply the new Standard requirements regarding recognition, measurement and presentation of lease agreements. The application of the new Standard will be made in accordance with the transitional provisions contained in IFRS 16.

The Company will implement IFRS 16 using the modified retrospective approach, therefore, comparative information for the year 2018 will not be converted, and possible total effect of the first application of the new standard will be recognised as an adjustment to the opening balance of retained earnings on the day of first application.

Definition of lease

The Company currently applies the definition of a lease determined in accordance with IFRIC 4. As from 1 January 2019, the Company will be assessed whether the contract is or contains a lease based on the definition of leasing described in IFRS 16.

In accordance with IFRS 16, an agreement is a lease or contains a lease if it transfers the right to control the use of an identified asset for a given period in exchange for remuneration. In order to assess whether the contract provides the right to control over the use of an underlying asset for a given period, the Company assesses whether the client has the following rights for the entire period of use:

a) the right to obtain substantially all economic benefits from the use of the identified asset and
b) the right to manage the use of an identified asset

The Company applies new guidelines for identifying a lease only for contracts that it has concluded (or amended) on the day of its first application, i.e. 1 January 2019 or after that date. Thereby, for all contracts concluded before 1 January 2019, the Company will apply the practical exemption provided for in IFRS 16, according to which the entity is not required to reassess whether the contract is a lease or contains a lease on the date of first application. The Company applies IFRS 16 only to contracts that were previously identified as leases in accordance with IAS 17 and IFRIC 4, instead.

Company as a lessee

In accordance with the current IAS 17 Leases, the Company classifies leasing contracts as a financial or operating lease based on an assessment of whether the entire risk and benefits resulting from ownership of the leased asset were transferred to the Company, as lessee. In accordance with IFRS 16, the Company recognises in the statement of financial position an asset item under the right of use and lease liability for most leases, except when IFRS 16 provides reliefs for recognition.

For leases not terminated on 1 January 2019, currently classified as operating leases, the Company recognises assets under the right of use and lease liabilities as follows:

- the leasing liability measures in the current value of the remaining lease payments, discounted on the basis of the marginal interest rate for the given agreement on the date of the first application,
- the value of the right of use of the underlying asset components for individual lease agreements (separately for each contract), determined at a value equal to the lease liability.

Using the modified retrospective implementation method for IFRS 16, the Company used the following practical solutions for lease contracts previously classified as operating leases in accordance with IAS 17 and therefore includes the following types of contracts as costs:

- lease agreements, the period of which ends up to 12 months from the date of the initial application of the Standard;
- lease agreements for which the underlying asset under lease is of low value, ie not higher than USD 5 thousand for example: technical gas cylinders, coffee makers, other small items of equipment.

After the initial recognition, the Company measures the right to use an asset similar to other non-financial non-current assets and the lease liability similar to financial liabilities. As a result, after initial recognition, the Company recognises depreciation of an asset component under the right to use (except when the law meets the definition of investment property) and interest on the lease liability.

The initial valuation of both assets and liabilities is significantly affected by the determination of the leasing period. According to the definition of the leasing period in accordance with IFRS 16, this period includes the non-cancellable period and periods resulting from the option of renewal or termination option, if there is reasonable certainty that the Company will extend the contract or will not use the option of termination.

In addition, the Company made other subjective assessments when making estimates and assumptions that affect the measurement of lease liabilities and use rights to assets in the scope of:

- determination of marginal interest rates used in discounting future cash flows;
- indication of the useful lives of the use rights of the assets, recognised as at 1 January 2019;
- structure of fixed and variable payments in the contract.

The marginal interest rates were determined as the sum of:

a) the risk-free interest rate based on the IRS (Interest Rate Swap) in accordance with the maturity of the discount rate and the relevant base rate for the given currency, and
b) the Company's credit risk premium based on the credit margin.

For leases not terminated on 1 January 2019, which have been previously classified as finance leases in accordance with IAS 17, the carrying amount of the right to use component and leasing liabilities as at 1 January 2019 will be determined as the carrying amount of the asset leased and leasing liabilities immediately prior to that date measured in accordance with IAS 17.

The weighted average marginal interest rate of the lessee applied to the lease liabilities recognised in the statement of financial position as at 1 January 2019 amounted to 3.28%.

The impact on the financial statements as at the date of initial application is as follows:

The Company has estimated the impact of IFRS 16 and found that on 1 January 2019 the Company will recognise the right to use assets and lease liability at an equal amount of PLN 2,012 million, what will not cause the difference in value to be included in retained earnings position.

The main components that have been recognized as assets under the right of use are the perpetual useful rights to land, leased land for petrol stations and passenger service areas, buildings, office spaces, rail tankers and tankers.

Company a lessor

In respect to contracts in which the Company is the lessor, at the moment of implementation of IFRS 16 the Company does not make any adjustments. From 1 January 2019, the Company recognises a.m. contracts in accordance with IFRS 16.

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

- IFRS 14 - Regulatory Deferral Accounts
- IFRS 17 - Insurance Contracts
- Amendment to IFRS 3 - Business combinations
- Amendments to IFRS 10 - Consolidated Financial Statements and IAS 28 - Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments
- Amendments to IAS 1 - Presentation of financial statements and IAS 8 - Accounting policies, changes in accounting estimates and errors : Definition of Material
- Amendments to IAS 19 - Employee Benefits: Plan Amendment, Curtailment or Settlement
- Amendments to various standards due to “Improvements to IFRSs (cycle 2015-2017)” resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording
- Amendments to references to the conceptual framework in IFRS Standards

The Company expects that the above standards will have no material impact on separate financial statements of the PKN ORLEN.

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

PKN ORLEN (in PLN million)

6. DIFFERENCES BETWEEN DATA REPORTED IN THE FINANCIAL STATEMENTS AND PREVIOUSLY PREPARED AND PUBLISHED FINANCIAL REPORTS

Changes introduced to financial data in condensed financial statements for the 4th quarter of 2018 published on 24 January 2019 with an effect on total assets and net profit.

	Data disclosed in the quarterly financial information for the Q4 2018	Adjustment	Data disclosed in the seperate financial statements for 2018
Assets, incl.:	**53 810**	**987**	**54 797**
Shares in related parties*	14 103	987	15 090
Liabilities, incl.:	**53 810**	**987**	**54 797**
Retained earnings	28 165	987	29 152
Net profit, incl.:	**4 447**	**987**	**5 434**
Finance income	2 288	987	3 275

The adjustment concerns reversal of a part of historical impairments on investment in ORLEN Upstream Group

PKN ORLEN (in PLN million)

7. SEGMENTS' DATA

7.1. OPERATING SEGMENTS

DOWNSTREAM

- Production
- Refining and petrochemical sales
- Power Industry

RETAIL

- Fuel station activities

CORPORATE FUNCTIONS

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

SELECTED ACCOUNTING PRINCIPLES

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

7.2. REVENUES, COSTS, FINANCIAL RESULTS, INVESTMENT EXPENDITURES

2018

	NOTE	Downstream Segment	Retail Segment	Corporate Functions	Adjustments	Total
External revenues	8.1.1, 8.1.2	66 434	20 483	80	-	86 997
Inter-segment revenues		14 145	-	85	(14 230)	-
Sales revenues		80 579	20 483	165	(14 230)	86 997
Operating expenses		(77 042)	(18 811)	(817)	14 230	(82 440)
Other operating income	8.1.9	249	76	106	-	431
Other operating expenses	8.1.10	(67)	(110)	(177)	-	(354)
(Loss)/reversal of loss due to impairment of financial instruments	8.1.12	4	-	(14)	-	(10)
Profit/(Loss) from operations		**3 723**	**1 638**	**(737)**	**-**	**4 624**
Net finance income and costs	8.1.11					1 634
(Loss)/reversal of loss due to impairment of financial instruments	8.1.12					(3)
Profit before tax						**6 255**
Tax expense						(821)
Net profit						**5 434**
Depreciation and amortisation	8.1.8	**1 001**	**283**	**81**	**-**	**1 365**
EBITDA		**4 724**	**1 921**	**(656)**	**-**	**5 989**
CAPEX		**733**	**458**	**167**	**-**	**1 358**

PKN ORLEN (in PLN million)

2017

	NOTE	Downstream Segment	Retail Segment	Upstream Segment	Corporate Functions	Adjustments	Total
External revenues	*8.1.1, 8.1.2*	53 410	16 530	-	72	-	70 012
Inter-segment revenues		11 112	-	-	90	(11 202)	-
Sales revenues		64 522	16 530	-	162	(11 202)	70 012
Operating expenses		(60 649)	(15 251)	-	(754)	11 202	(65 452)
Other operating income	*8.1.9*	317	74	1	57	-	449
Other operating expenses	*8.1.10*	(48)	(100)	-	(74)	-	(222)
Profit/(Loss) from operations		**4 142**	**1 253**	**1**	**(609)**	**-**	**4 787**
Net finance income and costs	*8.1.11*						2 260
Profit before tax							**7 047**
Tax expense							(945)
Net profit							**6 102**
Depreciation and amortisation	*8.1.8*	**887**	**265**	**-**	**89**	**-**	**1 241**
EBITDA		**5 029**	**1 518**	**1**	**(520)**	**-**	**6 028**
CAPEX		**1 352**	**400**	**-**	**159**	**-**	**1 911**

CAPEX (Capital expenditures)- increase of property, plant and equipment, intangible assets, investment property and perpetual usufruct of land together with the capitalisation of borrowing costs and a decrease on received/due penalties for improper execution of the contract

7.3. ASSETS DIVIDED INTO OPERATING SEGMENTS

	31/12/2018	31/12/2017
Downstream Segment	29 226	27 650
Retail Segment	3 997	3 851
Segment assets	**33 223**	**31 501**
Corporate Functions	21 574	17 851
	54 797	**49 352**

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

As at 31 December 2018 and as at 31 December 2017 property, plant and equipment (note 8.2.1.), intangible assets (note 8.2.2.) and perpetual usufruct of plants (note 8.2.8.) were located in Poland.

PKN ORLEN (in PLN million)

8. EXPLANATORY NOTES TO THE SEPARATE FINANCIAL STATEMENTS

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

8.1.1. Sales revenues

SELECTED ACCOUNTING PRINCIPLES

Sales revenue

Sales revenues of goods and services are recognised at a point in time (or over time) a performance obligations by transferring a promised good or service (i.e. an asset) to a customer are satisfied. An asset is transferred when the customer obtains control of that asset. The following circumstances indicate the transfer of control in accordance with IFRS 15: the current right of the seller to consideration for an asset, the legal ownership of the asset by the customer, physical possession of the asset, transfer of risks and rewards and acceptance of the asset by the customer.
Revenues include received and due payments for delivered finished goods, merchandise, raw materials and services, decreased by the amount of any trade discounts and value added tax (VAT), excise tax and fuel charges. Revenues are measured at the fair value of the payment received or due. Revenues from the sale of finished goods, merchandise, raw materials and services are adjusted for profits or losses from settlement of cash flows hedging instruments related to the above mentioned revenues.
Revenues and costs from services, which beginning and end fall within different reporting periods, are recognised by reference to the stage of completion of the service, when the outcome of a contract can be valuated reliably, in other cases, revenues are recognised only to the extent of costs incurred to the date, but not higher than the costs that the Company expects to recover.

PROFESSIONAL JUDGMENT

Based on analyses of contractual clauses in sales contracts, the Company identified the agency model mainly in the area of natural gas and LPG sales. In other transactions, including sales of crude oil to the ORLEN Group subsidiaries, the Company acts as a principal.
The loyalty program VITAY liability, arises at the time of sales of goods and services at own and franchise petrol stations for each single sale transaction and in case of purchase by the Company's customers in partner's e-Shops and consists in calculating points entitling to discounts on future purchases. A ratio of 68.5% is adopted to recognise liability taking into account the possibility of its on realisation, based on empirical data of points used compared to those issued to the customer in the last 36 months.
The Company assessed, that marketing services provided to suppliers are inseparably linked to the purchase of these merchandise, hence revenues from service reduce costs related to their purchase and release for sale.

	NOTE	2018	2017
Revenues from sales of finished goods and services, net		46 396	34 611
revenue from contracts with customers		*46 272*	-
excluded from scope of IFRS 15		*124*	-
Revenues from sales of merchandise and raw materials, net		40 601	35 401
revenue from contracts with customers		*40 601*	-
Sales revenues, incl.:		**86 997**	**70 012**
revenue from contracts with customers	*8.1.4 - 8.1.7*	*86 873*	-

Contracts excluded from the scope of IFRS 15 refer to lease agreements

Performance obligations

As part of the concluded contracts, the Company commits to transfer refining, petrochemical products and goods, energy, crude oil and gas to customers mainly. Under these agreements, the Company acts as a principal.

Transaction prices in existing contracts with customers are not restricted. Contracts existing in the Company do not provide for obligations to accept returns, pay reimbursements and other similar obligations. There is no significant financing component in contracts with customers. The Company does not identify revenues for which the payment of consideration is contingent. The guarantees provided under the contracts ensure customer the good meet the established specification. They do not rely on the performance of distinct service.

In the Downstream segment, there are mainly sales with deferred payment. In the Retail segment, there are both cash sales with a deferred payment date performed by using a fuel cards entitling customers to continuous purchase in the network of petrol stations. Settlements with customers take place in two-week periods (so-called Fleet Cards).

Usually payment is due after transferring good or service. In Downstream and Retail contracts with customers payment dates usually do not exceed 30 days.

Macroeconomic environment

PKN ORLEN operates in the conditions of a changing macroeconomic environment. The economic situation, the labour market and macroeconomic trends have a significant impact on the level of consumption of fuels and petrochemical products, and consequently on sales volume and sales prices. The Downstream segment margin is mainly affected by the dynamic of crude oil prices. Crude oil prices are shaped by factors such as changes in demand, extraction and inventories of crude oil and fuels.

The main economic indicator - GDP, determined by consumption, capital expenditures and exports, allows to assessing at what stage the economy is located. The changes in the GDP index are usually correlated with changes in the unemployment rate and fuel consumption. The general condition of the economy, measured among other things by the level of GDP, affects present and future consumer behaviour.

Breakdown of revenues from contracts with customers by different criteria

The Company divides revenues from contracts with customers to:

- type of good or service,
- geographical region,
- contract type,
- date of transfer,
- duration of the contract,
- sales channels.

In the Company's opinion the above breakdown allows to best acquaint the reader with nature, amount, receiving dates and uncertainty related to revenues and cash flows resulting from contracts with customers.

PKN ORLEN (in PLN million)

8.1.2. Sales revenues by operating segments in division on assortments

	2018
Downstream Segment	
Revenue from contracts with customers IFRS 15	**66 343**
Crude oil	32 182
Medium distillates	18 687
Light distillates	4 171
Monomers	3 072
Heavy fractions	3 632
PTA	1 528
Aromas	509
Other*	2 562
excluded from scope of IFRS 15	**91**
	66 434
Retail Segment	
Revenue from contracts with customers IFRS 15	**20 458**
Medium distillates	11 142
Light distillates	6 487
Other**	2 829
excluded from scope of IFRS 15	**25**
	20 483
Corporate Functions	
Revenue from contracts with customers IFRS 15	**72**
excluded from scope of IFRS 15	**8**
	80
	86 997

** Other mainly includes: butadien, acetone, phenol, glycols and revenues from sale of services, materials and energy*
*** The line other in retail segment includes mainly sale of non-fuel merchandise*

	2017
Downstream Segment	
Crude oil	26 388
Medium distillates	14 048
Light distillates	3 378
Monomers	2 898
Heavy fractions	2 708
PTA	1 398
Aromas	562
Other*	2 030
	53 410
Retail Segment	
Medium distillates	8 709
Light distillates	5 450
Other**	2 371
	16 530
Corporate Functions	**72**
	70 012

** Other mainly includes: butadien, acetone, phenol, glycols and revenues from sale of services, materials and energy*
*** The line other in retail segment includes mainly sale of non-fuel merchandise*

In 2018 and 2017 the Company generated sales revenues in the Downstream segment from three customers of total amount of PLN 51,263 million and PLN 41,886 million respectively, which individually exceed 10% of total revenues from sale. These customers were entities related to PKN ORLEN.

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

	NOTE	2018	2017
Revenue from contracts with customers			
Poland		49 447	39 486
Lithuania, Latvia, Estonia		18 061	14 343
Czech Republic		14 742	12 183
Germany		1 041	1 035
Other countries		3 582	2 965
		86 873	**70 012**
excluded from scope of IFRS15 - Poland		124	-
	7.2, 8.1.1	**86 997**	**70 012**

The line Other countries comprises mainly sales to customers from Switzerland, Ireland, the Netherlands, United Kingdom and Hungary.

PKN ORLEN (in PLN million)

8.1.4. Revenue from contracts with customers by type of contract

	NOTE	Downstream Segment	Retail Segment	Corporate Functions	Total
Based on fixed price contracts		66 325	20 458	47	86 830
Based on variable price contracts		-	-	25	25
Based on time and materials consumption		18	-	-	18
	8.1.1	**66 343**	**20 458**	**72**	**86 873**

The customer has the right to discounts, penalties, which constitute in accordance with IFRS 15 an element of variable consideration. The Company recognises revenue in the amount of consideration, to which – in line with expectations- will be entitled and which will not be reversed in the future. Consequently, it does not recognise revenue, that may change due to granted discounts and penalties imposed.

8.1.5. Revenue from from contracts with customers by date of transfer

	NOTE	Downstream Segment	Retail Segment	Corporate Functions	Total
At a point in time		49 628	14 893	18	64 539
Over time		16 715	5 565	54	22 334
	8.1.1	**66 343**	**20 458**	**72**	**86 873**

The transfer of control as the moment of revenue recognition under IFRS 15 is a broader concept than the transfer of risks and rewards, hence the moment of revenue recognition may change. As part of the Downstream segment, in the scope of sales of petrochemical and refinery products, the Company recognises revenue from satisfaction of performance obligation, depending on the terms of delivery (Incoterms) used. In case of some deliveries the Company is obliged to organize transport and/or insurance. When the control of good passes to the customer before the transport is performed, the delivery of goods and transport (and possibly insurance) are separate performance obligation. The delivery of goods is an obligation satisfied at a point in time, while the transport is a continuous obligation (satisfied over time). In case of transport and insurance, the customer receives simultaneously and consumes the benefits from the service.
In the Retail segment, the moment of satisfied a performance obligation is the moment of transfer of good, excluding sales of fuels using Fleet Cards.
In the case of sales transferred over time the Company recognises revenues at least on a monthly basis, where settlements between parties to the contract take place periodically and reflect the amount to receive consideration that the Company has right for transfer of goods and services to the customer. Within the Downstream segment revenues mainly relate to sale of energy and heat and sale of fuels using Fleet cards within Retail segment.

8.1.6. Revenue from contracts with customers by duration of contract

	NOTE	Downstream Segment	Retail Segment	Corporate Functions	Total
Short-term		65 521	20 458	8	85 987
Long-term		822	-	64	886
	8.1.1	**66 343**	**20 458**	**72**	**86 873**

The duration of contracts is short-term in the Company. Revenues on services for which start and end dates fall in different reporting periods (long-term contracts) are recognised based on the stage of service completion, if the result on the transaction can be reliably estimated. Long-term contracts that remain unfulfilled in full as at the balance sheet date relate i.a. to sales of energy.

8.1.7. Revenues from contracts with customers by sales channel

	NOTE	Downstream Segment	Retail Segment	Corporate Functions	Total
Direct sales		-	20 458	-	20 458
Other sales		66 343	-	72	66 415
	8.1.1	**66 343**	**20 458**	**72**	**86 873**

The Company realizes sales directly to end customers in the retail segment managing the network close to 1,787 fueal stations: its 1,342 own stations and 445 stations operated under franchise agreement.
The Company's sales to customers in the Downstream segment are carried out using a network of complementary infrastructure components: fuel terminals, land transshipment bases, pipeline networks, as well as rail transport and tanker trucks.

PKN ORLEN (in PLN million)

8.1.8. Cost by nature

SELECTED ACCOUNTING PRINCIPLES

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

	2018	2017	% share 2018	% share 2017
Materials and energy	(37 420)	(26 223)	45.1%	39.6%
Cost of merchandise and raw materials sold	(39 299)	(34 251)	47.4%	51.8%
External services	(2 729)	(2 478)	3.3%	3.7%
Employee benefits, incl.:	(839)	(780)	1.0%	1.2%
payroll expenses	*(683)*	*(636)*	*0.8%*	*0.9%*
social security expenses	*(115)*	*(106)*	*0.1%*	*0.2%*
Depreciation and amortisation	(1 365)	(1 241)	1.6%	1.9%
Taxes and charges	(1 092)	(971)	1.3%	1.5%
Other	(256)	(235)	0.3%	0.3%
	(83 000)	**(66 179)**	**100.0%**	**100.0%**
Change in inventories	364	500		
Cost of products and services for own use	196	227		
Operating expenses	**(82 440)**	**(65 452)**		
Distribution expenses	2 850	2 547		
Administrative expenses	809	799		
Cost of sales	**(78 781)**	**(62 106)**		

8.1.9. Other operating income

	2018	2017
Profit on sale of non-current non-financial assets	23	45
Reversal of provisions	14	23
Reversal of receivables impairment allowances	-	31
Reversal of impairment allowances of property, plant and equipment and intangible assets	61	61
Penalties and compensation	30	144
Settlement and valuation of derivative financial instruments related to operating exposure	63	-
Settlement and valuation of derivative financial instruments related to operating exposure under centralization	13	-
Ineffective part related to valuation and settlement of operating exposure	35	-
Settlement of hedging costs	20	-
Other, incl.:	172	145
received/due energy certificates	*145*	*132*
	431	**449**

8.1.10. Other operating expenses

	2018	2017
Loss on sale of non-current non-financial assets	(34)	(36)
Recognition of provisions	(30)	(27)
Recognition of receivables impairment allowances	-	(16)
Recognition of impairment allowances of property, plant and equipment and intangible assets	(86)	(66)
Penalties, damages and compensation	(11)	(17)
Settlement and valuation of derivative financial instruments related to operating exposure	(48)	-
Settlement and valuation of derivative financial instruments related to operating exposure under centralization	(21)	-
Ineffective part related to valuation and settlement of operating exposure	(28)	-
Other, incl.:	(96)	(60)
donations	*(59)*	*(26)*
	(354)	**(222)**

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

PKN ORLEN (in PLN million)

In 2018 the net positions of valuation and settlement of derivative financial instruments related to operating exposure (non-designated instruments for hedge accounting purposes) amounted to PLN 15 million, mainly related to future sales of products, including fixed prices while net positions of ineffective part concern operating exposure amounted to PLN 7 million and concern mainly commodity swaps hedged risks connected with sea crude oil purchases.

8.1.11. Finance income and costs

8.1.11.1. Finance income

	NOTE	2018	2017
Interest calculated using the effective interest rate method		60	49
Interest on lease		1	1
Net foreign exchange gain		-	632
Dividends		870	1 599
Settlement and valuation of derivative financial instruments		1 157	617
Reversal on impairment allowances of shares in related parties	*8.2.4*	1 005	829
Other		182	66
		3 275	**3 793**

8.1.11.2. Finance costs

	NOTE	2018	2017
Interest calculated using the effective interest rate method		(270)	(195)
Interest on lease		(7)	(6)
Net foreign exchange loss		(382)	-
Settlement and valuation of derivative financial instruments		(795)	(743)
Recognition of impairment allowances of shares in related parties	*8.2.4*	-	(542)
Other		(187)	(47)
		(1 641)	**(1 533)**

In 2018 the net positions of valuation and settlement of derivative financial instruments (non-designated instruments for hedge accounting purposes instruments within risk related to financing activities exposure) amounted to PLN 362 million and concerned mainly hedging the risk of changes in exchange rates in accordance to deposits and payments in foreign currency and hedging of interest rates and payment of bonds interests.
The line Other in finance income and finance costs mainly includes transaction differences in currency purchases and additionally in 2017 settlement of intercompany financial transactions.

8.1.11.3. Interest, net

	NOTE	2018	2017
Finance income and costs of net interest presented in statement of profit or loss and other comprehensive income	*8.1.11.1, 8.1.11.2*	**(216)**	**(151)**
Adjustments to profit before tax of net interest presented in statement of cash flows		**241**	**172**
interest received concerning investing activities		*(35)*	*(24)*
interest paid concerning financing activities		*305*	*257*
accrued interest concerning investing and financing activities		*(29)*	*(61)*
Net interest concerning operating activities not adjusting profit before tax		25	21

8.1.11.4. Foreign exchange gain/(loss)

	NOTE	2018	2017
Foreign exchange gain/(loss) surplus presented in statement of profit or loss and other comprehensive income	*8.1.11.1, 8.1.11.2*	**(382)**	**632**
Adjustments to profit before tax of foreign exchange differences presented in statement of cash flows		**282**	**(154)**
realized foreign exchange differences concerning investing and financing activities		*39*	*94*
unrealized foreign exchange differences concerning investing and financing activities		*271*	*(282)*
foreign exchange differences on cash		*(28)*	*34*
Foreign exchange differences concerning operating activities not adjusting profit before tax		(100)	478

PKN ORLEN (in PLN million)

8.1.12. (Loss)/reversal of loss due to impairment of financial instruments

	2018
(Loss) due to impairment of receivables	(108)
Reversal of loss due to impairment of receivables	98
(Loss) due to impairment of loans granted	(13)
Reversal of loss due to impairment of loans granted	10
	(13)

8.1.13. Tax expense

SELECTED ACCOUNTING PRINCIPLES

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

8.1.13.1. Reconciliation of effective tax rate

	2018	2017
Profit before tax	**6 255**	**7 047**
Tax expense by the valid tax rate	(1 188)	(1 339)
Impairment allowances for shares in related parties	191	55
Current and deffered tax adjustment relating to previous years	(17)	11
Dividends received	165	304
Other	28	24
Tax expense	**(821)**	**(945)**
Effective tax rate	**13%**	**13%**

As at 31 December 2018 and as at 31 December 2017 impairment allowances for shares in related parties for which deferred tax assets were not recognised amounted to PLN 7,055 million and PLN 8,060 million, respectively.

8.1.13.2. Deferred tax

	31/12/2017	Impact of IFRS 9 adoption	Deferred tax recognised in profit or loss	Deferred tax recognised in other comprehensive income	31/12/2018
Deferred tax assets					
Impairment allowances	46	3	4	1	54
Provisions and accruals	108	-	51	-	159
Unrealized foreign exchange differences	-	-	35	-	35
Tax loss	9	-	(9)	-	-
Valuation of derivative financial instruments	-	-	-	-	-
Other	101	-	9	-	110
	264	**3**	**90**	**1**	**358**
Deferred tax liabilities					
Investment relief	27	-	(3)	-	24
Temporary differences related to non-current assets	892	-	76	-	968
Unrealized foreign exchange differences	20	-	(20)	-	-
Valuation of derivative financial instruments	46	-	2	(12)	36
Other	61	-	3	-	64
	1 046	**-**	**58**	**(12)**	**1 092**
	(782)	**3**	**32**	**13**	**(734)**

PKN ORLEN (in PLN million)

	31/12/2016	Deferred tax recognised in profit or loss	Deferred tax recognised in other comprehensive income	31/12/2017
Deferred tax assets				
Impairment allowances	51	(5)	-	46
Provisions and accruals	80	28	-	108
Unrealized foreign exchange differences	34	(34)	-	-
Tax loss	51	(42)	-	9
Valuation of derivative financial instruments	73	4	(77)	-
Other	61	40	-	101
	350	**(9)**	**(77)**	**264**
Deferred tax liabilities				
Investment relief	29	(2)	-	27
Temporary differences related to non-current assets	812	80	-	892
Unrealized foreign exchange differences	-	20	-	20
Valuation of derivative financial instruments	-	(13)	59	46
Other	62	(1)	-	61
	903	**84**	**59**	**1 046**
	(553)	**(93)**	**(136)**	**(782)**

8.1.13.3. Income tax (paid)

	NOTE	2018	2017
Tax expense on profit before tax	*8.1.13.1*	**(821)**	**(945)**
Change in deferred tax assets and liabilities		(48)	229
Change in current tax receivables and liabilities		360	(475)
Deferred tax recognised in other comprehensive income	*8.1.13.2*	13	(136)
Deferred tax as a result of adoption of IFRS 9	*8.1.13.2*	3	-
Liability for withholding tax		(55)	57
		(548)	**(1 270)**

8.2. EXPLANATORY NOTES TO THE STATEMENT OF FINANCIAL POSITION

8.2.1. Property, plant and equipment

SELECTED ACCOUNTING PRINCIPLES

Property, plant and equipment

Property, plant and equipment shall be measured initially at acquisition or production cost and shall presented in the statement of financial position in its net carrying amount, including grants.

Property, plant and equipment are stated in the statement of financial position at the net book value which is the amount at which an asset is initially recognised (cost) less accumulated depreciation and any accumulated impairment losses, as well as received grants for assets. The costs of significant repairs and regular maintenance programs are recognised as property, plant and equipment.

Fixed assets are depreciated with straight-line method and in justified cases units of production method of depreciation (catalysts).

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately over the period reflecting its useful life.

The following standard useful lives are used for property, plant and equipment:

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

The depreciation method, the residual value and the useful life of property, plant and equipment are verified at least at the end of each year. When necessary, the adjustments to depreciation expense are accounted for in next periods (prospectively).

Grants

Grants are recognised if there is reasonable assurance that the grants will be received and the entity will comply with the conditions attaching to them.

Government grants related to assets are recognised as a decrease of a carrying amount of an asset and as a result a decrease of depreciation and amortisation charges over its useful life.

ESTIMATES

Useful lives of property, plant and equipment

The Company verifies useful lives of property, plant and equipment once at year end. The impact of verification of useful lives in 2018 resulted in a decrease of depreciation costs by PLN 28 million compared to depreciation costs that were recognised based on useful lives applied in 2017.

Remediation of land – water environment

The Company estimates the level of provisions related to non-current assets, which to a significant probability are needed for land – water environment remediation of the territory of petrol stations, fuel depots and areas of production plants. Detailed information in *note 8.2.9.1*

PKN ORLEN (in PLN million)

	Land	Buildings and constructions	Machinery and equipment	Vehicles and other	Construction in progress	Total
Net carrying amount at 01/01/2018						
Gross carrying amount	456	13 218	12 699	765	2 365	**29 503**
Accumulated depreciation	-	(5 854)	(7 258)	(459)	-	**(13 571)**
Impairment allowances	(3)	(140)	(25)	(3)	(15)	**(186)**
Grants	-	-	(56)	-	-	**(56)**
	453	**7 224**	**5 360**	**303**	**2 350**	**15 690**
increases/(decreases), net						
Investment expenditures	-	123	71	14	1 070	1 278
Depreciation	-	(502)	(708)	(103)	-	(1 313)
Borrowing costs	-	36	42	-	(42)	36
Net impairment allowances, incl.: *	(1)	(8)	(3)	(1)	3	(10)
recognition	*(1)*	*(68)*	*(10)*	*(2)*	*(1)*	*(82)*
reversal	*-*	*53*	*7*	*1*	*-*	*61*
Reclassifications	7	1 050	1 274	132	(2 444)	19
Grants	-	-	(28)	-	-	(28)
Other	(4)	(16)	(13)	(19)	(9)	(61)
	455	**7 907**	**5 995**	**326**	**928**	**15 611**
Net carrying amount at 31/12/2018						
Gross carrying amount	459	14 378	13 821	836	940	**30 434**
Accumulated depreciation	-	(6 323)	(7 714)	(506)	-	**(14 543)**
Impairment allowances	(4)	(148)	(28)	(4)	(12)	**(196)**
Grants	-	-	(84)	-	-	**(84)**
	455	**7 907**	**5 995**	**326**	**928**	**15 611**
Net carrying amount at 01/01/2017						
Gross carrying amount	450	12 350	11 520	745	3 023	**28 088**
Accumulated depreciation	-	(5 422)	(6 879)	(438)	-	**(12 739)**
Impairment allowances	(3)	(144)	(20)	(3)	(15)	**(185)**
Grants	-	-	(52)	-	-	**(52)**
	447	**6 784**	**4 569**	**304**	**3 008**	**15 112**
increases/(decreases), net						
Investment expenditures	-	104	57	2	1 616	1 779
Depreciation	-	(472)	(619)	(94)	-	(1 185)
Borrowing costs	-	40	86	1	(62)	65
Net impairment allowances, incl.: *	-	4	(5)	-	-	(1)
recognition	*-*	*(53)*	*(11)*	*(1)*	*(1)*	*(66)*
reversal	*-*	*54*	*6*	*1*	*-*	*61*
Reclassifications	7	780	1 320	103	(2 204)	6
Grants	-	-	(4)	-	-	(4)
Other	(1)	(16)	(44)	(13)	(8)	(82)
Net carrying amount at 31/12/2017	**453**	**7 224**	**5 360**	**303**	**2 350**	**15 690**

* Increases/(Decreases) net of impairment includes recognition, reversal and utilization.

In the 4th quarter of 2018 investments expenditures were reduced by PLN 219 million received/due to penalties for delayed execution of the investment contracts.

In 2018 and 2017 capitalization rate used to calculate borrowing costs amounted to 2.71% and 3.01% respectively.
The gross carrying amount of all fully depreciated property, plant and equipment still in use as at 31 December 2018 and as at 31 December 2017 amounted to PLN 1,682 million and PLN 1,600 million respectively.

8.2.2. Intangible assets

SELECTED ACCOUNTING PRINCIPLES

Intangible assets
An intangible asset shall be measured initially at acquisition or production cost and shall presented in the statement of financial position in its net carrying amount, including grants.
Intangible assets with definite useful life are amortised using straight-line method. Amortization shall begin when the asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. The asset shall be amortised over the period reflecting its estimated useful life.
Standard useful lives of intangible assets are from 2 to 10 for software and from 2 to 15 years for concessions, licenses, rights to patents and similar.
The amortization method and useful life of intangible asset item are verified at least at the end of each year.

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

PKN ORLEN (in PLN million)

ESTIMATES

Useful lives of intangible assets

The Company verifies useful lives of intangible assets once at year end with effect from the beginning of next year. Should the economic useful lives of intangible assets from 2017 be applied in 2018, the depreciation expense would increase by PLN 8 million.

Change in other intangible assets

	Patents, trade marks and licenses	Rights	Other	Total
Net carrying amount at 01/01/2018				
Gross carrying amount	695	571	88	**1 354**
Accumulated amortization	(481)	-	(41)	**(522)**
Impairment allowances	(3)	(57)	-	**(60)**
	211	**514**	**47**	**772**
increases/(decreases), net				
Investment expenditures	-	-	37	37
Amortisation	(48)	-	(3)	(51)
Other *	47	(2)	(48)	(3)
	210	**512**	**33**	**755**
Net carrying amount at 31/12/2018				
Gross carrying amount	736	569	76	**1 381**
Accumulated amortization	(523)	-	(43)	**(566)**
Impairment allowances	(3)	(57)	-	**(60)**
	210	**512**	**33**	**755**
Net carrying amount at 01/01/2017				
Gross carrying amount	646	663	77	**1 386**
Accumulated amortization	(442)	-	(31)	**(473)**
Impairment allowances	(3)	(57)	-	**(60)**
	201	**606**	**46**	**853**
increases/(decreases), net				
Investment expenditures	-	-	65	65
Amortisation	(45)	-	(10)	(55)
Other *	55	(92)	(54)	(91)
Net carrying amount at 31/12/2017	**211**	**514**	**47**	**772**

* Other net increases/(decreases) of property rights consist mainly granted free of charge for 2018 and 2017 sale and settlement of rights for 2017 and 2016 and relocation of colour energy allowances to non-current assets held for sale.

The gross carrying amount of all fully depreciated property, plant and equipment still in use as at 31 December 2018 and as at 31 December 2017 amounted to PLN 237 million and PLN 238 million, respectively.

8.2.2.1. Rights

Change in owned CO_2 emission rights for 2018

	Quantity (in thous. tonnes)	Value
01/01/2018	21 785	511
Received free of charge	3 433	145
Emission settlement for 2017	(6 906)	(161)
Purchase	31	-
	18 343	**495**
CO_2 emission in 2018	7 795	190

The market value of owned EUA rights exceeds their total carrying amount, therefore the Company does not identify impairment indicators.
As at 31 December 2018 the market value of one EUA amounted to PLN 105.95 (representing EUR 24.64 at exchange rate as at 31 December 2018) (source: www.theice.com).

As at 31 December 2018 the Company recognised the line rights to colour energy (energy certificates) in the amount PLN 17 million. In 2018 , the Company granted free of charge rights to energy certificates in the amount of PLN 148 million and recognised PLN 145 million in other operating income and PLN 3 million as a correction of capital expenditures.
Additionally, the Company recognised CO_2 emission rights in amount of PLN 25 million and rights to colour energy in amount of PLN 60 million, in trade and other receivables (note 8.2.5.2).
Furthermore, the Company as at 31 December 2018 recognised in line non-current assets classified as held for sale the CO_2 emission rights in the amount of PLN 60 million and rights to colorful energy in the amount of PLN 89 million.

PKN ORLEN (in PLN million)

8.2.3. Shares in related parties

SELECTED ACCOUNTING PRINCIPLES

Investments in related parties in the separate financial statements
Investments in subsidiaries, jointly controlled entities and associates that are not classified as held for sale (or not as a part of a disposal the company classified as held for sale in accordance with IFRS 5), are recognised at cost less impairment allowances.

	Headquarters	31/12/2018	31/12/2017	Company's share in share capital /of total number of votes at 31/12/2018	Company's share in share capital /of total number of votes at 31/12/2017	Principal activity
Subsidiaries and jointly controlled entities						
UNIPETROL a.s.	Czech Republic - Prague	6 035	1 813	100.00%	62.99%	assets management of the Unipetrol Group
ORLEN Upstream Sp. z o.o.	Poland - Warsaw	2 396	2 196	100.00%	100.00%	exploration and recognition of hydrocarbon deposits, extraction of crude oil and natural gas
AB ORLEN Lietuva	Lithuania – Juodeikiai	2 297	2 297	100.00%	100.00%	crude oil processing, production of refining products and wholesale
ORLEN Deutschland GmbH	Germany - Elmshorn	504	504	100.00%	100.00%	assets management and retail fuel sale
Basell ORLEN Polyolefins Sp. z o.o.	Poland – Płock	454	454	50.00%	50.00%	production, distribution and sale of polyolefins
Anwil S.A.	Poland – Włocławek	399	399	100.00%	100.00%	production of nitrogen fertilizers, plastic and chemicals
ORLEN Południe S.A.	Poland – Trzebinia	245	245	100.00%	100.00%	crude oil processing, manufacturing and sale of fuels and oils
ORLEN Paliwa Sp. z o.o.	Poland – Widełka	145	145	100.00%	100.00%	trade in liquid fuels, manufacturing, storage of gaseous fuels
ORLEN Oil Sp. z o.o.	Poland – Cracow	103	103	100.00%	100.00%	production, distribution and sale of grease oils, maintenance liquids
ORLEN Asfalt Sp. z o.o.	Poland – Płock	90	90	100.00%	100.00%	manufacturing and sale of road bitumens and specific bitumen products
Other subsidiaries		499	445			
Repayable additional payments to equity of subsidiaries, incl.:		**1 923**	**873**			
ORLEN Upstream Sp. z o.o.		*1 871*	*836*			
		15 090	**9 564**			

As at 31 December 2018 and as at 31 December 2017 impairment allowances of shares in related parties amounted to PLN 7,062 million and PLN 8,067 million respectively and related mainly to impairment of shares in AB ORLEN Lietuva.
In 2018 the Company reversed impairment allowances of shares in ORLEN Upstream in the amount of PLN 987 million. Additional information about impairment is presented in note 8.2.4.

8.2.4. Impairment of non-current assets

SELECTED ACCOUNTING PRINCIPLES

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

ESTIMATES AND JUDGMENTS

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

As at 31 December 2018, an impairment indicators were identified in the Company in accordance with IAS 36 "Impairment allowances of assets" related to the approval on 20 December 2018 The Strategy of the ORLEN Group for the years 2019-2022 ("Strategy") by the Management Board and the Supervisory Board of PKN ORLEN.
The detailed information on key pillars and directions of development has been presented in document available on the PKN ORLEN website:
https://www.orlen.pl/EN/InvestorRelations/Presentations/Pages/default.aspx
The assumptions of the ORLEN Group Strategy are focused on ensuring raw material security, strengthening market position and customer relationships, using the integrated value chain to pursuit of operational excellence and maintaining readiness for market and regulatory challenges. An important element of the Strategy is also the attitude to support innovation and development infrastructure, focus on safety and care for the environment and the surroundings.
The macroeconomic assumptions were based on analyses and recommendations of renowned global advisors, including IHS Markit, Nexant, JBC Energy, PVM, EIA, Platts, Continuum Economics, Wood Mackenzie Chemicals, observations of main competitors and expert knowledge of the ORLEN Group.

The Mid-Term Plan approved in the framework of the ORLEN Group Strategy in the perspective of 2019-2020 assumes an increase in crude oil prices by USD 18 / bbl as compared to the average from 2017 - 2018 from the previous Strategy. The assumed increase in the price of crude oil is a consequence of the growing demand with limited possibilities of supply growth.
The Mid-Term Plan in the perspective of 2019-2020 assumes the increase of the model downstream margin, among others due to the tightened limits of sulphur content in bunker fuel, (so-called IMO effect - regulations of the International Maritime Organization). Compared to the average for 2017-2018 from the previous Strategy, this increase

is 2.2 USD / bbl and is next to the discount rate a positive factor affecting the valuation of production assets. In the long term perspective, the Company expects adjustment of the market and return of the margins to historical levels.
The Mid-Term Plan in 2019-2020 assumes a model average petrochemical margin of 808 EUR / t. In comparison to the previous strategy, in which for 2017-2018, petrochemical margins were assumed at the level of 793 EUR / t, the currently forecasted level is by 15 EUR / t higher.
These create favourable macroeconomic conditions for investment processes and allows full use of production assets.
The valuation of shares in the upstream segment depends on the production potential of the assets and expectations as to the prices of raw materials, taking into account the risk represented by the discount rate.
Assets of the Upstream segment located both in Poland and Canada have been assessed by independent companies using current knowledge and geological techniques, engineering and computer software.

For the assessment of production assets in ORLEN Upstream Canada, the Reserve Report was prepared (valuation of the concession assessing the production potential of the assets). For exploration rights for extraction were valued (valuation based on their production potential and the expected level of raw material prices, the so-called Assessment of Non-Reserve Lands). They are the basis for the assessment of fair value.
The actual reports revealed a significant increase in the level of production potential relative to the last resource verification by 40%.

The assessment of the prospects of exploited reserves and discoveries of oil and gas in Poland was made on the basis of the Reserve Report prepared by a reputable European adviser. The actual report revealed a significant increase in the level of exploration reserves compared to the last resource verification by 13%.

Due to the lack of a reliable estimate of the price, at which would have taken place potential transaction to sale the assets of the Company as the recoverable value of its individual assets is its value in use, according to IAS 36.20.

The impairment tests were performed on the basis of assets of the Company as at 31 December 2018 and net cash flows projected in the approved within the Strategy the Mid-term Plan and mentioned above reports, discounted to their present value using the discount rates which reflect the current market value of money and the specific risks to the measured assets.
Discount rates were calculated as the weighted average cost of engaged equity and debt. Sources of macroeconomic indicators necessary to determine the discount rate were published by prof. Aswath Damodaran (source: http://pages.stern.nyu.edu) and government bonds quotation available as at 31 December 2018.

Property, plant and equipment and intangible assets
Discount rates applied in connection with tests respectively to the defined main cash – generating units in PKN ORLEN ("CGU") is for Refinery CGU 8.77%, Petrochemical CGU 8.46%, Retail CGU 6.40%, Power CGU 6.33%. Useful life adopted for tests is respectively for CGU: Refinery 24 years, Petrochemical 25 years, Power 26 years and for Retail CGU 12 years. After the period covered by the Mid-term Plan for the years 2019-2022 assumed constant rate of cash flows growth, estimated for Poland at the level of long-term inflation rate of 2.50%.

As at 31 December 2018, the Company did not identify impairment of property, plant and equipment and intangible assets.

Shares
For the purpose of impairment test of shares, each related party is treated as a separate cash-generating unit.
The revaluation of the value in use was carried out on the basis of cash flows included in the Mid-Term Plan for 2019-2022 and the Financing Plan for 2019 discounted to their current value using discount rates calculated as the weighted average cost of equity and cost of debt expense before taking into account the tax effects, reflecting the current market estimates of the time value of money and risks typical of the assets being measured. The calculations include changes in net working capital and the value of net debt.

The Reserve Reports prepared by independent appraisers were the basis for valuation of the investment value in ORLEN Upstream shares.
As a result of this analysis, the Company reversed the impairment loss on the investment in ORLEN Upstream Sp. z o.o. and influenced the financial result in the amount of PLN 987 million. Cash flows generated by assets located in Poland were discounted with the rate of 7.51% and respectively cash flows generated by assets in Canada with the rate of 7.54%. The updated total value in use amounted to PLN 4,267 million.

Sensitivity analysis of ORLEN Upstream shares value in use as at 31 December 2018

	in PLN million	EBITDA		
	change	-5%	0%	5%
DISCOUNT RATE	- 1 p.p.	*decrease of reversal* (251)	*increase of reversal* 12	*increase of reversal* 12
	0,0 p.p.	*decrease of reversal* (445)	-	*increase of reversal* 12
	+ 1 p.p.	*decrease of reversal* (629)	*decrease of reversal* (198)	*increase of reversal* 12

In the third quarter of 2018, an impairment revaluating the value of investments in Baltic Power shares in the amount of PLN 18 million was reversed due to the decision to resume the project.
The revaluation of other PKN ORLEN's investments in the stocks and shares of the ORLEN Group companies as at 31 December 2018 did not result in the impairment of these investments.
The total effect of impairment losses on the value of stocks and shares on the Company's financial result in 2018 amounted to PLN 1,005 million.

As at 31 December 2017, an impairment indicators were not identified in the Company in accordance with IAS 36 "Impairment allowances of assets". Financial Plan for 2018 approved on 19 December 2017 by the Supervisory Board of PKN ORLEN is a part of the implementation of the Strategy of the ORLEN Group
for the years 2017-2021 published in December 2016. Therefore, the assumptions adopted within an impairment test of assets performed as at 31 December 2016, where the indication was the approval on 15 December 2016 Strategy of the ORLEN Group for the years 2017-2021 by the Management Board and the Supervisory Board of the Company remain valid.

In the 1st quarter of 2017, the Company identified dividend payment by AB ORLEN Lietuva as an impairment indicator of ORLEN Lietuva shares. As a result of this analysis, the impairment allowance of AB ORLEN Lietuva shares in the amount of PLN (517) million as at 31 March 2017 was recognised.
Due to a significant increase in financial results generated by AB ORLEN Lietuva for 2017 in relation to the Plan for 2017, the Company decided to perform an impairment test of AB ORLEN Lietuva shares as at 31 December 2017.
As a result of this analysis, the Company reversed the impairment allowance of AB ORLEN Lietuva shares in the amount of PLN 829 million. The discount rate for the valuation of AB ORLEN Lietuva shares is 10.55%. The current value in use was PLN 2,297 million.
The impact of recognition and reversal of impairment allowances of AB ORLEN Lietuva shares on the financial result in 2017 amounted to PLN 312 million.

Sensitivity analysis of ORLEN Lietuva shares value in use as at 31 December 2017

DISCOUNT RATE / EBITDA (in PLN million) change	-5%	0%	5%
- 0.5 p.p.	decrease of reversal (103)	increase of reversal 40	increase of reversal 183
0.0 p.p.	decrease of reversal (138)	-	increase of reversal 138
+ 0.5 p.p.	decrease of reversal (170)	decrease of reversal (37)	increase of reversal 96

In the 3rd quarter of 2017, the Company recognised an impairment allowance of ORLEN Oil shares in the amount equal to dividend payment by ORLEN Oil in the amount of PLN (25) million.
The total impact of impairment allowances of shares of Company's financial result in 2017 amounted to PLN 287 million.

8.2.5. Net working capital

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

	NOTE	Inventories	Trade and other receivables	Trade and other liabilities	Net working capital
31/12/2017		8 239	7 335	9 897	5 677
31/12/2018		9 889	7 709	8 853	8 745
Change in working capital in the statement of financial position		**(1 650)**	**(374)**	**(1 044)**	**(3 068)**
Adjustments		**2**	**(20)**	**468**	**450**
Change in rights and advances for non-financial non-current assets	*8.2.5.2*	*-*	*(7)*	*-*	*(7)*
Change in investment liabilities	*8.2.5.3*	*-*	*-*	*368*	*368*
Other		*2*	*(13)*	*100*	*89*
Change in working capital in the statement of cash flows		**(1 648)**	**(394)**	**(576)**	**(2 618)**

8.2.5.1. Inventories

SELECTED ACCOUNTING PRINCIPLES

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

ESTIMATES

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

	31/12/2018	31/12/2017
Raw materials	6 120	4 818
Semi - finished goods and work in progress	754	680
Finished goods	2 630	2 340
Merchandise	385	401
Inventories, net	**9 889**	**8 239**
Impairment allowances of inventories to net realisable value	8	8
Inventories, gross	**9 897**	**8 247**

PKN ORLEN (in PLN million)

The main item of inventories, which is realized by more than 12 months after the end of the reporting period are mandatory reserves. As at 31 December 2018 and as at 31 December 2017 the value of mandatory reserves of the Company amounted to PLN 5,152 million and PLN 3,865 million, respectively.

Change in amount of impairment allowances of inventories revalued at net realizable value

	2018	2017
At the beginning of the period	8	7
Recognition	16	32
Reversal	(14)	(29)
Usage	(2)	(2)
	8	**8**

8.2.5.2. Trade and other receivables

SELECTED ACCOUNTING PRINCIPLES

Receivables
Receivables, including trade receivables, are recognised initially at fair value and subsequently at amortised cost using the effective interest rate including expected credit loss.
The Company applies simplified methods of valuation of receivables measured at amortized cost if it does not distort information included in the statement of financial position, in particular when the period until the repayment date is not long.

ESTIMATES

Impairment of trade and other receivables
As default the Company recognises that the customer do not meet obligations after 90 days from maturity of receivables. For the purpose of estimating the expected credit loss, the Company uses the provision matrix, which was estimated based on historical levels of repayment and recoveries from receivables from customers. The Company includes information on the future in parameters used in the expected loss estimation model, through the management adjustment of the basic default probability rates. The Company does not monitor changes in the credit risk during life of instrument. From 1 January 2018 the Company estimates the expected credit loss until maturity of instrument.

	NOTE	31/12/2018	31/12/2017
Trade receivables, incl.:		7 001	6 711
from contracts with customers		*6 986*	-
Other		105	109
Financial assets		**7 106**	**6 820**
Excise tax and fuel charge		131	120
Other taxation, duties, social security and other benefits		14	82
Advances for non-current non-financial assets		80	102
Rights		85	70
Advances for deliveries		60	52
Prepayments		233	89
Non-financial assets		**603**	**515**
Receivables, net		**7 709**	**7 335**
Expected credit loss	*8.2.5.2.1*	257	-
Receivables impairment allowance	*8.2.5.2.1*	-	241
Receivables, gross		**7 966**	**7 576**

Division of financial assets denominated in foreign currencies is presented in note 8.3.5.2. Division of receivables from related parties is presented in note 8.4.7.2.
The Company expects that the trade and other receivables by contractors will be realized no later than twelve months after the end of the reporting period.

8.2.5.2.1. Change in expected credit loss of trade and other receivables

	NOTE	2018
01/01/2018 (approved data)		241
Impact of IFRS 9 adoption		17
01/01/2018 (converted data)		258
Recognition	*8.1.12*	108
Reversal	*8.1.12*	(108)
financial		*(98)*
non-financial		*(10)*
Usage		(1)
		257

PKN ORLEN (in PLN million)

Change in impairment allowances of trade and other receivables

	2017
01/01/2017	264
Recognition	16
Reversal	(32)
Usage	(7)
	241

8.2.5.2.2. The ageing analysis of receivables

Ageing analysis of trade receivables and expected credit loss as at 31 December 2018

	Trade receivables, gross value	Expected credit loss (in horizon of whole life)	Weighted average rate of expected credit loss	Trade receivables, net value
current	6 911	17	0.0025	6 894
from 1 to 30 days	84	2	0.0238	82
from 31 to 60 days	13	7	0.5385	6
from 61 to 90 days	4	1	0.2500	3
more than 90 days past due	225	209	0.9289	16
	7 237	**236**		**7 001**

Detailed information is presented in note 8.3.5.4.

8.2.5.3. Trade and other liabilities

SELECTED ACCOUNTING PRINCIPLES

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

	31/12/2018	31/12/2017
Trade liabilities	5 537	6 181
Investment liabilities	518	886
Finance lease	26	24
Other	99	160
Financial liabilities	**6 180**	**7 251**
Payroll liabilities	146	123
Excise tax and fuel charge	1 495	1 542
Value added tax	901	848
Other taxation, duties, social security and other benefits	90	87
Holiday pay accruals	32	33
Other	9	13
Non-financial liabilities	**2 673**	**2 646**
	8 853	**9 897**

Division of financial liabilities denominated in foreign currencies is presented in note 8.3.5.2. Division of liabilities from related parties is presented in note 8.4.7.2.
As at 31 December 2018 and as at 31 December 2017 in the Company were no material overdue liabilities.
The Company expects that the payment of trade liabilities to contractors will take place no later than twelve months after the end of the reporting period.

8.2.5.4. Change in liabilities from contracts with customers

	2018
01/01/2018 (approved data)	-
Impact of IFRS 15 adoption	164
01/01/2018 (converted data)	164
Revenues recognised in a given reporting period, included in the balance of liabilities from contracts at the beginning of the period	(106)
Revenue adjustments	95
Advances received, prepayments	60
31/12/2018	**213**

The Company fulfils its liabilities from contracts with customers with respect to advance payments received, prepayments up to one year. Revenues adjustments related to deferred part of revenue related to the loyalty program VITAY, according to which the customer is entitled to future benefits (so-called VITAY points) plus a discount for the subsidiary for failure to meet the terms of the contract. Points are valid for 3 years from the date they were obtained. During this period, the Company expects to satisfy a performance obligation by exchanging collected points for transfered goods / services to customers and recognise revenues.

PKN ORLEN (in PLN million)

8.2.6. Net debt and equity management

SELECTED ACCOUNTING PRINCIPLES

Net debt

The Company defined net debt as: non-current and current loans, borrowings and bonds lower by cash and cash equivalents.
Cash comprises cash on hand and in bank accounts. Valuation and outflows of cash and cash equivalents in foreign currencies are based on FIFO (First In First Out) method.

Changes in liabilities from financing activities

	Loans and borrowings (A)	Bonds (B)	Cash (C)	Net debt (A + B - C)	Financial lease (D)	Cash pool (E)	Change in liabilities from financing activities (A + B + D + E)
01/01/2018	5 257	2 031	5 477	**1 811**	141	2 063	**9 492**
Cash changes							
net proceeds/(outflows)	*2 037*	*196*	*(2 044)*	***4 277***	*(25)*	*(602)*	***1 606***
interest paid	*(209)*	*(65)*	*-*	***(274)***	*(6)*	*(25)*	***(305)***
Non-cash changes							
exchange differences	*238*	*-*	*28*	***210***	*-*	*74*	***312***
valuation of debt	*214*	*64*	*-*	***278***	*5*	*24*	***307***
new finance lease agreements	*-*	*-*	*-*	***-***	*49*	*-*	***49***
31/12/2018	**7 537**	**2 226**	**3 461**	**6 302**	**164**	**1 534**	**11 461**

	Loans and borrowings (A)	Bonds (B)	Cash (C)	Net debt (A + B - C)	Financial lease (D)	Cash pool (E)	Change in liabilities from financing activities (A + B + D + E)
01/01/2017	6 335	2 503	2 563	**6 275**	125	395	**9 358**
Cash changes							
net proceeds/(outflows)	*(822)*	*(471)*	*2 948*	***(4 241)***	*(22)*	*1 766*	***451***
interest paid	*(173)*	*(70)*	*-*	***(243)***	*(6)*	*(8)*	***(257)***
Non-cash changes							
exchange differences	*(320)*	*-*	*(34)*	***(286)***	*-*	*(101)*	***(421)***
valuation of debt	*174*	*69*	*-*	***243***	*7*	*11*	***261***
settlement of loans hedging instruments	*63*	*-*	*-*	***63***	*-*	*-*	***63***
new finance lease agreements	*-*	*-*	*-*	***-***	*37*	*-*	***37***
31/12/2017	**5 257**	**2 031**	**5 477**	**1 811**	**141**	**2 063**	**9 492**

For the purposes of liquidity management, in the ORLEN Group operates a cash pool system. Due to the application of this system, financial costs within the Group are optimized.
The Company is an Agent in the "cash pool" structure, the participants are the Group entities. The positive or negative balances in particular days of the reporting period for the Participants of the cash pool structure may arise from the participation in the cash pool. For the purposes of presentation in the separate financial statements as at the end of the reporting period, combining settlements related to transactions within the "cash pool" structure are presented as financial assets or liabilities to related parties, as well as financial costs and income from interest. For the purposes of the statement of cash flows, interests received/due are presented in investing/financing activities, respectively, cash surpluses/shortages flows to "cash pool" are presented in investing/financing activities respectively. Due to short payment terms, these flows are presented in net value separately in investing/financing activities.
Cash withdrawals from Participants accounts with surplus at the end of the day are not identified as cash equivalents in accordance with IAS 7, "Statement of Cash Flows". Despite the fact that both the Participants and Agent accounts are blocked after the transaction in the structure, and the reversal of these transactions from the Participant/ Agent point of view, is unconditional and automatic operation that the Bank will perform at the beginning of the next business day, there are not enough indications that Participants cash assets are classified as cash assets at the Bank.

8.2.6.1. Loans, borrowing and bonds

	Non-current		Current		Total	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Loans	2 151	-	-	-	2 151	-
Borrowings	5 386	5 222	-	35	5 386	5 257
Bonds	1 104	1 514	1 122	517	2 226	2 031
	8 641	**6 736**	**1 122**	**552**	**9 763**	**7 288**

As at 31 December 2018, indebtedness due to loans relates to a loan reimbursed by PKN ORLEN from a consortium of banks under the Agreement for a multi-currency revolving loan of 25 April 2014 in the amount of PLN 2,151 million translated using the exchange rate as at 31 December 2018 (which corresponds to EUR 500 million).

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

PKN ORLEN (in PLN million)

8.2.6.1.1. Loans

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

	31/12/2018	31/12/2017
EUR - EURIBOR	2 151	-
	2 151	**-**

As at 31 December 2018 unused credit lines (note 8.3.5.4) increased by trade and other receivables (note 8.2.5.2.) and cash exceeded trade and other liabilities (note 8.2.5.3) by PLN 7,981 million.
The Company hedges cash flows related to interest payments regarding external financing in EUR and USD, by using interest rate swaps (IRS).
In the period covered by the foregoing separate financial statements as well as after the reporting date there were no cases of violations of loans or interests repayment.

In case of operating loans agreements, the Company has obligation to maintain selected financial ratios within specified ranges. In 2018 these ratios assessed by the creditor banks were at a safe level. The value of covenant as at 31 December 2018 included in the loan agreement of PKN ORLEN (consolidated net debt / EBITDA before taking into account the impact of impairment allowances of non-current assets) amounted to 0.61 and fulfill the obligations contained in loan agreements.

8.2.6.1.2. Borrowings

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

	31/12/2018	31/12/2017
EUR - fixed interest rate	5 386	5 222
USD - LIBOR	-	35
	5 386	**5 257**

The Company does not have external loans. As at 31 December 2018 and 31 December 2017 the amount of PLN 5,386 million and PLN 5,222 million, respectively related to a borrowings from ORLEN Capital AB.
In the period covered by the foregoing separate financial statements after the reporting period there were no cases of default on repayment of principal or interest of borrowings nor breaches of covenants.

8.2.6.1.3. Bonds

- by currency (translated into PLN)

	31/12/2018	31/12/2017
PLN	2 226	2 031
	2 226	**2 031**

- by interest rate

	Floating rate bonds		Fixed rate bonds		Total	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Nominal value	2 000	1 600	210	415	2 210	2 015
Carrying amount	2 015	1 615	211	416	2 226	2 031

	Nominal value	Subscription date	Maturity date	Base rate	Margin	Rating
Bond issue program 2017-2018						
A Series	200	19.09.2017	19.09.2021	6M WIBOR	1.00%	A(pol)
B Series	200	08.12.2017	08.12.2022	6M WIBOR	1.00%	A(pol)
C Series	200	10.05.2018	05.06.2022	6M WIBOR	1.20%	A(pol)
D Series	200	06.06.2018	19.06.2022	6M WIBOR	1.20%	A(pol)
E Series	200	27.06.2018	13.07.2022	6M WIBOR	1.20%	A(pol)
Bond issue program 2013-2014						
F Series	100	09.04.2014	09.04.2020	Fixed interest rate 5%		A(pol)
Retail bonds	**1 100**					
Corporate bonds	**1 000**	27.02.2012	27.02.2019	6M WIBOR	1.60%	-
	2 100					

In addition, as at 31 December 2018 and as at 31 December 2017 the nominal value of short-term bonds issued to the companies from the Group amounted to PLN 110 million and PLN 315 million, respectively.
The difference between the nominal value and carrying amount of bonds results from measurement of bonds according to amortized cost using the effective interest method.
In the 2nd quarter of 2018 PKN ORLEN redeemed retail bonds E series in the total amount of PLN 200 million issued under public bond issue program conducted in 2013-2014.
Under the second public bond issue program PKN ORLEN in the 2nd quarter of 2018 issued retail bonds series C and D in the total amount of PLN 400 million and in the 3th quarter of 2018 issued retail bonds series E in the total amount of PLN 200 million.

PKN ORLEN (in PLN million)

8.2.6.2. Equity management policy

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

The above actions are performed based on the constant monitoring of:
- net financial gearing of the Group - as at 31 December 2018 and as at 31 December 2017 amounted to 15.7% and 2.2% respectively;
- net debt to EBITDA ratio before net impairment allowances;
- PKN ORLEN rating.

Dividend paid per ordinary shares – depends on the financial position of the Group, including maintaining financial ratios at the safe level. Dividend for the previous years paid in 2018 and in 2017 amounted to PLN 3 per share for both dates.

8.2.7. Equity

SELECTED ACCOUNTING PRINCIPLES

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

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

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

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

8.2.7.1. Share capital

	31/12/2018	31/12/2017
Share capital	535	535
Share capital revaluation adjustment	523	523
	1 058	**1 058**

In accordance with the Polish Commercial Register, the share capital of Polski Koncern Naftowy ORLEN S.A. as at 31 December 2018 and as at 31 December 2017 was divided into 427,709,061 ordinary shares with nominal value of PLN 1.25 each.

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

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

Shareholders structure

	Number of shares / voting rights	Nominal value of shares (in PLN)	Share in share capital
State Treasury	117 710 196	147 137 745	27.52%
Nationale-Nederlanden OFE*	30 000 000	37 500 000	7.01%
Aviva OFE*	28 240 000	35 300 000	6.60%
Other	251 758 865	314 698 581	58.87%
	427 709 061	**534 636 326**	**100.00%**

** According to the information from the Ordinary General Shareholders' Meeting convened for 26 June 2018, continuing the Meeting on 17 July 2018*

8.2.7.2. Share premium

	31/12/2018	31/12/2017
Nominal share premium	1 058	1 058
Share premium revaluation adjustment	169	169
	1 227	**1 227**

PKN ORLEN (in PLN million)

8.2.7.3. Retained earnings

	31/12/2018	31/12/2017
Reserve capital	22 949	18 130
Other capital	830	830
Equity resulting from merger under common control	(29)	(29)
Actuarial gains and losses	(8)	(6)
Net profit for the period	5 434	6 102
Impact of IFRS 9 adoption	(24)	-
	29 152	**25 027**

8.2.7.4. Proposal for distribution of the Company's profit for 2018

The Management Board of PKN ORLEN, after considering the liquidity situation and achievement of strategic financial objectives, recommends to distribute the net profit of PKN ORLEN for the year 2018 in the amount of PLN 5 434 149 842.17 as follows: PLN 1,496,981,713.50 PLN will be allocated as a dividend payment (PLN 3.5 per 1 share) and the remaining amount of PLN 3,937,168,128.67 as reserve capital. The Management Board of PKN ORLEN proposes 22 July of 2019 as the dividend date and 5 August of 2019 as the dividend payment date. This recommendation of the Management Board will be presented to the General Shareholders' Meeting of PKN ORLEN, which will make a conclusive decision in this matter.

8.2.7.5. Distribution of the Company's profit for 2017

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

8.2.8. Derivatives and other assets and liabilities

Derivatives and other assets

	Non-current		Current		Total	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Cash flow hedging instruments	59	189	278	158	337	347
currency forwards	*59*	*189*	*149*	*126*	*208*	*315*
commodity swaps	-	-	*129*	*32*	*129*	*32*
Derivatives not designated as hedge accounting	15	-	40	90	55	90
currency forwards	-	-	*5*	*89*	*5*	*89*
currency interest rate swaps	*10*	-	-	*1*	*10*	*1*
commodity swaps	-	-	*35*	-	*35*	-
interest rate swaps	*5*	-	-	-	*5*	-
Derivatives under centralization	42	-	131	148	173	148
commodity swaps	-	-	*124*	*148*	*124*	*148*
currency forwards	*42*	-	*7*	-	*49*	-
Fair value hedging instruments	2	-	1	-	3	-
commodity swaps	*2*	-	*1*	-	*3*	-
Derivatives	**118**	**189**	**450**	**396**	**568**	**585**
Other financial assets	916	97	541	1 270	1 457	1 367
loans granted	*831*	*33*	*8*	*717*	*839*	*750*
cash pool	-	-	*297*	*349*	*297*	*349*
receivables on settled derivatives	-	-	*105*	*34*	*105*	*34*
receivables on settled derivatives under centralization	-	-	*111*	*170*	*111*	*170*
financial assets measured at fair value through other comprehensive income	*59*	-	-	-	*59*	-
financial assets available for sale	-	*41*	-	-	-	*41*
hedged item adjustment	*4*	-	*20*	-	*24*	-
finance lease	*22*	*23*	-	-	*22*	*23*
Other non-financial assets	100	95	-	-	100	95
perpetual usufruct of land	*100*	*95*	-	-	*100*	*95*
Other assets	**1 016**	**192**	**541**	**1 270**	**1 557**	**1 462**

PKN ORLEN (in PLN million)

Derivatives and other liabilities

	Non-current		Current		Total	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Cash flow hedging instruments	-	-	96	42	96	42
commodity swaps	-	-	96	34	96	34
currency forwards	-	-	-	8	-	8
Derivatives not designated as hedge accounting	38	75	60	89	98	164
interest rate swaps	38	56	-	-	38	56
currency interest rate swaps	-	19	27	-	27	19
currency forwards	-	-	12	89	12	89
commodity swaps	-	-	21	-	21	-
Derivatives under centralization	42	-	147	147	189	147
commodity swaps	-	-	140	147	140	147
currency forwards	42	-	7	-	49	-
Fair value hedging instruments	4	-	21	-	25	-
commodity swaps	4	-	21	-	25	-
Derivatives	**84**	**75**	**324**	**278**	**408**	**353**
Other financial liabilities	257	220	1 657	2 248	1 914	2 468
liabilities on settled derivatives	-	-	7	15	7	15
liabilities on settled derivatives under centralization	-	-	115	170	115	170
investment liabilities	96	103	-	-	96	103
finance lease	138	117	-	-	138	117
cash pool	-	-	1 534	2 063	1 534	2 063
hedged item adjustment	2	-	1	-	3	-
donations	21	-	-	-	21	-
Other non-financial liabilities	-	-	6	172	6	172
deferred income, incl.:	-	-	6	172	6	172
VITAY loyalty program, prepaid cards	-	-	-	164	-	164
Other liabilities	**257**	**220**	**1 663**	**2 420**	**1 920**	**2 640**

In 2018 in order to optimize market risk management, the ORLEN Group launched a process of service centralization under derivative financial instruments. PKN ORLEN as part of centralization concludes transactions with a financial institution (Bank) and subsequently, an intercompany transaction with a company from the ORLEN Group.
Within the commodity and investment exposures, PKN ORLEN acts as an intermediary in this type of transactions. The result of these transactions is the presentation in net value (revenue less costs) in the item revenues from sales of services.
Moreover, within the framework of commodity exposure PKN ORLEN concludes transactions with the ORLEN Group company. The effect of these transactions is the presentation of valuation and settlement in other operating activities.

8.2.8.1. Financial assets at fair value through other comprehensive income

Investments in equity instruments measured at fair value through other comprehensive income	Fair value of asset	Dividends recognised during the reporting period, relating to investments held at the end of the reporting period	Indication of the reason for applying particular variant of presentation
Naftoport Sp. z o.o.	40	4	Instruments not acquired for trading, without impact of reclassification of profit/loss on financial result
Bank Ochrony Środowiska S.A.	18	-	
Wodkan S.A.	1	-	
	59	**4**	

8.2.8.2. Change in expected credit loss of loans granted

	2018
01/01/2018 (approved data)	-
Impact of IFRS 9 adoption	10
01/01/2018 (converted data)	10
Recognition	13
Reversal	(10)
	13

8.2.9. Provisions

SELECTED ACCOUNTING PRINCIPLES

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

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

PKN ORLEN (in PLN million)

Jubilee bonuses and post-employment benefits
Under the remuneration plans employees of the Company are entitled to jubilee bonuses, paid to employees after elapse of a defined number of years in service as well as retirement and pension benefits, paid once at retirement or pension.
The amount of above benefits and jubilee bonuses depends on the number of years in service and an employee's remuneration.
The jubilee bonuses are other long-term employee benefits, whereas retirement and pension benefits are classified as post-employment defined benefit plans.
Provisions are determined by an independent actuary and revalued if there are any indications impacting their value, taking into account the staff turnover and planned change in wages.
Actuarial gains and losses from post-employment benefits are recognised in components of other comprehensive income and from other employment benefits, including jubilee awards, are recognised in the statement of profit or loss.

CO_2 emissions, energy certificates
The Company recognises the estimated CO_2 emissions costs during the reporting period in operating activity costs (taxes and charges). Provision is recognised based on the value of allowances, taking into account the principle of FIFO (First In, First Out). In case of a shortage of allowances, the provision is created based on the purchase price of allowance concluded in forward contracts or market quotations of allowances at the reporting date.
Energy certificates are property rights to energy and energy efficiency certificates. The Company recognises provisions for the estimated volume of energy rights and energy efficiency certificates for depreciation in the reporting period, which is recognised as a reduction of revenues from sales of energy or as operating costs in case of purchase of electricity for own needs.
The obligation to submit energy certificates for depreciation or to pay a substitute fee or obtain a statement together with an energy efficiency audit is regulated on the basis of separate regulations.

Other provisions
Other provisions include mainly provisions for going on legal proceedings and are recognised after consideration of available information, including the opinions of independent experts.
The Company recognises provisions if at the end of the reporting period the Company is an obligation arising from past events that can be reliably estimated and it is probable that fulfilment of this obligation will cause an outflow of resources embodying economic benefits.

ESTIMATES

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

Provisions

	Non-current		Current		Total	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Environmental	403	319	34	30	437	349
Jubilee bonuses and post-employment benefits	117	121	28	24	145	145
CO_2 emissions, energy certificates	-	-	229	172	229	172
Other	-	-	85	95	85	95
	520	**440**	**376**	**321**	**896**	**761**

Change in provisions

	Environmental provision	Jubilee bonuses and post-employment benefits provision	CO_2 emissions, energy certificates	Other	Total
01/01/2018	349	145	172	95	761
Recognition	112	19	227	6	364
Reversal	(1)	(6)	(3)	(13)	(23)
Usage	(23)	(13)	(167)	(3)	(206)
	437	**145**	**229**	**85**	**896**
01/01/2017	284	135	180	112	711
Recognition	90	22	172	5	289
Reversal	(3)	-	-	(20)	(23)
Usage	(22)	(12)	(180)	(2)	(216)
	349	**145**	**172**	**95**	**761**

	2018	2017
Change in provisions presented in the statement of financial position	**135**	**50**
Usage of prior year provision for CO_2 emissions, energy certificates from previous year	167	174
Capitalization of environmental provision	(85)	(63)
Actuarial gains and losses	(2)	(2)
Change in provisions in the statement of cash flows	**215**	**159**

8.2.9.1. Environmental provision

The Company has legal obligation to clean contaminated land – water environment in the area of production plants in Plock, fuel stations, fuel terminals and warehouses.
The Management Board estimated the provision for environmental risk related to the removal of pollution based on analyses provided by independent expert taking into account the expected costs of remediation. Depending on the type of facility generating the pollution, the provision is estimated by taking into account the

PKN ORLEN (in PLN million)

frequency of remediation, the scale of environmental pollution and the achieved ecological effects. The decommissioning of most facilities will take place in the more distant future and the precise requirements that will have to be met when the removal event occurs are uncertain. The level of uncertainty is burdened with potential change in regulations concerning, among others environmental and social expectations. At the same time, technological progress is an important factor that will determine future decommissioning costs.

Increase in the provision as at 31 December 2018 results from the updating the estimates of the present value of investment expenditures required to settle the present obligation at the reporting date.
The provision was discounted based on the risk-free rate set on the level of yields on 10-year treasury bonds and adjusted by the 5-year inflation rate.
As at 31 December 2018 and as at 31 December 2017 the rate amounted to 0.35% and 0.86% respectively.

8.2.9.2. Provision for jubilee bonuses and post-employment benefits

Change in employee benefits obligations

	NOTE	Jubilee bonuses provision 31/12/2018	Jubilee bonuses provision 31/12/2017	Post-employment benefits 31/12/2018	Post-employment benefits 31/12/2017	Total 31/12/2018	Total 31/12/2017
At the beginning of the period		80	75	65	60	145	135
Current service costs		3	3	2	2	5	5
Interest expenses		2	3	2	2	4	5
Actuarial gains and losses arising from changes in assumptions:		1	9	2	3	3	12
demographic		*(1)*	*4*	*-*	*(1)*	*(1)*	*3*
financial		*4*	*4*	*3*	*3*	*7*	*7*
other		*(2)*	*1*	*(1)*	*1*	*(3)*	*2*
Payments under program		(9)	(10)	(3)	(2)	(12)	(12)
	8.2.9	**77**	**80**	**68**	**65**	**145**	**145**

The carrying amount of employee benefits liabilities is identical to their present value as at 31 December 2018 and 31 December 2017 .

Employee benefits liabilities divided into active and retired employees

Active employees 31/12/2018	Active employees 31/12/2017	Retired employees 31/12/2018	Retired employees 31/12/2017	Total 31/12/2018	Total 31/12/2017
130	130	15	15	145	145

Employee benefits liabilities concern active employees and retired employees in Poland

	Jubilee bonuses provision 31/12/2018	Jubilee bonuses provision 31/12/2017	Post-employment benefits 31/12/2018	Post-employment benefits 31/12/2017	Total 31/12/2018	Total 31/12/2017
Maturity of employee benefits analysis						
up to 1 year	14	11	14	13	28	24
above 1 to 5 years	26	28	12	8	38	36
above 5 years	37	41	42	44	79	85
	77	**80**	**68**	**65**	**145**	**145**

The weighted average duration of liabilities for post-employment benefits in 2018 and 2017 was 10 and 9 years, respectively.

In 2018 the amount of provision for employee benefits changed as the result of update of assumptions, mainly in relation to discount rate, projected inflation and expected remuneration increase ratio. Should the 2017 assumptions be used, the provision for the employee benefits would be lower by PLN (6) million.

Sensitivity anslysis to changes in actuarial assumptions

As at 31 December 2017, the Company used the following actuarial assumptions, that had an impact on the level of actuarial provisions: discount rate 3.1%, expected inflation 3.2% in 2019, 2.9% in 2020 and 2.5% in subsequent years, the remuneration increase rate: 5% in 2019 and 3% in subsequent years.
The Company analysed the impact of the financial and demographic assumptions and calculated that the change of ratios by +/- 0.5 p.p., the discount rate by +/- 0.5 p.p. and the rate of turnover by +/- 0.5 p.p. is immaterial. Therefore, the Company does not present any detailed information.
The Company carries out the employee benefit payments from current resources. As at 31 December 2018 there were no funding plans and the Company paid no contributions to fund liabilities.

8.2.9.3. Provision for CO_2 emissions, energy certificates

Provision for CO_2 emissions, energy certificates comprises mainly recognition of the provision for cost of CO_2 emissions estimated in the reporting period. As at 31 December 2018 and 31 December 2017 the value of the provision amounted to PLN 190 million and PLN 161 million, respectively.

8.2.9.4. Other provisions

As at 31 December 2018 and as at 31 December 2017 other provisions mainly comprise provisions for the risk of unfavourable decisions of pending administrative or court proceedings in the amount of PLN 56 million and PLN 66 million, respectively.

8.3. EXPLANATORY NOTES TO THE FINANCIAL INSTRUMENTS AND FINANCIAL RISK

SELECTED ACCOUNTING PRINCIPLES

Financial instruments

Measurement of financial assets and liabilities

At initial recognition, the Company measures financial assets and liabilities not qualified as at fair value through profit or loss (i.e. held for trading) at their fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. The Company does not classify instruments as measured at fair value through profit or loss upon initial recognition, i.e. does not apply the fair value options.

At the end of the reporting period, the Company measures item of financial assets and liabilities at amortised cost using effective interest rate method, except for derivatives, which are measured at fair value.

The Company uses simplified methods of valuation of financial assets and liabilities accounted at amortized cost if it does not distort information included in the statement of financial position, in particular when the period until the repayment of debt or settlement of the liability is not long.

Financial assets accounted at amortized cost, where the Company applies simplifications, are accounted at initial recognition in the amount due, and later, including at the end of the reporting period, in the amount of the payment due expected credit loss.

Financial liabilities for which the Company applies simplifications are measured at initial recognition and at a later date, including at the end of the reporting period, in the amount of payment due less expected credit loss impairment allowances.

Gains and losses resulting from changes in fair value of derivatives, for which hedge accounting is not applicable, are recognised in the current year profit or loss.

Hedge accounting

Derivatives designated as hedging instruments whose fair value or cash flows are expected to offset changes in fair value or in the cash flows of a hedged item are accounted for in accordance with fair value or the cash flow hedge accounting.

The Company has two types of hedging relation: cash flow and fair value hedge.

The Company assess effectiveness of cash flow hedge at the inception of the hedge and later, at minimum, at reporting date. In case of cash flow hedge accounting, the Company recognises in other comprehensive income part of profits and losses connected with the effective part of the hedge, whereas profits or losses connected with the ineffective part - under profit or loss.

In addition (in case of currency risk hedge - spot rate risk element), as part of equity in a separate item, the Company recognises a change in the fair value due to the hedge costs.

To assess the effectiveness of hedge the Company uses statistical methods, including in particular, regression analysis and the direct compensation method.

The verification of fulfilment of conditions in the scope of binding effectiveness is made on a prospective basis, based on a qualitative analysis. If it is necessary, the Company uses quantitative analysis (linear regression method) to confirm the existence of an economic link between the hedging instrument and the hedged item.

In case of applying fair value hedge accounting, the Company recognises profits or losses resulting from the revaluation of fair value of derivative financial instrument in financial result, and adjusts carrying amount of hedged item by profit or loss related to the hedged item, resulting from the risk being hedged and recognises it in the profit or loss (in the same item in which hedging derivatives are recognised).

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognised in other comprehensive income are reclassified to profit or loss of the reporting period in the same period or periods during which the asset acquired, or liability assumed, affects profit or loss.

However, if the Company expects that all or a portion of a loss recognised in other comprehensive income will not be recovered in one or more future periods, it reclassifies the amount that is not expected to be recovered to profit or loss. Derivative instruments are presented as assets, when their valuation is positive and as liabilities, when their valuation is negative.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, or a forecast transaction for a non-financial asset or non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, the Company removes the associated gains and losses that were recognised in the other comprehensive income and includes them in the initial cost or other carrying amount of the asset or liability when the item appears in the statement of financial position.

If a hedge of a forecast transaction results in the recognition of revenue from sales of products, merchandise, materials or services, the Company removes the associated gains or losses that were recognised in the other comprehensive income and adjusts above revenues.

In case of applying fair value hedge accounting, cumulated adjustment of hedged item valuation for hedged risk is transferred to the financial result at the moment when the realization of hedged item affects the result. Derivatives are recognised as assets when their valuation is positive and as liabilities in case of negative valuation.

Fair value measurement

The Company maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs to estimate the fair value, i.e. the price at which an orderly transaction to transfer the liability or equity instrument would take place between market participants as at the measurement date under current market conditions.

The Company measures derivative instruments at fair value using valuation models for financial instruments based on generally available exchange rates, interest rates, forward and volatility curves, for currencies and commodities quoted on active markets.

Fair value of derivatives is based on discounted future flows related to contracted transactions as a difference between term price and transaction price.

Forward rates of exchange are not modelled as a separate risk factor, but they are calculated as a result of spot rate and forward interest rate for foreign currency in relation to PLN.

PROFESSIONAL JUDGMENTS

Financial instruments

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

PKN ORLEN (in PLN million)

8.3.1. Financial instruments by category and class

Financial instruments by class	Financial instruments by category IFRS 9	IAS 39	NOTE	31/12/2018	31/12/2017
ASSETS					
Measured at fair value through other comprehensive income	Measured at fair value through other comprehensive income	Available for sale	8.2.8	59	41
Derivatives not designated as hedge accounting	Measured at fair value through profit or loss	Measured at fair value through profit or loss	8.2.8	55	90
Derivatives under centralization	Measured at fair value through profit or loss	Measured at fair value through profit or loss	8.2.8	173	148
Cash flow hedging instruments	Hedging financial instruments	Hedging financial instruments	8.2.8	337	347
Fair value hedging instruments	Measured at fair value through profit or loss	-	8.2.8	3	-
Finance lease	Excluded from the scope of IFRS 9	Excluded from the scope of IAS 39	8.2.8	22	23
	Measured at amortized cost	Loans and receivables		11 943	13 600
Trade receivables	*Measured at amortized cost*	*Loans and receivables*	8.2.5.2	*7 001*	*6 711*
Loans granted	*Measured at amortized cost*	*Loans and receivables*	8.2.8	*839*	*750*
Cash	*Measured at amortized cost*	*Loans and receivables*		*3 461*	*5 477*
Cash pool	*Measured at amortized cost*	*Loans and receivables*	8.2.8	*297*	*349*
Receivables on settled derivatives	*Measured at amortized cost*	*Loans and receivables*	8.2.8	*216*	*204*
Hedged item adjustment	*Measured at amortized cost*	-	8.2.8	*24*	-
Other	*Measured at amortized cost*	*Loans and receivables*	8.2.5.2	*105*	*109*
				12 592	**14 249**
LIABILITIES					
Derivatives not designated as hedge accounting	Measured at fair value through profit or loss	Measured at fair value through profit or loss	8.2.8	98	164
Derivatives under centralization	Measured at fair value through profit or loss	Measured at fair value through profit or loss	8.2.8	189	147
Cash flow hedging instruments	Hedging financial instruments	Hedging financial instruments	8.2.8	96	42
Fair value hedging instruments	Measured at fair value through profit or loss	-	8.2.8	25	-
Finance lease	Excluded from the scope of IFRS 9	Excluded from the scope of IAS 39	8.2.5.3, 8.2.8	164	141
	Measured at amortized cost	Measured at amortized cost		17 693	16 866
Loans	*Measured at amortized cost*	*Measured at amortized cost*	8.2.6.1.1	*2 151*	-
Borrowings	*Measured at amortized cost*	*Measured at amortized cost*	8.2.6.1.2	*5 386*	*5 257*
Bonds	*Measured at amortized cost*	*Measured at amortized cost*	8.2.6.1.3	*2 226*	*2 031*
Trade liabilities	*Measured at amortized cost*	*Measured at amortized cost*	8.2.5.3	*5 537*	*6 181*
Investment liabilities	*Measured at amortized cost*	*Measured at amortized cost*	8.2.5.3, 8.2.8	*614*	*989*
Cash pool	*Measured at amortized cost*	*Measured at amortized cost*	8.2.8	*1 534*	*2 063*
Liabilities on settled derivatives	*Measured at amortized cost*	*Measured at amortized cost*	8.2.8	*122*	*185*
Hedged item adjustment	*Measured at amortized cost*	-	8.2.8	*3*	-
Other	*Measured at amortized cost*	*Measured at amortized cost*	8.2.5.3, 8.2.8	*120*	*160*
				18 265	**17 360**

8.3.2. Income, expense, profit and loss

	Financial instruments by category IFRS 9	IAS 39	NOTE	2018	2017
Interest income			8.1.11.1	61	50
from assets measured at amortisated cost	*Measured at amortized cost*	*Loans and receivables*		*60*	*49*
from lease	*Excluded from the scope of IFRS 9*	*Excluded from the scope of IAS 39*		*1*	*1*
Interest costs			8.1.11.2	(277)	(201)
from liabilities measured at amortisated cost	*Measured at amortized cost*	*Loans and receivables*		*(270)*	*(195)*
from lease	*Excluded from the scope of IFRS 9*	*Excluded from the scope of IAS 39*		*(7)*	*(6)*
(Loss)/reversal of loss due to impairment of financial instruments	Measured at amortized cost	-	8.1.12	(13)	-
Recognition/reversal of receivables impairment allowances	Measured at amortized cost	Measured at amortized cost		-	(7)
other operating income/expenses	*Measured at amortized cost*	*Measured at amortized cost*		*-*	*(7)*
Other operating income	Excluded from the scope of IFRS 9	Excluded from the scope of IAS 39		7	3
Financial instruments gains/(losses)				18	505
	Measured at amortized cost	*Loans and receivables*		*346*	*(775)*
	Measured at amortized cost	*Measured at amortized cost*		*(728)*	*1 402*
	Measured at fair value through profit or loss	*Measured at fair value through profit or loss*		*369*	*(113)*
	Cash flow hedging financial instruments (ineffective part)	*Cash flow hedging financial instruments (ineffective part)*		*7*	*(13)*
	Hedging financial instruments (settlement of hedging costs)	-		*20*	-
	Measured at fair value through other comprehensive income	*Available for sale*		*4*	*4*
Other finance income/costs	*Measured at amortized cost*	*Measured at amortized cost*		(2)	25
				(206)	**375**
other, excluded from the scope of IFRS 7					
Dividends from related entities				866	1 595
Impairment allowances of shares in related entities				1 005	287
Provisions discounting				(3)	(6)
Other				-	27
				1 868	**1 903**

PKN ORLEN (in PLN million)

In 2018 gains/(losses) on investments in equity instruments at fair value through other comprehensive income amounted to PLN (7) million.

8.3.3. Fair value measurement

31/12/2018

	NOTE	Carrying amount	Fair value	Fair value hierarchy Level 1	Level 2
Financial assets					
Financial assets measured at fair value through other comprehensive income	8.2.8	59	59	19	40
Loans granted	8.2.8	839	851	-	851
Finance lease	8.2.8	22	21	-	21
Derivatives, incl.:	8.2.8	568	568	-	568
derivatives under centralization	8.2.8	*173*	*173*	-	*173*
		1 488	**1 499**	**19**	**1 480**
Financial liabilities					
Loans	8.2.6.1.1	2 151	2 151	-	2 151
Borrowings	8.2.6.1.2	5 386	5 394	-	5 394
Bonds	8.2.6.1.3	2 226	2 237	2 127	110
Finance lease	8.2.5.3, 8.2.8	164	164	-	164
Derivatives, incl.:	8.2.8	408	408	-	408
derivatives under centralization	8.2.8	*189*	*189*	-	*189*
		10 335	**10 354**	**2 127**	**8 227**

31/12/2017

	NOTE	Carrying amount	Fair value	Fair value hierarchy Level 1	Level 2
Financial assets					
Loans granted	8.2.8	750	750	-	750
Finance lease	8.2.8	23	22	-	22
Derivatives, incl.:	8.2.8	585	585	-	585
derivatives under centralization	8.2.8	*148*	*148*	-	*148*
		1 358	**1 357**	**-**	**1 357**
Financial liabilities					
Borrowings	8.2.6.1.2	5 257	5 267	-	5 267
Bonds	8.2.6.1.3	2 031	2 051	1 736	315
Finance lease	8.2.5.3, 8.2.8	141	142	-	142
Derivatives, incl.:	8.2.8	353	353	-	353
derivatives under centralization	8.2.8	*147*	*147*	-	*147*
		7 782	**7 813**	**1 736**	**6 077**

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

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

Financial liabilities due to loans, bonds, finance lease and liabilities and receivables for borrowings are measured at fair value using discounted cash flows method. Discount rates are calculated based on market interest rates according to quotations of 1- month, 3-months and 6-months interest rates increased by proper margins for individual financial instrument. In the item financial assets measured at fair value through other comprehensive income, quoted/unquoted shares not held for trading are included. In 2017, in accordance with IAS 39, these assets were classified as available for sale and measured at purchase price less impairment allowances.
During the reporting period and the comparative period there were no reclassifications of financial instruments in the Company between Level 1 and 2 of fair value hierarchy.

8.3.4. Hedge accounting

The Company applies cash flow and fair value hedge accounting.
Cash flow hedge accounting concerns:
- forward sales and purchase of foreign currency operating activity hedging,
- hedging the change in margins on refinery and petrochemical products sold,
- hedging the periodic increase in operating inventories,
- hedging the timing mismatches due to purchase of crude oil and sales of refinery products.

Fair value hedge accounting concerns:
- hedging the sales of bitumen and aviation fuel at a fixed price.

Currently, the sources of ineffectiveness in case of hedge accounting for currency risk is the difference between the maturity date for hedging instrument, falling on the last business days of the M-1 month and maturity of the hedged item, where the revenues from sale of petrochemical products are realized in the first consecutive days of the given M month.
However, in case of commodity risk, sources of ineffectiveness result from the risk components designated for the hedged item, which are a part of the probable planned future purchase of oil and hedging instruments based solely on commodity indices of refinery products sold or purchased crude oil.
The sources of ineffectiveness for both the hedging of currency risk and commodity risk were the creation of new hedging relationships from 1 January 2018. Part of instruments, therefore, at the time of establishing the relations already had a valuation, which generates sources of ineffectiveness.

PKN ORLEN (in PLN million)

There is partially natural hedging for USD/PLN exchange rate, as revenues from sales of products depending on USD exchange rate are offset by the cost of buying crude oil in the same currency. Due to the fact that PKN ORLEN has a long position in EUR and the relatively low interest rates for EUR (as compared to PLN rates), it was considered reasonable to strive for a situation in which the Company has debt obligations in foreign currency (currency conversion debt from PLN to debt in EUR through the execution of CCS transactions).

Information on hedging instruments – maturity structure

Risk type / type of instrument	Unit of measure	up to 1 year	above 1 to 3 years
Cash flow hedge			
Foreign exchange risk			
Currency forwards - long position hedge (buy)			
Nominal value	USD	21 237 178	12 992 248
Average exchange rate USD/PLN		3.57	3.56
Currency forwards - short position hedge (sell)			
Nominal value	EUR	495 000 000	600 000 000
Average exchange rate EUR/PLN		4.64	4.57
Commodity risk			
Commodity swaps - future revenues hedge (buy)			
Crude oil			
Volume	BBL	4 210 400	-
Average price		61.77	
Commodity swaps - inventories (buy)			
Crude oil			
Volume	BBL	3 813 200	-
Average price		59.98	
Fair value hedge			
Commodity risk			
Commodity swaps - future revenues hedge (buy)			
Crude oil			
Volume	BBL	181 250	72 040
Average price		59.76	57.09
Heating oil			
Volume	MT	43 696	43 793
Average price		295.30	260.85
Jet			
Volume	MT	46 000	-
Average price		656.31	-
Commodity swaps - future revenues hedge (sell)			
Diesel			
Volume	MT	4 371	4 379
Average price		571.57	580.91

Planned realization date of hedged cash flows and fair value which will be recognised in the profit or loss

	31/12/2018	31/12/2017
Currency operating exposure	2019-2021	2018-2020
Commodity risk exposure	2019-2020	2018-2019

PKN ORLEN (in PLN million)

Hedge accounting effects on financial situation and results

Link type / risk type / type of instrument	Buy (B)/ Sell (S)	Hedging strategies within the cash flow hedge	Unit of measure	Nominal value / volume	Assets	Liabilities	Changes in fair value (as basis for determining an ineffective part in a given period)
Cash flow hedge							
Foreign exchange risk							
FX_EUR.PLN	S	sales of goods denominated in foreign currencies/indexed to foreign currencies	EUR	1 095 000 000	203	-	(112)
FX_USD.PLN	B		USD	34 229 425	5	-	13
Commodity risk							
Crude oil	S	time mismatch on crude oil purchases	BBL	4 210 400	128	-	122
Crude oil	B		BBL	3 813 200	1	96	(87)
					337	**96**	**(64)**
Fair value hedge							
Commodity risk							
Crude oil	B	bitumen sale at fixed price	BBL	253 290	-	4	(4)
Heating oil	B	bitumen sale at fixed price	MT	87 489	1	7	(6)
Diesel	S	bitumen sale at fixed price	MT	8 750	2	-	2
Jet	B	JET fuel sale at fixed price	MT	46 000	-	14	(14)
					3	**25**	**(22)**
					340	**121**	**(86)**

Carrying amount was recognised in statement of financial position in Derivatives and Other assets and liabilities

Cash flow hedge

Risk type / position type	Changes in fair value of the hedged item (as basis for determining an ineffective part in a given period)	Hedging reserve (gross value) for relationships remains in hedge accounting
Foreign exchange risk (EUR)		
Future sales revenues	209	104
Foreign exchange risk (USD)		
Future manufacturing costs	(4)	5
	205	**109**
Commodity risk		
Inventories	93	(90)
Future sales revenues	(129)	124
	(36)	**34**
	169	**143**

Fair value hedge

Risk type / position type	Accumulated balance sheet adjustment due to fair value – Assets	Accumulated balance sheet adjustment due to fair value – Liabilities	Item in statement of financial position in which carrying amount was recognised	Changes in fair value (as basis for determining ineffective part in a given period)	Difference between profit or loss due to hedge on hedging instrument and hedged item
Commodity risk					
Future sales revenues	24	3	Derivatives and other assets and liabilities	(22)	(1)

PKN ORLEN (in PLN million)

Impact of cash flow hedge accounting on the statement of profit or loss and other comprehensive income

Risk type / position type	Profits or losses from hedge for the reporting period recognised in other comprehensive income	Ineffectiveness of hedge recognised in profit or loss in the period	Item in the statement, where ineffectiveness of hedge was recognised	Amount reclassified from other comprehensive income to profit or loss as adjustment due to reclassification, because:	
				Implementation of hedged item in the period (continued relationships)	Item in profit or loss account, that includes reclassification adjustment
Foreign exchange risk (EUR/PLN)					
currency forwards	(211)	-		(87)	Sales revenues
currency forwards	98	-		(20)	Other operating income/expenses
Foreign exchange risk (USD/PLN)					
currency forwards	12	-		1	Manufacturing costs (operational)
	(101)	**-**		**(106)**	
Commodity risk					
commodity swaps	(61)	(3)	Other operating income and costs	(5)	Inventories
commodity swaps	(20)	(3)	Other operating income and costs	(20)	Manufacturing costs (operational)
commodity swaps	120	4	Other operating income and costs	96	Sales revenues
	39	**(2)**		**71**	
	(62)	**(2)**		**(35)**	

Reconciliation of equity from hedge accounting

	Hedging reserve by			
	Effective part of change in fair value	Effective part due to settlement of instruments	Cost of hedging related to occurrence of transaction	Total
Foreign exchange risk				
01/01/2018	**318**	**-**	**-**	**318**
Cash flow hedge				
Impact of valuation of hedging transactions (effective part)	(103)	-	98	(5)
Reclassification to profit or loss in connection with realization of hedged item	(106)	-	-	(106)
Instruments for settlement	-	6	4	10
31/12/2018	**109**	**6**	**102**	**217**
Commodity risk				
01/01/2018	**(5)**	**-**	**-**	**(5)**
Cash flow hedge				
Impact of valuation of hedging transactions (effective part)	(13)	-	n/a	(13)
Reclassification to profit or loss in connection with realization of hedged item	71	-	n/a	71
Settlement of ineffective part	(19)	-	-	(19)
31/12/2018	**34**	**-**	**-**	**34**
Hedging reserve, gross 01/01/2018	**313**	**-**	**-**	**313**
Deferred tax from hedging instruments settlement and valuation	60	-	-	60
Hedging reserve, net 01/01/2018	**253**	**-**	**-**	**253**
Hedging reserve, gross 31/12/2018	**143**	**6**	**102**	**251**
Deferred tax from hedging instruments settlement and valuation	27	1	20	48
Hedging reserve, net 31/12/2018	**116**	**5**	**82**	**203**

8.3.5. Risks identification

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

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

Hedging strategies within hedge accounting	Component	Type of relationship
Bitumen sales at fixed price	Brent risk component, which is a part of an unconditional and binding commercial commitment from concluded sale transaction at a fixed price	fair value hedge
Aviation fuel sales at fixed price	Jet fuel risk component, which is a part of an unconditional and binding commercial commitment from concluded sale transaction at a fixed price	fair value hedge
Bitumen sales at fixed price	Fuel Oil risk component, which is a part of an unconditional and binding commercial commitment from concluded sale transaction at a fixed price	fair value hedge
Time mismatch on crude oil purchases, which is hedged to the planned period of crude oil processing and sales of products of oversize inventories	Brent risk component, which is part of future crude oil purchase; an item identified based on crude oil deliveries from the month of execution/delivery of hedging transaction in the order in which they were received	cash flow hedge
	Brent risk component, which is a part of diesel oil sales; an item identified based on sales invoices issued in the month of execution/delivery of hedging transaction in the order in which they were issued	
Oversize inventories	Brent DTd risk component, which is part of future crude oil purchase; an item identified based on crude oil deliveries from the month of execution/delivery of hedging transaction in the order in which they were received	cash flow hedge
Sales of goods denominated in foreign currencies/indexed to foreign currencies	Invoices for sales denominated in foreign currency or indexed to exchange rate of foreign currency issued on the day of Forward transaction and subsequent days in the order in which they were issued; nominal value in foreign currency up to the nominal value of hedging instrument in foreign currency	cash flow hedge
	Deliveries for sales denominated in foreign currency or indexed to exchange rate of foreign currency received on the day of Forward transaction and subsequent days in the order in which they were delivered; nominal value in foreign currency up to the nominal value of hedging instrument in foreign currency	

The Company applies a consistent policy for hedging financial risks based on policies and strategies for market risk management under the supervision of the Financial Risk Committee, the Management Board and the Supervisory Board of PKN ORLEN.

Standard hedge against currency economic exposure is done in a rolling and recurring basis, covering a period of the next 12 months.
Opportunistic hedge against currency economic exposure in EUR (due to its stability and predictability) for periods of over 48 months is allowed.
A dedicated hedging strategy determines the optimal heeding levels for the standard period and acceptable deviations.
In case of commodity risk, the hedged level for particular exposures is in line with the recommendations approved by the Financial Risk Committee.
Exposure to commodity price risk related to time mismatches on non-normative operating inventories is hedged for 100% of the volume of inventories exposed to the risk concerned.

PKN ORLEN (in PLN million)

Exposure to commodity price risk related to time mismatch on purchases of crude oil is hedged on a volume equivalent to 90% of the volume of oil purchased exposed to the risk concerned.
Exposure due to the refining margin is hedged opportunistically. In line with the strategies adopted in this respect, the refining margin is hedged in the horizon of up to 12 months in advance on the volume of planned production not exceeding 30% in PKN ORLEN.
All transactions hedging the commodity and currency exposure in Unipetrol and ORLEN Lietuva are performed on the PKN ORLEN balance sheet and then transferred to the companies on the basis of intercompany transactions.

8.3.5.1. Commodity risk

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

Type of hedged raw material/product	Unit of measure	31/12/2018	31/12/2017
Crude oil	bbl	9 408 890	2 697 000
Heating oil	t	87 489	97 616
Other	t	45 750	9 761

The net carrying amount of commodity risk hedging instruments as at 31 December 2018 and as at 31 December 2017 amounted to PLN 33 million and PLN (2) million, respectively.

Sensitivity analysis for changes in prices of products and raw materials
Analysis of the influence of changes in the carrying amount of financial instruments on hedging reserve to a hypothetical change in prices of products and raw materials:

	Assumed variations		Influence on result before tax		Influence on hedging reserve			
	2018	2017	2018	2017	2018	2017	2018	2017
			Increase of prices		Increase of prices		Total	
Crude oil USD/bbl	29%	25%	(13)	-	(89)	(156)	(102)	(156)
Diesel USD/t	24%	23%	-	-	-	(4)	-	(4)
Heating oil USD/t	28%	25%	-	-	-	29	-	29
			(13)	**-**	**(89)**	**(131)**	**(102)**	**(131)**

At the same percentage price decrease, the sensitive analysis states variations of the same value as in the above table but with the opposite sign.

Applied for the sensitivity analysis of commodity risk hedging instruments variations of crude oil and products prices were calculated based on volatility. The influence of changes in prices was presented on annual basis.
In case of derivatives, the influence of crude oil, and products prices variations on fair value were examined at constant level of currency rates.
Due to lack of impact on the result before tax, the Company does not present a detailed sensitivity analysis to changes in prices of products and raw materials in the scope of derivatives within the centralization.

8.3.5.2. The risk of exchange rates changes

Currency structure of financial instruments

Financial instruments by class	EUR		USD		CZK		CAD		JPY		Total after translation to PLN	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Financial assets												
Trade receivables	174	142	521	628	1	1	-	-	-	-	2 707	2 777
Loans granted	-	-	-	-	-	-	272	256	-	-	752	711
Derivatives	50	79	48	24	-	1	-	8	-	-	395	437
Cash	523	778	115	297	36	2 007	-	-	-	-	2 689	4 607
Cash pool	37	72	-	-	-	-	-	-	-	-	159	301
Receivables on settled derivatives	-	-	28	10	-	-	-	-	-	-	105	34
Hedged item adjustment	-	-	6	-	-	-	-	-	-	-	24	-
Other	3	1	1	-	-	-	-	-	-	-	17	4
	787	**1 072**	**719**	**959**	**37**	**2 009**	**272**	**264**	**-**	**-**	**6 848**	**8 871**
Financial liabilities												
Loans	500	-	-	-	-	-	-	-	-	-	2 151	-
Borrowings	1 253	1 252	-	10	-	-	-	-	-	-	5 386	5 257
Trade liabilities	52	43	1 013	1 248	5	3	-	-	43	-	4 035	4 524
Investment liabilities	19	60	8	11	10	104	-	-	-	-	112	304
Derivatives	16	23	40	31	-	-	-	1	-	-	219	206
Cash pool	142	80	184	408	-	-	-	-	-	-	1 303	1 755
Liabilities on settled derivatives	-	-	2	4	-	-	-	-	-	-	7	15
Hedged item adjustment	-	-	1	-	-	-	-	-	-	-	3	-
Other	1	13	-	1	-	-	-	-	-	-	5	58
	1 983	**1 471**	**1 248**	**1 713**	**15**	**107**	**-**	**1**	**43**	**-**	**13 221**	**12 119**

PKN ORLEN (in PLN million)

Sensitivity analysis for changes in the exchange rates

	Assumed variations		Influence on result before tax		Influence on hedging reserve		Total	
	31/12/2018	31/12/2017	2018	2017	2018	2017	2018	2017
EUR/PLN	+15%	+15%	(1 648)	(721)	(707)	(707)	(2 355)	(1 428)
USD/PLN	+15%	+15%	64	(283)	24	10	88	(273)
CZK/PLN	+15%	+15%	1	46	-	-	1	46
CAD/PLN	+15%	+15%	113	107	-	-	113	107
			(1 470)	**(851)**	**(683)**	**(697)**	**(2 153)**	**(1 548)**

At variation of currency rates by (-)15% the sensitivity analysis states variations of the same value as in the above table but with the opposite sign. Variations of currency rates described above were calculated based on average volatility of particular currency rates in 2018 and 2017.
The impact of variations in exchange rates on the fair value of derivatives is estimated at constant level of interest rates.
Due to immaterial impact on the result before tax, the Company does not present a detailed sensitivity analysis to the exchange rates in the scope of derivatives within the centralization.

8.3.5.3. The risk of interest rates changes

Structure of financial instruments subject to risk of interest rates changes

Financial instruments by class	NOTE	WIBOR		LIBOR USD		EURIBOR		LIBOR CAD		Total	
		31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Financial assets											
Loans granted	8.2.8	87	39	-	-	-	-	752	711	839	750
Derivatives	8.2.8	11*	2*	180	85	215*	330*	-	22	395**	437**
Cash pool	8.2.8	138	48	-	-	159	301	-	-	297	349
		236	**89**	**180**	**85**	**374**	**631**	**752**	**733**	**1 531****	**1 536****
Financial liabilities											
Loans	8.2.6.1.1	-	-	-	-	2 151	-	-	-	2 151	-
Borrowings	8.2.6.1.2	-	-	-	35	-	-	-	-	-	35
Bonds	8.2.6.1.3	2 015	1 615	-	-	-	-	-	-	2 015	1 615
Derivatives	8.2.8	27*	19*	150	107	69*	96*	-	3	219**	206**
Cash pool	8.2.8	231	308	692	1 421	611	334	-	-	1 534	2 063
		2 273	**1 942**	**842**	**1 563**	**2 831**	**430**	**-**	**3**	**5 919****	**3 919****

* *In the position financial assets and liabilities – net derivatives, recognised in 2018 and 2017 cross interest rate swaps (CIRS) measured on PLN 16 million and PLN 17 million, respectively, which are sensitive to both WIBOR and EURIBOR interest rates changes.*
** *The position total assets on derivatives includes as at 31 December 2018 and as at 31 December 2017 the valuation of CIRS in the amount of PLN 11 million and PLN 2 million, respectively. The position total liabilities on derivatives as at 31 December 2018 and as at 31 December 2017 includes the valuation of CIRS in the amount of PLN 27 million and PLN 19 million, respectively.*

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

Sensitivity analysis for the interest rates changes

Interest rate	Assumed variations		Influence on result before tax		Influence on hedging reserve		Total	
	31/12/2018	31/12/2017	2018	2017	2018	2017	2018	2017
WIBOR	+0.5p.p.	+0.5p.p.	(10)	(4)	-	-	(10)	(4)
LIBOR USD	+0.5p.p.	+0.5p.p.	1	(1)	-	-	1	(1)
EURIBOR	+0.5p.p.	+0.5p.p.	(3)	16	-	(1)	(3)	15
LIBOR CAD	+1.0p.p.	+1.0p.p.	8	7	-	-	8	7
			(4)	**18**	**-**	**(1)**	**(4)**	**17**

At the same percentage interest rates decrease, the sensitive analysis states variations of the same value as in the above table but with the opposite sign.

The above interest rates variations were calculated based on observations of average interest rates fluctuations in 2018 and 2017.
The influence of interest rates changes was presented on annual basis.
For derivatives in sensitivity analysis for the risk of interest rates changes interest rate curve displacement due to potential reference rate change was used, provided that other risk factors remain constant.
Due to immaterial impact on the result before tax, the Company does not present a detailed sensitivity analysis to the interest rates in the scope of derivatives within the centralization.

Sensitivity analysis to commodity risk, exchange rates changes and to the risk of interest rates changes was carried out based on the same methodology.

PKN ORLEN (in PLN million)

8.3.5.4. Liquidity and credit risk

Liquidity risk

Maturity analysis for financial liabilities as at 31 December 2018

	NOTE	up to 1 year	above 1 to 3 years	above 3 to 5 years	above 5 years	Total	Carrying amount
Loans - undiscounted value	*8.2.6.1.1*	-	2 151	-	-	2 151	2 151
Borrowings - undiscounted value	*8.2.6.1.2*	-	2 160	3 234	-	5 394	5 386
Bonds	*8.2.6.1.3*	1 162	361	818	-	2 341	2 226
floating-rate bonds - undiscounted value		*1 047*	*258*	*818*	-	*2 123*	*2 015*
fixed rate bonds - undiscounted value		*115*	*103*	-	-	*218*	*211*
Trade liabilities	*8.2.5.3*	5 537	-	-	-	5 537	5 537
Investment liabilities	*8.2.5.3, 8.2.8*	518	13	14	69	614	614
Derivatives - undiscounted value	*8.2.8*	311	61	34	-	406	408
gross exchange amounts, incl.:		*40*	*11*	*34*	-	*85*	*88*
currency forwards	*8.2.8*	*16*	*11*	*34*	-	*61*	*61*
currency interest rate swaps	*8.2.8*	*24*	-	-	-	*24*	*27*
net exchange amounts, incl.:		*271*	*50*	-	-	*321*	*320*
interest rate swaps	*8.2.8*	-	*38*	-	-	*38*	*38*
commodity swaps	*8.2.8*	*271*	*12*	-	-	*283*	*282*
Cash pool	*8.2.8*	1 534	-	-	-	1 534	1 534
Liabilities on settled derivatives	*8.2.8*	122	-	-	-	122	122
Hedged item adjustment	*8.2.8*	1	2			3	3
Other	*8.2.5.3, 8.2.8*	125	46	26	87	284	284
		9 310	**4 794**	**4 126**	**156**	**18 386**	**18 265**

Maturity analysis for financial liabilities as at 31 December 2017

	NOTE	up to 1 year	above 1 to 3 years	above 3 to 5 years	above 5 years	Total	Carrying amount
Borrowings - undiscounted value	*8.2.6.1.2*	35	-	2 096	3 137	5 268	5 257
Bonds	*8.2.6.1.3*	567	1 148	417	-	2 132	2 031
floating-rate bonds - undiscounted value		*248*	*1 040*	*417*	-	*1 705*	*1 615*
fixed rate bonds - undiscounted value		*319*	*108*	-	-	*427*	*416*
Trade liabilities	*8.2.5.3*	6 181	-	-	-	6 181	6 181
Investment liabilities	*8.2.5.3, 8.2.8*	886	13	14	76	989	989
Derivatives - undiscounted value	*8.2.8*	253	73	-	-	326	353
gross exchange amounts, incl.:		*87*	*(8)*	-	-	*79*	*108*
currency forwards	*8.2.8*	*87*	-	-	-	*87*	*89*
currency interest rate swaps	*8.2.8*	-	*(8)*	-	-	*(8)*	*19*
net exchange amounts, incl.:		*166*	*81*	-	-	*247*	*245*
currency forwards	*8.2.8*	*8*	-	-	-	*8*	*8*
interest rate swaps	*8.2.8*	*23*	*33*	-	-	*56*	*56*
commodity swaps	*8.2.8*	*135*	*48*	-	-	*183*	*181*
Cash pool	*8.2.8*	2 063	-	-	-	2 063	2 063
Liabilities on settled derivatives	*8.2.8*	185	-	-	-	185	185
Other	*8.2.5.3, 8.2.8*	184	33	20	64	301	301
		10 354	**1 267**	**2 547**	**3 277**	**17 445**	**17 360**

A financial liquidity risk is the loss of ability to settle current liabilities on time.
The Company is exposed to liquidity risk resulting from the relation between current assets and short-term liabilities. As at 31 December 2018 and 31 December2017, the current liquidity indicator amounted to 1.7 for both dates.
The objective of the liquidity risk management process is to ensure the Company's financial security and financial stability, and the basic tool limiting the above risk is the ongoing review of matching maturities of assets and maturity of liabilities. Moreover, the Company carries out a policy of its financing sources diversification and uses range of tools for effective liquidity management.
The Company uses systems of cash concentration ("cash-pool systems") to effectively manage current financial liquidity and to optimize financial costs within the ORLEN Group. At the end of 2018, the following cash-pool systems exited operated by PKN ORLEN:

- cash-pool systems dedicated to Polish companies of the ORLEN Group. As at 31 December 2018 systems included a total of 24 ORLEN Group entities
- international cash-pool system dedicated to foreign companies of the ORLEN Group. As at 31 December 2017 the system comprised 8 foreign ORLEN Group entities.

PKN ORLEN may issue bonds within the settled limits as well as purchase bonds issued by the ORLEN Group entities when managing liquidity. Additional information about bonds in note 8.2.6.1.3
In 2018, the Company invested cash in bank deposits. Decisions regarding bank deposits are based on maximization of the rate of return and assessment of the financial condition of banks requiring a short-term rating by the bank for investment-grade deposits.

As at 31 December 2018 and as at 31 December 2017 the maximum possible indebtedness due to loans and intercompany borrowings for the Company amounted to PLN 13,496 million and PLN 13,182 million, respectively. As at 31 December 2018 and as at 31 December 2017, PLN 5,664 million and PLN 7,640 million, respectively, remained unused.
The value of guarantees regarding liabilities to third parties granted during ongoing operations as at 31 December 2018 and as at 31 December 2017 amounted to PLN 468 million and PLN 229 million, respectively. These concern mainly: civil-law guarantees of contract performance and public-law guarantees resulting from generally applicable regulations secured regularity of business licensed in the liquid fuels sector and resulting from this activity tax and customs receivables, etc.
In addition, guarantees and sureties granted on behalf of related parties to third parties as at 31 December 2018 and as at 31 December 2017 amounted to PLN 9,962 million and PLN 9,677 million, respectively. They concerned the timely payment of related parties liabilities. The Company received revenues from guarantees given in 2018 and 2017 of PLN 6 million for both dates.
Based on analysis and forecasts as at the end of the reporting period, the Company recognised the probability of payment of the above amounts as low.

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

Limits are set based on financial analysis of customers(on basis of provided financial statements) and history of cooperation with PKN ORLEN.
Separate group are customers for whom an insurance limit is issued e.g.: fleet, micro fleet, export contractors.
Some contractors make a deposit on PKN ORLEN account. In case of the absence of credit limit, contractors are obliged to make a prepayment.

The measure of credit risk is the maximum credit risk for each class of financial instruments, which is equal to their carrying amount (note 8.2.5.2, 8.2.8).

As at 31 December 2018 and as at 31 December 2017 the Company received bank and insurance guarantees of PLN 762 million and PLN 826 million, respectively. Additionally, the Company receives from its customers collateral in the form of sureties, voluntary submission to execution (Article 777 of the Code of Civil Procedure), deposits, registered pledges, mortgages and bills of exchange.

As at 31 December 2018 and 31 December 2017, respectively the amount of PLN 839 million and PLN 750 million related to loans granted within ORLEN Group. Part of these loans is hedged. In the period covered by the foregoing separate financial statements after the reporting period there were no cases of default on repayment of principal or interest of borrowings nor breaches of covenants.

8.4. OTHER EXPLANATORY NOTES

8.4.1. Concessions held

The Company's operations required concessions, due to their importance to the public interest.

31/12/2018	Remaining concession periods (in years)
Electrical energy: manufacturing, distribution, trade	7
Heating energy: manufacturing, transmission, distribution, trade	7 - 12
Liquid and gaseous fuels: manufacturing, transmission, storage, transshipment, trade in Poland and abroad	7 - 12
Natural gas: trade in Poland and abroad	7

As at 31 December 2018 and as at 31 December 2017 the Company had no liabilities related to concession services in scope of IFRIC 12 – Service concession arrangements.

8.4.2. Disclosures resulting from Art. 44 of the Act - Energy Law

Due to concessions held, PKN ORLEN is the energy company and therefore implements the obligations under Article 44 of the Act - Energy Law. As part of the disclosures presents separately concessional operations related to electrical energy distribution and trade of gaseous fuels.

The essential allocation keys of selected assets, equity and liabilities and costs corresponding to revenues are: the established power key, volume key or percentage key. For not allocated or non- identifiable items additional keys of allocation are applied for the share of separately presented activities in entire sales/costs of the Company.

Selected data of separate financial statement – PLN thousand

	31/12/2018		31/12/2017	
	Distribution of electricity	Trade of gas	Distribution of electricity	Trade of gas
Non-current assets				
Property, plant and equipment	71 469	-	73 796	-
Intangible assets	208	-	235	-
Current assets				
Inventories	-	-	6	-
Trade and other receivables	2 848	104 691	3 536	97 663
Current liabilities				
Trade and other liabilities	3 794	121 741	5 593	155 181

Separate statement of profit or loss - PLN thousand

	2018		2017	
	Distribution of electricity	Trade of gas	Distribution of electricity	Trade of gas
Sales revenues	35 394	908 602	36 887	745 705
Cost of sales	(33 037)	(892 963)	(34 543)	(733 288)
Gross profit on sales	**2 357**	**15 639**	**2 344**	**12 417**
Other operating expenses	(66)	-	(164)	-
Profit from operations	**2 291**	**15 639**	**2 180**	**12 417**
Net profit	**2 291**	**15 639**	**2 180**	**12 417**

In 2018 the Company did not receive income from property rights to the distribution network.

PKN ORLEN (in PLN million)

8.4.3. Lease

SELECTED ACCOUNTING PRINCIPLES

Leasing

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

PROFESSIONAL JUDGMENT

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

8.4.3.1. The Company as a lessee

Operating lease

As at 31 December 2018 value of future minimum lease payments due to operating lease agreements amounted to PLN 3,790 million.

As at 31 December 2017 value of future minimum lease payments due to non-cancellable lease agreements previously disclosed in financial statements for the year 2017 amounted to PLN 115 million and was based on legal interpretation of the definition of non-cancellable lease. As a result of reassessment of the definition of non-cancellability, especially taking into account economic aspects, additional agreements are now included in the operating lease agreements and include mainly perpetual useful of land, leased land for petrol stations and motorway service areas, office spaces, railway tank cars and auto cisterns. If these agreements were included in the value of future minimum lease payments due to non-cancellable operating lease as at 31 December 2017, they would amount to approximately PLN 3,528 million.
For perpetual useful of land the Company adopted that non-cancellable period is the entire period for which the right was granted.

	Value of future minimum lease payments	
	31/12/2018	31/12/2017
up to 1 year	317	212
above 1 to 5 years	848	703
above 5 years	2 625	2 613
	3 790	**3 528**

Finance lease

The Company as at 31 December 2018 and as at 31 December 2017 was a lessee under the finance lease agreements which relate mainly to the buildings and construction, machinery, equipment and vehicles.
In concluded lease agreements, the general conditions of finance lease are effective, they do not contain any clauses concerning contingent rent payables, give the possibility to purchase the leased equipment and eventually be prolonged.

	NOTE	Present value of future minimum lease payments		Value of future minimum lease payments	
		31/12/2018	31/12/2017	31/12/2018	31/12/2017
up to 1 year		26	24	32	29
above 1 to 5 years		58	53	72	66
above 5 years		80	64	92	74
	8.2.5.3, 8.2.8	**164**	**141**	**196**	**169**

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

	31/12/2018	31/12/2017
Property, plant and equipment	**155**	**133**
Buildings and constructions	118	96
Machinery and equipment	23	31
Vehicles	14	6

8.4.4. Investments expenditures incurred and future commitments resulting from signed investment contracts

The total amount of investment expenditures together with borrowing costs incurred in 2018 and 2017 amounted to PLN 1,358 million and PLN 1,911 million, respectively, including PLN 67 million and PLN 14 million of investments relating to environmental protection.
As at 31 December 2018 and as at 31 December 2017 future commitments resulting from contracts signed until this date amounted to PLN 596 million and PLN 624 million, respectively.

PKN ORLEN (in PLN million)

8.4.5. Contingent assets and liabilities

SELECTED ACCOUNTING PRINCIPLES

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

ESTIMATES

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

8.4.5.1. Contingent assets

As at 31 December 2018 and as at 31 December 2017 there were no contingent assets.

8.4.5.2. Contingent liabilities

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

Claim of Warter Fuels S.A. (before: OBR S.A.) against PKN ORLEN for compensation

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

Except of described above proceeding, the Company has not identified any other significant contingent liabilities.

8.4.6. Excise tax guarantees

Excise tax guarantees and excise tax on goods and merchandise under the excise tax suspension procedure as at 31 December 2018 and as at 31 December 2017 amounted to PLN 2,231 million and PLN 2,170 million, respectively.

8.4.7. Related party transactions

As at 31 December 2018 and as at 31 December 2017 and in 2018 and 2017 were no material transactions of related parties with:
- members of the Management Board and the Supervisory Board of the Company and their relatives,
- other key executive personnel of the Company and their relatives.

8.4.7.1. Remuneration paid and due or potentially due to the Management Board, the Supervisory Board and other member of key executive personnel

	2018	2017
Short-term employee benefits	40.3	42.3
Board of Directors	*9.5*	*12.9*
Supervisory Board	*1.2*	*0.8*
Other key executive personnel	*29.6*	*28.6*
Termination benefits (severance pay and other remuneration)	11.1	2.5
Board of Directors	*1.2*	*1.4*
Other key executive personnel	*9.9*	*1.1*
	51.4	**44.8**

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

Moreover, as at 31 December 2018 and 31 December 2017 PKN ORLEN has provisions for post-employment benefits in the amount of PLN 0.2 million and PLN 0.3 million, respectively and other long term employee benefits in the amount of PLN 0.5 million for both dates.

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

Remuneration regarding non-competition clause and dissolution of the contract as a result of dismissal from the position held
In the second half of 2018 based on the resolution of the Ordinary General Meeting of PKN ORLEN of 17 July 2018 changes were introduced to the contracts of the Management Board Members of PKN ORLEN regarding non-competition. Pursuant to the contracts, the Management Board Members of PKN ORLEN are obliged to refrain from competitive activities for a period of 6 months, starting from the date of dissolution of the contract. During this period, they receive a

PKN ORLEN (in PLN million)

remuneration (compensation) of the six times monthly basic salary, payable in 6 equal monthly instalments. Non-competition clauses in contracts after termination of the function of the Management Board Member shall enter into force only after 3 months as the Management Board Member.
In addition, contracts provide for the payment of severance pay in the event of dissolution of the contract by the Company, for reasons other than a breach of basic, essential obligations under the contract, provided fulfilling the function of the Management Board Member for a period of at least 12 months. In this case, the severance pay is three times monthly basic salary.
Directors directly reporting to the PKN ORLEN Management Board are normally required from the date of dissolution of the contract to refrain from competitive activities for a period of 6 months. During this time, they receive a remuneration of 50% of the six times monthly basic salary, payable in 6 equal monthly instalments. The severance pay for dissolution of the contract by the Employer is normally six times monthly basic salary.

8.4.7.2. Transactions and balances of settlements of the Company with related parties

	Subsidiaries		Jointly- controlled entities		Total	
	2018	2017	2018	2017	2018	2017
Sales	46 961	37 688	2 774	2 563	49 735	40 251
Revenues under centralization of derivative financial instruments	711	274	-	-	711	274
Purchases	(6 539)	(6 255)	(32)	(28)	(6 571)	(6 283)
Costs under centralization of derivative financial instruments	(718)	(224)	-	-	(718)	(224)
Finance income, incl.:	810	1 408	192	248	1 002	1 656
Dividends	*674*	*1 347*	*192*	*248*	*866*	*1 595*
Finance costs	(288)	(136)	-	-	(288)	(136)

	Subsidiaries		Jointly- controlled entities		Total	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Trade and other receivables	3 089	3 285	585	461	3 674	3 746
Other assets	1 199	1 202	-	-	1 199	1 202
Loans granted	*839*	*750*	-	-	*839*	*750*
Cash pool	*297*	*349*	-	-	*297*	*349*
Receivables on settled derivatives as part of centralization	*41*	*80*	-	-	*41*	*80*
Finance lease	*22*	*23*	-	-	*22*	*23*
Derivatives under centralization	17	90	-	-	17	90
Trade and other liabilities	600	773	4	7	604	780
Borrowings and bonds	5 496	5 572	-	-	5 496	5 572
Other liabilities	1 611	2 158	-	-	1 611	2 158
Cash pool	*1 534*	*2 063*	-	-	*1 534*	*2 063*
Liabilities on settled derivatives as part of centralization	*74*	*89*	-	-	*74*	*89*
Finance lease	*3*	*6*	-	-	*3*	*6*
Derivatives under centralization	173	57	-	-	173	57

Above transactions with related parties include mainly sales and purchase of refinery and petrochemicals products and services.
In 2018 and 2017, there were no significant transactions in the Company with related parties on other than as arm's length basis.

8.4.7.3. Transactions with entities related to the State Treasury

As at 31 December 2018 and 31 December 2017 the State Treasury owned 27.52% of PKN ORLEN and has ability to exert a significant influence on it.
The Company identified transactions with related parties with the State Treasury mainly on the basis of "The Council of Ministers Regulation of 3 January 2017 on the list of companies in which the rights of the State Treasury shares carry other than the President Council of Ministers members of the Council of Ministers', Government Plenipotentiaries or state legal entities" (Official Journal 2017, item 10, as amended Official Journal 2017, item 205 and item 1164).

In 2018 and in 2017 and as at 31 December 2018 and 31 December 2017, the Company identified the following transactions:

	2018	2017 -
Sales	1 610	1 227
Purchases	(4 188)	(2 766)

	31/12/2018	31/12/2017
Trade and other receivables	192	268
Trade and other liabilities	119	482

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

PKN ORLEN (in PLN million)

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

	2018	2017
Audit of the financial statements	**0.9**	**1.0**
Other assurance services	**0.7**	**0.7**
reviews of financial statements	*0.5*	*0.5*
other services	*0.2*	*0.2*
	1.6	**1.7**

In the period covered by the foregoing separate financial statements the entity authorized to conduct audit of the Company's financial statements was Deloitte Audyt spółka z ograniczoną odpowiedzialnością spółka komandytowa. Pursuant to the agreement concluded on 21 March 2017 for 2017 and 2018, Deloitte Audyt spółka z ograniczoną odpowiedzialnością spółka komandytowa beginning from the 1st quarter of 2017 conduct the interim reviews and audit of separate financial statements of PKN ORLEN and consolidated financial statements of the Group. On 20 December 2018 the Supervisory Board of PKN ORLEN selected Deloitte Audyt spółka z ograniczoną odpowiedzialnością spółka komandytowa to conduct reviews of interim financial statements and audit separate financial statements of PKN ORLEN and consolidated financial statements of the Group for the years 2019-2021.

9. EVENTS AFTER THE END OF THE REPORTING PERIOD

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

The foregoing separate financial statements were approved by the Management Board on 20 March 2019.

Signature Not Verified
Dokument podpisany przez Daniel Obajtek; PKN Orlen S.A.
Data: 2019.03.20 21:04:56 CET

Daniel Obajtek
President of the Board

Signature Not Verified
Dokument podpisany przez ARMEN KONRAD ARTWICH; POLSKI KONCERN NAFTOWY ORLEN S.A.
Data: 2019.03.20 21:11:42 CET

Armen Artwich
Member of the Board

Signature Not Verified
Dokument podpisany przez Patrycja Klarecka
Data: 2019.03.20 21:47:29 CET

Patrycja Klarecka
Member of the Board

Signature Not Verified
Dokument podpisany przez ZBIGNIEW MARIUSZ LESZCZYŃSKI; POLSKI KONCERN NAFTOWY ORLEN S.A.
Data: 2019.03.20 20:45:21 CET

Zbigniew Leszczyński
Member of the Board

Signature Not Verified
Dokument podpisany przez Wiesław Protasewicz; PKN Orlen S.A.
Data: 2019.03.20 18:30:57 CET

Wiesław Protasewicz
Member of the Board

Signature Not Verified
Dokument podpisany przez MICHAŁ MAREK RÓG; POLSKI KONCERN NAFTOWY ORLEN S.A.
Data: 2019.03.20 19:00:53 CET

Michał Róg
Member of the Board

Signature Not Verified
Dokument podpisany przez Józef Węgrecki
Data: 2019.03.20 21:32:06 CET

Józef Węgrecki
Member of the Board