2019

FINANCIAL STATEMENTS OF PKN ORLEN S.A. FOR THE YEAR ENDED 31 DECEMBER 2019

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

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PKN ORLEN (in PLN million)

SEPARATE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	NOTE	2019	2018	change (y/y) value	%
Sales revenues	8, 10.1, 10.2	89 049	86 997	2 052	2.4
revenues from sales of finished goods and services		*49 376*	*46 396*	*2 980*	*6.4*
revenues from sales of merchandise and raw materials		*39 673*	*40 601*	*(928)*	*(2.3)*
Cost of sales	10.8	(79 603)	(78 781)	(822)	1.0
cost of finished goods and services sold		*(41 338)*	*(39 482)*	*(1 856)*	*4.7*
cost of merchandise and raw materials sold		*(38 265)*	*(39 299)*	*1 034*	*(2.6)*
Gross profit on sales		**9 446**	**8 216**	**1 230**	**15.0**
Distribution expenses		(4 364)	(2 850)	(1 514)	53.1
Administrative expenses		(934)	(809)	(125)	15.5
Other operating income	10.9	775	431	344	79.8
Other operating expenses	10.10	(860)	(354)	(506)	142.9
(Loss)/reversal of loss due to impairment of financial instruments	10.12	(4)	(10)	6	(60.0)
Profit from operations		**4 059**	**4 624**	**(565)**	**(12.2)**
Finance income	10.11.1	2 567	3 275	(708)	(21.6)
reversal on impairment allowances of shares in related parties		*1 150*	*1 005*	*145*	*14.4*
Finance costs	10.11.2	(1 001)	(1 641)	640	(39.0)
Net finance income and costs		**1 566**	**1 634**	**(68)**	**(4.2)**
(Loss)/reversal of loss due to impairment of financial instruments	10.12	7	(3)	10	-
Profit before tax		**5 632**	**6 255**	**(623)**	**(10.0)**
Tax expense	10.13	(819)	(821)	2	(0.2)
current tax		*(733)*	*(853)*	*120*	*(14.1)*
deferred tax	10.13.2	*(86)*	*32*	*(118)*	*-*
Net profit		**4 813**	**5 434**	**(621)**	**(11.4)**
Other comprehensive income:					
which will not be reclassified subsequently into profit or loss		**(9)**	**(8)**	**(1)**	**12.5**
actuarial gains and losses		*(11)*	*(2)*	*(9)*	*450.0*
gains/(losses) on investments in equity instruments at fair value through other comprehensive income		*-*	*(7)*	*7*	*-*
deferred tax	10.13.2	*2*	*1*	*1*	*100.0*
which will be reclassified into profit or loss		**(17)**	**(50)**	**33**	**(66.0)**
hedging instruments		*(141)*	*(164)*	*23*	*(14.0)*
hedging costs		*120*	*102*	*18*	*17.6*
deferred tax	10.13.2	*4*	*12*	*(8)*	*(66.7)*
		(26)	**(58)**	**32**	**(55.2)**
Total net comprehensive income		**4 787**	**5 376**	**(589)**	**(11.0)**
Net profit and diluted net profit per share (in PLN per share)		11.25	12.70	(1.45)	(11.42)

(in PLN million)

SEPARATE STATEMENT OF FINANCIAL POSITION

	NOTE	31/12/2019	31/12/2018	change (y/y) value	%
ASSETS					
Non-current assets					
Property, plant and equipment	11.1	15 253	15 611	(358)	(2.3)
Intangible assets	11.2	1 074	755	319	42.3
Right-of-use asset	13.3.1	2 336	-	2 336	-
Shares in related parties	11.3	16 513	15 090	1 423	9.4
Derivatives	11.8	277	118	159	134.7
Long-term lease receivables	13.3.2	21	-	21	-
Other assets	11.8	1 465	1 016	449	44.2
		36 939	**32 590**	**4 349**	**13.3**
Current assets					
Inventories	11.5.1	9 835	9 889	(54)	(0.5)
Trade and other receivables	11.5.2	7 160	7 709	(549)	(7.1)
Current tax assets		10	8	2	25.0
Cash	11.6.2	5 056	3 461	1 595	46.1
Derivatives	11.8	299	450	(151)	(33.6)
Short-term lease receivables	13.3.2	1	-	1	-
Other assets	11.8	917	541	376	69.5
Non-current assets classified as held for sale		59	149	(90)	(60.4)
		23 337	**22 207**	**1 130**	**5.1**
Total assets		**60 276**	**54 797**	**5 479**	**10.0**
EQUITY AND LIABILITIES					
EQUITY					
Share capital	11.7.1	1 058	1 058	-	-
Share premium	11.7.2	1 227	1 227	-	-
Hedging reserve	12.4	186	203	(17)	(8.4)
Revaluation reserve		(6)	(6)	-	-
Retained earnings	11.7.3	32 459	29 152	3 307	11.3
Total equity		**34 924**	**31 634**	**3 290**	**10.4**
LIABILITIES					
Non-current liabilities					
Loans, borrowings and bonds	11.6.1	8 222	8 641	(419)	(4.8)
Provisions	11.9	553	520	33	6.3
Deferred tax liabilities	10.13.2	814	734	80	10.9
Derivatives	11.8	72	84	(12)	(14.3)
Lease liabilities	13.3.1	2 000	-	2 000	-
Other liabilities	11.8	108	257	(149)	(58.0)
		11 769	**10 236**	**1 533**	**15.0**
Current liabilities					
Trade and other liabilities	11.5.3	9 779	8 853	926	10.5
Lease liabilities	13.3.1	368	-	368	-
Liabilities from contracts with customers	11.5.3.1	206	213	(7)	(3.3)
Loans and bonds	11.6.1	346	1 122	(776)	(69.2)
Provisions	11.9	588	376	212	56.4
Current tax liabilities		8	376	(368)	(97.9)
Derivatives	11.8	306	324	(18)	(5.6)
Other liabilities	11.8	1 982	1 663	319	19.2
		13 583	**12 927**	**656**	**5.1**
Total liabilities		**25 352**	**23 163**	**2 189**	**9.5**
Total equity and liabilities		**60 276**	**54 797**	**5 479**	**10.0**

ORLEN PKN ORLEN (in PLN million)

SEPARATE STATEMENT OF CHANGES IN EQUITY

	Share capital and share premium	Hedging reserve	Revaluation reserve	Retained earnings	Total equity
NOTE	11.7.1, 11.7.2	12.4		11.7.3	
01/01/2019	2 285	203	(6)	29 152	31 634
Net profit	-	-	-	4 813	4 813
Items of other comprehensive income	-	(17)	-	(9)	(26)
Total net comprehensive income	**-**	**(17)**	**-**	**4 804**	**4 787**
Dividends	-	-	-	(1 497)	(1 497)
31/12/2019	**2 285**	**186**	**(6)**	**32 459**	**34 924**
01/01/2018	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**

ORLEN PKN ORLEN (in PLN million)

SEPARATE STATEMENT OF CASH FLOWS

	NOTE	2019	2018	change (y/y) value	%
Cash flows from operating activities					
Profit before tax		**5 632**	**6 255**	**(623)**	**(10.0)**
Adjustments for:					
Depreciation and amortisation	10.8	1 759	1 365	394	28.9
Foreign exchange (gain)/loss	10.11.4	(79)	282	(361)	-
Net interest	10.11.3	254	241	13	5.4
Dividends		(470)	(870)	400	(46.0)
(Profit) on investing activities, incl.:		(1 206)	(1 354)	148	(10.9)
(reversal)/recognition of impairment allowances of shares in related parties		*(1 010)*	*(1 005)*	*(5)*	*0.5*
Change in provisions	11.9	503	215	288	134.0
Change in working capital	11.5	1 301	(2 618)	3 919	-
inventories		*56*	*(1 648)*	*1 704*	-
receivables		*571*	*(394)*	*965*	-
liabilities		*674*	*(576)*	*1 250*	-
Other adjustments, incl.:		(505)	(273)	(232)	85.0
rights received free of charge		*(286)*	*(275)*	*(11)*	*4.0*
security deposits		*(340)*	-	*(340)*	-
Income tax (paid)	10.13.3	(1 103)	(548)	(555)	101.3
Net cash from operating activities		**6 086**	**2 695**	**3 391**	**125.8**
Cash flows from investing activities					
Acquisition of property, plant and equipment, intangible assets and right-of-use asset		(1 590)	(1 610)	20	(1.2)
Acquisition of shares		(56)	(4 502)	4 446	(98.8)
Outflows from additional payments to equity		(357)	(48)	(309)	643.8
Disposal of property, plant and equipment, intangible assets and right-of-use asset		194	207	(13)	(6.3)
Interest received	10.11.3	58	35	23	65.7
Dividends received		469	870	(401)	(46.1)
Expenses from non-current loans granted		(449)	(53)	(396)	747.2
Proceeds from non-current loans granted		6	6	-	-
Proceeds/(Expenses) from current loans granted		1	(60)	61	-
Change in cash related to purchase of non-controlling interest of UNIPETROL, a.s.		190	-	190	-
Proceeds/(Outflows) from cash pool facility		(50)	60	(110)	-
Settlement of derivatives not designated as hedge accounting		183	347	(164)	(47.3)
Other		(20)	(7)	(13)	185.7
Net cash (used) in investing activities		**(1 421)**	**(4 755)**	**3 334**	**(70.1)**
Cash flows from financing activities					
Proceeds from loans received		-	2 075	(2 075)	-
Bonds issued		509	1 376	(867)	(63.0)
Repayments of borrowings		-	(38)	38	-
Redemption of bonds		(1 619)	(1 180)	(439)	37.2
Interest paid from loans, borrowings, bonds and cash pool		(249)	(299)	50	(16.7)
Interest paid on lease		(48)	(6)	(42)	700.0
Dividends paid	11.7.5	(1 497)	(1 283)	(214)	16.7
Proceeds/(Outflows) from cash pool facility		158	(602)	760	-
Payments of liabilities under lease agreements		(316)	(25)	(291)	1 164.0
Other		-	(2)	2	-
Net cash from/(used in) financing activities		**(3 062)**	**16**	**(3 078)**	**-**
Net increase/(decrease) in cash		**1 603**	**(2 044)**	**3 647**	**-**
Effect of changes in exchange rates		(8)	28	(36)	-
Cash, beginning of the period		3 461	5 477	(2 016)	(36.8)
Cash, end of the period		**5 056**	**3 461**	**1 595**	**46.1**
including restricted cash		*1 038*	*58*	*980*	*1 689.7*

BASIC INFORMATION

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, Poland
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.

2. BASIS 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). The accounting principles applied by the Company are based on standards and interpretations adopted by the European Union and applicable to the period beginning on 1 January 2019 or earlier periods.
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. This 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 periodical information to be published by issuers of securities and conditions of consideration of information required by the law of non-member country's law as equal (Official Journal 2018, item 757) and covers the annual period from 1 January to 31 December 2019 and the comparative period from 1 January to 31 December 2018.
Presented separate financial statements present a true and fair view of the Company's financial position as at 31 December 2019, results of its operations and cash flows for the year ended 31 December 2019.
The separate financial statements have been prepared on the assumption that the Company will continue to operate as a going concern in the foreseeable future. As at the date of approval of this separate financial statements, there is no evidence indicating that the Company will not be able to continue its operations as a going concern. The Company have unlimited period of operations.

3. FUNCTIONAL CURRENCY AND PRESENTATION CURRENCY OF FINANCIAL STATEMENTS

The functional currency and presentation currency of this 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. Possible differences in the amount of PLN 1 million when summing up the items presented in the explanatory notes result from the adopted roundings.

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, except for:
- the impact of new standards applied for the first time in 2019, described below (note 5),
- changes in accounting policy regarding the issue of CO_2 emission allowances and determining the value of the provision for CO_2 emission costs.

From 1 January 2019 the Company recognises cost flows of CO_2 emission allowances at weighted average method against FIFO method (First In, First Out) applied until 31 December 2018. The effect of changing the cost method for CO_2 allowances as at 31 December 2018 was immaterial and was recognised in the financial result of the current year and as a change in value of provision for CO_2 emission in the statement of financial position. In the opinion of the Management Board of PKN ORLEN, the change in cost method better reflects commercial substance of legal situation and economic conditions in terms of volatility of market prices for CO_2 emission rights.

The preparation of separate financial statements in accordance with IFRSs requires that the Management Board makes professional judgements, estimates and assumptions that affect the applied methods and presented amounts. The estimates and related assumptions are based on historical

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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.

Selected accounting principles	Note	Page
Operating segments	7	12
Sales revenues	10.1	14
Costs	10.8	16
Income tax expenses (tax expense)	10.13	19
Property, plant and equipment	11.1	21
Intangible assets	11.2	22-23
Investments in related parties	11.3	24
Impairment of property, plant and equipment and right-of-use assets	11.4	24-25
Inventories	11.5.1	27
Trade and other receivables	11.5.2	27-28
Trade and other liabilities	11.5.3	28
Cash, loans, borrowings and bonds	11.6	29
Equity	11.7	32
Provisions	11.9	34-35
Financial instruments	12	38
Fair value measurement	12	38
Lease	13.3	53
Contingent assets and liabilities	13.5	55

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

➢ IFRS 16 Lease (IFRS 16)

Application for the first time

IFRS 16 Lease issued on 13 January 2016 was adopted by the European Union on 31 October 2017.

Since 1 January 2019, the Company has applied the new Standard in the recognition, measurement, and presentation of lease agreements. The application of the new Standard was made in accordance with the transitional provisions contained in IFRS 16.
Implementation of IFRS 16 within the Company was carried out using the modified retrospective approach, and therefore, comparative data for the year 2018 was not converted and any cumulative effect of the first application of the new Standard was included as an adjustment to the opening balance of retained earnings on the first day of application. Application of IFRS 16 did not affect the recognition of lease contracts by the Company in which the Company is the lessor. Additional information regarding lease contracts is presented in note 13.3.

As at 1 January 2019 the Company recognised the right-of-use asset and lease liability at an equal amount of PLN 2,012 million, what was not resulted in the difference to be recognised in retained earnings position.

Reconciliation of future minimum lease payments disclosed as at 31 December 2018 with lease liabilities recognised in the statement of financial position as at 1 January 2019

Value of future minimum lease payments under operating lease	3 790
Value of future minimum lease payments under finance lease	196
Contractual lease liabilities as at 31/12/2018	**3 986**
Discount	(1 810)
Present value of lease liabilities as at 01/01/2019	**2 176**
Present value of contractual finance lease liabilities as at 31/12/2018	**(164)**
Value of contractual lease liabilities – impact of IFRS 16 adoption as at 01/01/2019	**2 012**

The weighted average incremental borrowing rate rate of the Group as a lessee applied to the lease liabilities recognised in the statement of financial position as at 1 January 2019 amounted to 2.62%

The Company as a lessee

Identifying a lease

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 applied 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. As at 1 January 2019 the Company applies IFRS 16 to contracts that were previously identified as leases in accordance with IAS 17 and IFRIC 4.
At the time of concluding a new contract, the Company assesses whether the contract is a lease or whether it contains a lease. 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 if an agreement transfers the right to control the use of an identified asset for a given period, the Company shall determine whether throughout the entire period of use the customer enjoys the following rights:

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 the identified asset.

Should the Company have the right to control the use of an identified asset for part of the duration of an agreement only, the agreement contains a lease in respect of this part of the period.

Rights resulting from lease, rental, hire or other agreements which meet the definition of a lease as per IFRS 16 are recognised as right-of-use underlying assets within the framework of non-current assets with a corresponding lease liabilities.

Initial recognition and measurement

The Company recognises the right-of-use asset as well as the lease liability on the date of commencement of the lease.

On the date of commencement the Company measured the right-of-use asset at cost.

The cost of the right-of-use asset is inclusive of the following:

a) the amount of the initial measurement of the lease liability,
b) all lease payments made on or before the date of commencement, less any lease incentives received,
c) all initial costs directly incurred by the lessee, and
d) estimated costs to be incurred by the lessee in connection with the dismantling and removal of underlying assets, the refurbishment of premises within which they were located, or the refurbishment of underlying assets to the condition required by the terms and conditions of the lease, unless these costs are incurred with the aim of creating stocks.

Lease payments included in the evaluation of lease liability include:

- fixed lease payments;
- variable lease payments, which depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts that are expected to be paid by the lessee as part of the guaranteed residual value;
- the call exercise price, should it be assumed with reasonable certainty that the Company shall decide to exercise the call option;
- penalty payments for termination of a lease, unless it can be assumed with reasonable certainty that the Company shall not terminate the lease.

Variable payments, which do not depend on an index or a rate should not be taken into account when calculating lease liability. Such payments are recognised in the profit or loss in the period of the occurrence which renders them payable.

The lease liability on the commencement date shall be calculated on the basis of the current lease payments that are payable by that date and discounted by the incremental borrowing rates of the lessee.

The Company does not discount lease liabilities by the lease interest rate as the calculation of such rates requires information known only to the lessor (the non-guaranteed final value of the leased asset as well as the direct costs incurred by the lessor).

Determining the lessee's incremental borrowing rate

Lessee's incremental borrowing rates were specified as the sum of:

a) the risk free rate, based on the Interest Rate Swap (IRS) in accordance with the maturity of the discount rate, and the relevant basic rate for the given currency, as well as
b) the Company's credit risk premium based on the credit margin calculated inclusive of the credit risk segmentation of all companies which have entered into lease agreements.

Subsequent measurement

After the commencement date, the Company measures the right-of-use asset applying the cost model.

In applying the cost model, the Company shall measure the cost of the right-of-use asset:

a) less any accumulated depreciation and accumulated impairment losses; and
b) adjusted in respect of any updates to the measurement of lease liability not resulting in the necessity for recognition of a separate asset.

After the date of commencement the Company shall measure the lease liability by:

a) increasing the carrying amount to reflect interest on the lease liability,
b) decreasing the carrying amount to reflect any lease payments made, and
c) remeasuring the carrying amount to reflect any reassessment or lease modifications or to revise in-substance fixed lease payments.

The Company shall remeasure the lease liability in cases where there is a change in future lease payments as a result of a change in the index or rate used to determine lease payments (e.g. a change in payment associated with the right of perpetual use), in cases where there is a change in the amount expected by the Company to be payable under the residual amount guarantee, or if the Company reassesses the likelihood of the exercise of the call option, or the extension or termination of the lease.

Updating the lease liability also adjusts the value of the right-of-use asset. In a situation where the carrying amount of the right-of-use asset has been reduced to zero, further reductions in the measurement of the lease liability shall be recognised by the Company as profit or loss.

Depreciation

The right-of-use asset is depreciated linearly over the shorter of the following two periods: the period of lease or the useful life of the underlying asset. However in cases where the Company can be reasonably sure that it will regain ownership of the asset prior to the end of the lease term, right-of-use shall be depreciated from the day of commencement of the lease until the end of the useful life of the asset.
The useful life of right-of-use asset is determined in the same manner as for property, plant and equipment.

The Company has leases agreements regarding mainly:

a) Land, including:
   - perpetual usufruct of land for a fixed period of up to 99 years,
   - land for petrol stations and motorway service areas concluded for a specified period up to 30 years.
b) Buildings and construction, including petrol stations, storage tank, office spaces for a fixed period up to 30 years.
c) Vehicles and other, including:
   - railway tank concluded for a specified period of 3 to 10 years,

- cars for a fixed period up to 3 years,
- locomotives for a fixed period up to 3 years.

Impairment
The Company applies IAS 36 Impairment of Assets to determine whether the right-of-use asset is impaired and to account for any impairment loss identified.

Exemptions, simplifications and practical solutions in the application of IFRS 16

Exemptions
Following agreements within the Company not included within the scope of IFRS 16:
- lease for the exploration or use of natural resources,
- licences granted and recognised in accordance with IFRS 15 - Revenue from Contracts with Customers, and
- rights received under licence in accordance with IAS 38 - Intangible Assets.

The Company does not apply IFRS 16 to lease agreements or similar for intangible assets.

Simplifications and practical solutions

Short-term lease

The Company applies a practical solution for all asset classes in relation to short-term lease contracts, which are characterised by a maximum possible contract term of up to 12 months, including any options to extend.

Simplifications regarding these contracts involve the settlement of lease payments as costs:
- on a straight-line basis, for the duration of the lease agreement, or
- another systematic method, if it better reflects the way of spreading the benefits gained by the user in time.

Leases of low-value assets
The Company does not apply the rules concerning recognition, measurement and presentation outlined in IFRS 16 to lease agreements of low-value assets.

As low-value assets are considered assets which, when are new, have the value up to USD 5,000, which corresponds to the amount of PLN 18,799 at the time of first application, translated using the exchange rate as at 1 January 2019 or the equivalent in other currency at the average closing rate of the National Bank of Poland at the time of initial recognition for each concluded lease agreement.
Simplifications in respect of such contracts are due to the settlement of costs on:
- a straight-line basis for the term of the lease contract; or
- another systematic method basis should it be more representative of the time pattern of the user's benefit.

An asset covered by a lease must not be counted as a low-value asset if the asset would typically not be of low value when new. As low-value items, the Company includes for example: gas cylinders, coffee machines, and small items of furniture.

The underlying asset may have a low-value only if:
a) the Company may benefit from use of the underlying asset itself or in conjunction with other resources which are readily available to him, and
b) the underlying asset is not highly dependent on or related to other assets.

If the Company transfers asset into subleasing or expects the asset to be transferred to subleasing, then the main lease does not qualify as lease of a low-value asset.

Determining the lease term: indefinite contracts

When establishing the term for indefinite leases contracts, the Company determines the lease period, in which termination of the contract will not be justified by making professional judgment and taking into account, among others:
- expenditure incurred in connection with the contract or
- potential costs connected with the termination of the lease contract, including the costs involved in obtaining a new lease contracts, such as negotiation costs; reallocation costs, costs of identifying other underlying asset suitable for the lessee's needs; costs of integrating a new asset into the lessee's operations; or termination penalties and similar costs, including costs associated with returning the underlying asset in a contractually specified condition or to a contractually specified location or
- existing business plans and other existing contracts justifying the use of the leased item in the given period.

In cases where the costs connected with the termination of the lease contract are substantial, the lease term adopted is equal to that adopted for the depreciation period of a similar fixed asset with parameters similar to the subject of the lease.

In cases where expenditure incurred in connection with the contract is substantial, the lease term adopted is equal to that of the expected period of economic benefits derived from the incurred expenses.

The value of the incurred expenses represents a separate asset to the right-of-use asset.

Separating non-lease components

From contracts, that include lease and non-lease components, the Company separates and recognises non-lease components separately for all asset classes e.g. service of assets constituting the subject of the contract and allocates consideration based on the terms of the contract, unless all non-lease items are considered immaterial in the context of the whole contract.

PROFESSIONAL JUDGEMENT

Determining the lease term
In determining the lease term, the Company considers all important facts and events resulting in existence of the economic incentives to make use of the option to extend the lease or not to exercise the option of its termination.

PKN ORLEN (in PLN million)

The Company also makes a professional judgment to determine the period of contract enforceability (lease term in which termination of the contract will not be justified) in the case of contracts concluded for an indefinite period.An assessment of a lease term is carried out on the date of commencement of the lease. A reassessment is made upon the occurrence of either a significant event or a significant change in circumstances, that the lessee controls, that impact such an assessment.

Estimations

The useful life of right-of-use asset
The estimated useful life of right-of-use asset is determined in the same manner as for property, plant and equipment.
Determining the lessee's incremental borrowing rate
Due to the fact that the Company does not have information regarding the interest rate for lease contracts, it uses the incremental borrowing rate to measure lease liabilities, that the Company would have to pay, to borrow, over a similar term and with a similar security, the funds in a given currency necessary necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

Standards adopted by International Accounting Standards Board (IASB), approved by the European Union but not yet effective

- Amendments to IAS 1 - Presentation of financial statements and IAS 8 - Accounting policies, changes in accounting estimates and errors : Definition of Material
- Amendments to IFRS 9 - Financial Instruments, IAS 39 - Financial Instruments: Recognition and Measurement and IFRS 7 - Financial Instruments: Disclosures: Interest Rate Benchmark Reform
- Amendments to references to the conceptual framework in IFRS Standards, effective for annual periods beginning on or after 1 January 2020

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

- 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" - Classification of Liabilities as Current or Non-Current, effective for annual periods beginning on or after 1 January 2022

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 this financial statements, in accordance with their effective date.

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

Changes introduced to financial data as presented in the condensed financial statements for the 4th quarter of 2019 published on 30 January 2020 with an effect on total assets and net profit:

	Data disclosed in the quarterly financial information for the Q4 2019	Adjustment	Data disclosed in the seperate financial statements for 2019
Assets, incl.:	**59 216**	**1 060**	**60 276**
Property, plant and equipment	15 242	11	15 253
Right-of-use asset	2 346	(10)	2 336
Shares in related parties	15 393	1 120	16 513
Inventories	9 991	(156)	9 835
Other assets	1 370	95	1 465
Liabilities, incl.:	**59 216**	**1 060**	**60 276**
Retained earnings	31 420	1 039	32 459
Deferred tax liabilities	796	18	814
Profit from operations	**4 122**	**(63)**	**4 059**
Other operating income	675	100	775
Other operating expenses	(700)	(160)	(860)
Finance income	1 447	1 120	2 567
Tax expense	(801)	(18)	(819)
Net profit	**3 774**	**1 039**	**4 813**

The above changes affecting the financial result concerned mainly:
- reversal of impairment allowances of non-current assets in Retail segment in the amount of PLN 45 million,
- revaluation of the investment property to fair value in the amount of PLN 51 million,
- shortages of materials in external warehouses in the amount of PLN (156) million;
- reversal of part historically made impairment allowances of investments in ORLEN Lietuva shares in the amount of PLN 1,120 million

ORLEN PKN ORLEN (in PLN million)

SEGMENTS' DATA

7. 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 operating 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 the 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 and amortization costs.
Revenues from transactions with external customers and transactions with other segments are carried out on an arm's length basis.

8. REVENUES, COSTS, FINANCIAL RESULTS, INCREASES IN NON-CURRENT ASSETS

2019

	NOTE	Downstream Segment	Retail Segment	Corporate Functions	Adjustments	Total
External revenues	10.1, 10.2	66 781	22 183	85	-	89 049
Inter-segment revenues		15 035	-	95	(15 130)	-
Sales revenues		81 816	22 183	180	(15 130)	89 049
Operating expenses		(78 676)	(20 282)	(1 073)	15 130	(84 901)
Other operating income	10.9	580	128	67	-	775
Other operating expenses	10.10	(661)	(129)	(70)	-	(860)
(Loss)/reversal of loss due to impairment of financial instruments	10.12	-	(5)	1	-	(4)
Profit/(Loss) from operations		**3 059**	**1 895**	**(895)**	**-**	**4 059**
Net finance income and costs	10.11					1 566
(Loss)/reversal of loss due to impairment of financial instruments	10.12					7
Profit before tax						**5 632**
Tax expense						(819)
Net profit						**4 813**
Depreciation and amortisation	10.8	**1 278**	**361**	**120**	**-**	**1 759**
EBITDA		**4 337**	**2 256**	**(775)**	**-**	**5 818**
Increases in non-current assets, incl.:		**1 611**	**1 743**	**569**	**-**	**3 923**
Increases due to right-of-use	5	**622**	**1 158**	**232**	**-**	**2 012**

(in PLN million)

2018

	NOTA	Downstream Segment	Retail Segment	Corporate Functions	Adjustments	Total
External revenues	10.1, 10.2	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	10.9	249	76	106	-	431
Other operating expenses	10.10	(67)	(110)	(177)	-	(354)
(Loss)/reversal of loss due to impairment of financial instruments	10.12	4	-	(14)	-	(10)
Profit/(Loss) from operations		**3 723**	**1 638**	**(737)**	**-**	**4 624**
Net finance income and costs	10.11					1 634
(Loss)/reversal of loss due to impairment of financial instruments	10.12					(3)
Profit before tax						**6 255**
Tax expense						(821)
Net profit						**5 434**
Depreciation and amortisation	10.8	**1 001**	**283**	**81**	**-**	**1 365**
EBITDA		**4 724**	**1 921**	**(656)**	**-**	**5 989**
Increases in non-current assets		**733**	**458**	**167**	**-**	**1 358**

Increase in non-current assets *includes increase of property, plant and equipment, intangible assets, investment property and right-of-use asset together with the capitalisation of borrowing costs and a decrease in received/due penalties for the improper execution of a contract.*

9. ASSETS DIVIDED INTO OPERATING SEGMENTS

	31/12/2019	31/12/2018
Downstream Segment	28 881	29 226
Retail Segment	5 561	3 997
Segment assets	**34 442**	**33 223**
Corporate Functions	25 834	21 574
	60 276	**54 797**

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 2019 and as at 31 December 2018 property, plant and equipment (note 11.1.), intangible assets (note 11.2.), investment property (note 11.8) assets due to right-of-use (note 13.3.1) and perpetual usufruct of plants (note 11.8.) were located in Poland.

ORLEN PKN ORLEN (in PLN million)

EXPLANATORY NOTES TO THE SEPARATE FINANCIAL STATEMENTS

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

10.1. Sales revenues

SELECTED ACCOUNTING PRINCIPLES

Sales revenues

Sales revenues of goods and services are recognised by the Cpompany at a point in time (or over time) when a performance obligations are satisfied by transferring a promised good or service (i.e. an asset) to a customer in the amount reflecting the consideration, to which - as the Company expects - it will be entitled in exchange for these goods or services. This principle the Company also applies to consideration, which includes a variable amount. 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. The amount of revenues is determined at the fair value of the payment received or due. Revenues from the sale of finished goods 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 valued 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. There is no significant financing component in contracts with customer concluded by the Company.

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 of calculating points entitling to discounts on future purchases. A ratio of 68.5% is adopted to recognise liability taking into account the probability 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	2019	2018	% share 2019	% share 2018
Revenues from sales of finished goods and services, net		49 376	46 396	55.4%	53.3%
revenue from contracts with customers		*49 265*	*46 272*	*55.3%*	*53.2%*
Excluded from scope of IFRS 15		*111*	*124*	*0.1%*	*0.1%*
Revenues from sales of merchandise and raw materials, net		39 673	40 601	44.6%	46.7%
revenue from contracts with customers		*39 640*	*40 601*	*44.6%*	*46.7%*
Excluded from scope of IFRS 15		*33*	*-*	*-*	*-*
Sales revenues, incl.:		**89 049**	**86 997**	**100.0%**	**100.0%**
revenue from contracts with customers	*10.4-10.7*	*88 905*	*86 873*	*99.9%*	*0.99%*

Revenues excluded from the scope of IFRS 15 refer to operating lease contracts and compensation for energy prices

Performance obligations

As part of the concluded contracts, the Company commits to transfer to customers mainly refining, petrochemical products and goods, energy, crude oil and gas. Under these agreements, the Company acts as a principal.
Transaction prices in existing contracts with customers are not constrained. Contracts existing in the Company do not provide for obligations for returns, refunds and other similar obligations.The Company does not identify revenues for which the payment of consideration is contingent. The warranties provided under the contracts are warranties that provide a customer with assurance that the product complies with agreed-upon specification.They are not a distinct service.
In the Downstream segment, there are mainly sales with deferred payment. In the Retail segment, there are both cash sales as well as sales with deferred payment terms performed by using a fuel cards entitling customers to continuous purchase at 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 in most cases payment terms do not exceed 30 days.

Macroeconomic environment

PKN ORLEN operates in the conditions of 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 margins are mainly affected by the quotation of refinery and petrochemical products and crude oil prices. Crude oil prices are shaped by factors such as changes in demand, the volume of extraction and global inventory of crude oil level and fuels quotation.

The main economic indicator – GDP (Gross Domestic Product), which is determined by consumption, capital expenditures and exports, allows to assess at what stage is the economy. 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 others by the level of GDP, affects present and future consumer behaviour.

ORLEN PKN ORLEN (in PLN million)

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 at best to acquaint the reader with nature, amount, due dates and uncertainty related to revenues and cash flows resulting from contracts with customers.

10.2. Sales revenues by operating segments in division on assortments

	2019	2018	% share 2019	% share 2018
Downstream Segment				
Revenue from contracts with customers IFRS 15	**66 674**	**66 343**	**74.9%**	**76.3%**
Crude oil	31 557	32 182	35.4%	37.0%
Medium distillates	19 184	18 687	21.5%	21.5%
Light distillates	3 990	4 171	4.5%	4.8%
Monomers	3 310	3 072	3.7%	3.5%
Heavy fractions	2 960	3 632	3.3%	4.2%
PTA	1 893	1 528	2.1%	1.8%
Aromas	578	509	0.6%	0.6%
Other*	3 202	2 562	3.6%	2.9%
Excluded from scope of IFRS 15	**107**	**91**	**0.1%**	**0.1%**
	66 781	**66 434**	**75.0%**	**76.4%**
Retail Segment				
Revenue from contracts with customers IFRS 15	**22 158**	**20 458**	**24.9%**	**23.5%**
Medium distillates	11 748	11 142	13.2%	12.8%
Light distillates	6 973	6 487	7.8%	7.5%
Other**	3 437	2 829	3.9%	3.3%
Excluded from scope of IFRS 15	**25**	**25**	**-**	**-**
	22 183	**20 483**	**24.9%**	**23.5%**
Corporate Functions				
Revenue from contracts with customers IFRS 15	**73**	**72**	**0.1%**	**0.1%**
Excluded from scope of IFRS 15	**12**	**8**	**-**	**-**
	85	**80**	**0.1%**	**0.1%**
	89 049	**86 997**	**100.0%**	**100.0%**

** Other mainly includes: butadien, acetone, phenol, glycols and revenues from sale of services, materials and energy*
*** Other mainly includes sale of non-fuel merchandise*

In 2019 and 2018 the Company generated sales revenues in the Downstream segment from three customers of total amount of PLN 51,887 million and PLN 51,263 million respectively, which individually exceed 10% of total revenues from sale. These customers were entities related to PKN ORLEN.

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

	NOTE	2019	2018
Revenue from contracts with customers			
Poland		52 218	49 447
Lithuania, Latvia, Estonia		17 422	18 061
Czech Republic		14 774	14 742
Germany		1 129	1 041
Other countries		3 362	3 582
		88 905	**86 873**
excluded from scope of IFRS15 - Poland		144	124
	8, 10.1	**89 049**	**86 997**

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

10.4. Revenue from contracts with customers by type of contract

		Downstream Segment		Retail Segment		Corporate Functions		Total	
	NOTE	2 019	2 018	2 019	2 018	2 019	2 018	2 019	2 018
Based on fixed price contracts		66 565	66 325	22 158	20 458	50	47	88 773	86 830
Based on variable price contracts		-	-	-	-	23	25	23	25
Based on time and materials consumption		109	18	-	-	-	-	109	18
	10.1	**66 674**	**66 343**	**22 158**	**20 458**	**73**	**72**	**88 905**	**86 873**

ORLEN PKN ORLEN (in PLN million)

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.

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

		Downstream Segment		Retail Segment		Corporate Functions		Total	
	NOTE	2 019	2 018	2 019	2 018	2 019	2 018	2 019	2 018
At a point in time		49 076	49 628	15 760	14 893	20	18	64 856	64 539
Over time		17 598	16 715	6 398	5 565	53	54	24 049	22 334
	10.1	**66 674**	**66 343**	**22 158**	**20 458**	**73**	**72**	**88 905**	**86 873**

As part of the Downstream segment, with respect to sales of petrochemical and refinery products, the Company recognises revenue from satisfaction of performance obligation, depending on the terms of delivery used (Incoterms). 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 simultaneously receives and consumes the benefits from the service.
In the Retail segment, the moment of satisfiaction of performance obligation and recognizing revenues is the moment of transfer of good, except for sales of fuels using Fleet Cards.
In case of sales satisfied 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 is entitled to transfer of goods and services to the customer. Revenue recognised over time mainly relate to sale of energy and heat within the Downstream segment, sale of fuels using Fleet cards within Retail segment.

10.6. Revenue from contracts with customers by duration of contract

		Downstream Segment		Retail Segment		Corporate Functions		Total	
	NOTE	2 019	2 018	2 019	2 018	2 019	2 018	2 019	2 018
Short-term		65 642	65 521	22 158	20 458	20	8	87 820	85 987
Long-term		1 032	822	-	-	53	64	1 085	886
	10.1	**66 674**	**66 343**	**22 158**	**20 458**	**73**	**72**	**88 905**	**86 873**

The duration of most contracts within the Company is short-term. 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.
As at 31 December 2019 the Company analysed the value of the transaction price allocated to unsatisfied performance obligations at the end of the year.
Unsatisfied or partially unsatisified performance obligations at the end of the year mainly concerned contracts for the sale of electricity and power media that will end within 2020 or are concluded for an indefinite period with notice period of up to 12 months.
Due to the fact that the described performance obligations are part of the contracts, that can be considered short-term, or the revenues from satisfaction of performance obligation under these contracts are recognised in the amount that the Company has the right to invoice, the Company applied a practical exception, according to which it does not disclose information about the total amount of the transaction price allocated to the performance obligation.

10.7. Revenue from contracts with customers by sales channel

		Downstream Segment		Retail Segment		Corporate Functions		Total	
	NOTE	2 019	2 018	2 019	2 018	2 019	2 018	2 019	2 018
Direct sales		-	-	22 158	20 458	-	-	22 158	20 458
Other sales		66 674	66 343	-	-	73	72	66 747	66 415
	10.1	**66 674**	**66 343**	**22 158**	**20 458**	**73**	**72**	**88 905**	**86 873**

The Company realizes sales directly to end customers in the retail segment managing the network nearly 1,800 fueal stations: 1,361 own stations and 439 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.

10.8. 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.

ORLEN PKN ORLEN (in PLN million)

	2019	2018	% share 2019	% share 2018
Materials and energy	(38 489)	(37 420)	45.2%	45.1%
Cost of merchandise and raw materials sold	(38 265)	(39 299)	45.0%	47.4%
External services	(2 785)	(2 729)	3.3%	3.3%
Employee benefits, incl.:	(932)	(839)	1.1%	1,0%
payroll expenses	*(750)*	*(683)*	*0.9%*	*0.8%*
social security expenses	*(133)*	*(115)*	*0.2%*	*0.1%*
Depreciation and amortisation	(1 759)	(1 365)	2.1%	1.6%
Taxes and charges	(2 420)	(1 092)	2.8%	1.3%
Other	(417)	(256)	0.5%	0.3%
	(85 067)	**(83 000)**	**100.0%**	**100.0%**
Change in inventories	46	364		
Cost of products and services for own use	120	196		
Operating expenses	**(84 901)**	**(82 440)**		
Distribution expenses	4 364	2 850		
Administrative expenses	934	809		
Cost of sales	**(79 603)**	**(78 781)**		

In 2019 the position of taxes and charges includes the value of the emission charge effective from 1 January 2019 in the amount of PLN (1,200) million.

10.9. Other operating income

	NOTE	2019	2018
Profit on sale of non-current non-financial assets		23	23
Reversal of provisions		1	14
Reversal of impairment allowances of property, plant and equipment and intangible assets and other non-current assets	*11.4*	112	61
Penalties and compensations		21	30
Revaluation of investment properties		55	-
Settlement and valuation of derivative financial instruments related to operating exposure		277	63
Settlement and valuation of derivative financial instruments related to operating exposure under centralization		74	13
Ineffective part related to valuation and settlement of operating exposure		53	35
Settlement of hedging costs		115	20
Other, incl.:		44	172
received/due energy certificates		27	145
		775	**431**

10.10. Other operating expenses

	NOTE	2019	2018
Loss on sale of non-current non-financial assets		(46)	(34)
Recognition of provisions		(32)	(30)
Recognition of impairment allowances of property, plant and equipment and intangible assets and other non-current assets	*11.4*	(120)	(86)
Penalties, damages and compensations		(11)	(11)
Settlement of hedging costs		(3)	-
Settlement and valuation of derivative financial instruments related to operating exposure		(349)	(48)
Settlement and valuation of derivative financial instruments related to operating exposure under centralization		(20)	(21)
Ineffective part related to valuation and settlement of operating exposure		(39)	(28)
Other, incl.:		(240)	(96)
donations		*(40)*	*(59)*
shortages of materials in external warehouses	*13.5.1*	*(156)*	-
		(860)	**(354)**

In 2019 and 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 (72) million and PLN 15 million, respectively mainly related to commodity swaps hedging time mismatch on crude oil purchases, future sales of products, including fixed prices.
The change in valuation and settlement of derivative financial instruments in 2019 was affected by the prices of crude oil and refinery products as well as exchange rates.
In 2019 and 2018 the net position of valuation and settlement of derivative financial instruments related to operating exposure under centralization amounted to PLN 54 million and PLN (7) million, respectively and mainly related to the settlement of intercompany transactions hedging the purchase of crude oil (ships).
In 2019 and 2018 the net positions of ineffective part concerned operating exposure amounted to PLN 14 million and PLN 7 million, respectively and concern mainly commodity swaps hedged risks connected with sea crude oil purchases and hedged sale of refinery products.

ORLEN PKN ORLEN (in PLN million)

10.11. Finance income and costs

10.11.1. Finance income

	NOTE	2019	2018
Interest calculated using the effective interest rate method		75	60
Interest on lease		1	1
Net foreign exchange gain		86	-
Dividends		470	870
Settlement and valuation of derivative financial instruments		741	1 157
Reversal on impairment allowances of shares in related parties	*11.4*	1 150	1 005
Other		44	182
		2 567	**3 275**

10.11.2. Finance costs

	NOTE	2019	2018
Interest calculated using the effective interest rate method		(235)	(270)
Interest on lease		(72)	(7)
Interest on tax liabilities		(2)	-
Net foreign exchange loss		-	(382)
Settlement and valuation of derivative financial instruments		(497)	(795)
Recognition of impairment allowances of shares in related parties	*11.4*	(140)	-
Other		(55)	(187)
		(1 001)	**(1 641)**

In 2019 and 2018 the net positions of valuation and settlement of derivative financial instruments (non-designated instruments for hedge accounting purposes within risk related to financing activities exposure) amounted to PLN 244 million and PLN 362 million, respectively and concerned mainly hedging the risk of changes in exchange rates (oil invoices) in accordance to deposits and payments in foreign currency and hedging of interest rates and payment of bonds interests.
The main impact on the change in valuation and settlement of derivative financial instruments in 2019 was affected by changes in exchange rates (the difference between the exchange rate as at the transaction date and the exchange rate as at the transaction settlement date or transaction valuation) and interest rates on financial markets.
The line Other in finance income and finance costs mainly includes transaction differences in currency purchases and additionally in 2019 settlement of intercompany financial transactions.

10.11.3. Interest, net

	NOTE	2019	2018
Finance income and costs of net interest presented in statement of profit or loss and other comprehensive income	*10.11.1, 10.11.2*	**(233)**	**(216)**
Adjustments to profit before tax of net interest presented in statement of cash flows		**254**	**241**
interest received concerning investing activities		*(58)*	*(35)*
interest paid concerning financing activities		*297*	*305*
accrued interest concerning investing and financing activities		*15*	*(29)*
Net interest concerning operating activities not adjusting profit before tax		21	25

10.11.4. Foreign exchange gain/(loss)

	NOTE	2019	2018
Foreign exchange gain/(loss) surplus presented in statement of profit or loss and other comprehensive income	*10.11.1, 10.11.2*	**86**	**(382)**
Adjustments to profit before tax of foreign exchange differences presented in statement of cash flows		**(79)**	**282**
realized foreign exchange differences concerning investing and financing activities		*39*	*39*
unrealized foreign exchange differences concerning investing and financing activities		*(126)*	*271*
foreign exchange differences on cash		*8*	*(28)*
Foreign exchange differences concerning operating activities not adjusting profit before tax		7	(100)

ORLEN PKN ORLEN (in PLN million)

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

	2019	2018
(Loss) due to impairment of receivables	(177)	(108)
Reversal of loss due to impairment of receivables	173	98
(Loss) due to impairment of loans granted	(1)	(13)
Reversal of loss due to impairment of loans granted	9	10
(Loss) due to impairment of interest on receivables	(1)	-
	3	**(13)**

(Loss)/reversal of loss due to impairment of financial instruments presented in:
- other operating activities relates to impairment of trade and other receivables;
- financing activities relates to impairment of loans and interest.

10.13. 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 as an asset, if the amount of the current and prior periods income tax paid exceeds the amount due. Deferred tax assets and liabilities are accounted for as non-current are not discounted and are offset when there is a legally enforceable right to set off the recognised amounts.

	2019	2018
Tax expense in the statement of profit or loss		
current tax	(733)	(853)
deferred tax	(86)	32
	(819)	**(821)**
Deferred tax recognised in other comprehensive income		
Hedging instruments	4	12
Actuarial gains and losses	2	1
	6	**13**
	(813)	**(808)**

10.13.1. Reconciliation of effective tax rate

	2019	2018
Profit before tax	**5 632**	**6 255**
Tax expense by the valid tax rate	(1 070)	(1 188)
Impairment allowances for shares in related parties	192	191
Current and deffered tax adjustment relating to previous years	(10)	(17)
Dividends received	89	165
Other	(20)	28
Tax expense	**(819)**	**(821)**
Effective tax rate	**15%**	**13%**

As at 31 December 2019 and as at 31 December 2018 impairment allowances for shares in related parties for which deferred tax assets were not recognised amounted to PLN (6,045) million and PLN (7,055) million, respectively.

10.13.2. Deferred tax

	31/12/2018	Impact of IFRS 16 adoption	Deferred tax recognised in profit or loss	Deferred tax recognised in other comprehensive income	31/12/2019
Deferred tax assets					
Impairment allowances	54	-	(3)	-	51
Provisions and accruals	159	-	16	2	177
Unrealized foreign exchange differences	35	-	(26)	-	9
Lease liabilities	-	413	28	-	441
Other	110	(31)	7	-	86
	358	**382**	**22**	**2**	**764**
Deferred tax liabilities					
Investment relief	24	-	(3)	-	21
Temporary differences related to non-current assets	968	382	105	-	1 455
Valuation of derivative financial instruments	36	-	6	(4)	38
Other	64	-	-	-	64
	1 092	**382**	**108**	**(4)**	**1 578**
	(734)	**-**	**(86)**	**6**	**(814)**

ORLEN PKN ORLEN (in PLN million)

	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)	-	-
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)**

10.13.3. Income tax (paid)

	NOTE	2019	2018
Tax expense on profit before tax	*10.13.1*	**(819)**	**(821)**
Change in deferred tax assets and liabilities		80	(48)
Change in current tax receivables and liabilities		(370)	360
Deferred tax recognised in other comprehensive income	*10.13.2*	6	13
Deferred tax as a result of adoption of IFRS 9	*10.13.2*	-	3
Liability for withholding tax		-	(55)
		(1 103)	**(548)**

ORLEN PKN ORLEN (in PLN million)

11. EXPLANATORY NOTES TO THE STATEMENT OF FINANCIAL POSITION

11.1. 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 presented 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 2019 resulted in a decrease of depreciation costs by PLN 12 million compared to depreciation costs that were recognised based on useful lives applied in 2018.

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 11.9.1*

(in PLN million)

	Land	Buildings and constructions	Machinery and equipment	Vehicles and other	Construction in progress	Total
Net carrying amount at 01/01/2019						
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**
increases/(decreases), net						
Investment expenditures	-	46	95	-	1 076	1 217
Depreciation	-	(519)	(768)	(113)	-	(1 400)
Borrowing costs	-	7	10	1	(8)	10
Net impairment allowances, incl.: *	4	48	(13)	1	-	40
recognition	-	*(34)*	*(25)*	*(1)*	*(1)*	*(61)*
reversal	-	*71*	*10*	*2*	-	*83*
Reclassifications	(14)	240	624	164	(1 188)	(174)
Grants	-	-	(18)	-	-	(18)
Other	-	(4)	(18)	(3)	(8)	(33)
	445	**7 725**	**5 907**	**376**	**800**	**15 253**
Net carrying amount at 31/12/2019						
Gross carrying amount	445	14 573	14 329	957	812	**31 116**
Accumulated depreciation	-	(6 748)	(8 279)	(578)	-	**(15 605)**
Impairment allowances	-	(100)	(41)	(3)	(12)	**(156)**
Grants	-	-	(102)	-	-	**(102)**
	445	**7 725**	**5 907**	**376**	**800**	**15 253**
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)
Net carrying amount at 31/12/2018	**455**	**7 907**	**5 995**	**326**	**928**	**15 611**

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

In 2019 and 2018 investment expenditures were reduced by PLN 30 million and PLN 219 million, respectively received/due to penalties for delayed execution of the investment contracts.

In 2019 and 2018 capitalization rate used to calculate capitalized borrowing costs amounted to 2.27% and 2.71% respectively.
The gross carrying amount of all fully depreciated property, plant and equipment still in use as at 31 December 2019 and as at 31 December 2018 amounted to PLN 1,646 million and PLN 1,682 million, respectively.

11.2. 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.

PKN ORLEN (in PLN million)

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.
The Company recognises cost flows of CO_2 emission allowances at weighted average method.
Rights also include energy certificates for which FIFO cost method (First In First Out) is used.

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. The impact of verification of useful lives in 2019 resulted in decrease of depreciation costs by PLN 6 million compared to depreciation costs that were recognised based on useful lives applied in 2018.

Change in other intangible assets

	Patents and licenses	Rights	Other	Total
Net carrying amount at 01/01/2019				
Gross carrying amount	736	569	76	**1 381**
Accumulated amortisation	(523)	-	(43)	**(566)**
Impairment allowances	(3)	(57)	-	**(60)**
	210	**512**	**33**	**755**
increases/(decreases), net				
Investment expenditures	109	-	44	153
Amortisation	(56)	-	(2)	(58)
Borrowing costs	3	-	-	3
Other *	1	223	(3)	221
	267	**735**	**72**	**1 074**
Net carrying amount at 31/12/2019				
Gross carrying amount	847	793	117	**1 757**
Accumulated amortisation	(577)	-	(45)	**(622)**
Impairment allowances	(3)	(58)	-	**(61)**
	267	**735**	**72**	**1 074**
Net carrying amount at 01/01/2018				
Gross carrying amount	695	571	88	**1 354**
Accumulated amortisation	(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)
Net carrying amount at 31/12/2018	**210**	**512**	**33**	**755**

** Other net increases/(decreases) of rights consist mainly of granted rights free of charge for 2019 and 2018 sale and settlement of rights for 2018 and 2017 and relocation of colour energy allowances to non-current assets classified as held for sale.*

The gross carrying amount of all fully depreciated property, plant and equipment still in use as at 31 December 2019 and as at 31 December 2018 amounted to PLN 235 million and PLN 237 million, respectively.

11.2.1. Rights

Change in owned CO_2 emission rights for 2019

	Quantity (in thous. tonnes)	Value
01/01/2019	18 343	495
Received free of charge	3 296	287
Emission settlement for 2018	(7 790)	(275)
Purchase	2 147	207
	15 996	**714**
Emission in 2019	8 790	393

The market value of owned EUA rights exceeds their total carrying amount, therefore the Company does not identify impairment indicators. As at 31 December 2019 the market value of one EUA amounted to PLN 104.25 (representing EUR 24.48 at exchange rate as at 31 December 2019) (source: www.theice.com).

ORLEN PKN ORLEN (in PLN million)

Change in rights to colorful energy

	Quantity (in thous. tonnes)	Value
01/01/2019	306	17
Received free of charge	730	56
Emission settlement for 2018	(463)	(29)
Purchase/(Sale),Others	(409)	(23)
	164	**21**
Emission in 2019	138	22

As at 31 December 2019 book value of 3 million of EUA rights and 160 thousands MWh colour energies blocked within hedging deposits in the Warsaw Commodity Clearing House (WCCH) amounted to PLN 148 million.
Additionally as at 31 December 2019 and 31 December 2018, the Company recognised CO_2 emission rights in amount of PLN 18 million and PLN 25 million and rights to colour energy in amount of PLN 30 million and PLN 60 million, respectively in trade and other receivables (note 11.5.2).
Furthermore, the Company as at 31 December 2019 recognised in position non-current assets classified as held for sale the CO_2 emission rights in the amount of PLN 26 million and rights to colorful energy in the amount of PLN 33 million.

11.3. 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	31/12/2019	31/12/2018	Company's share in share capital /of total number of votes at 31/12/2019	Company's share in share capital /of total number of votes at 31/12/2018	Principal activity
Subsidiaries and jointly controlled entities						
UNIPETROL a.s.	Czech Republic - Prague	6 037	6 035	100.00%	100.00%	assets management of the Unipetrol Group
AB ORLEN Lietuva	Lithuania – Juodeikiai	3 417	2 297	100.00%	100.00%	crude oil processing, production of refining products and wholesale
ORLEN Upstream Sp. z o.o.	Poland - Warsaw	2 396	2 396	100.00%	100.00%	exploration and recognition of hydrocarbon deposits, extraction of crude oil and natural gas
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
Baltic Power Sp. z o.o.	Poland - Warsaw	107	55	100.00%	100.00%	production of electrical equipment
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 and jointly controlled entities		447	444			
Repayable additional payments to equity of subsidiaries, incl.:		**2 169**	**1 923**			
ORLEN Upstream Sp. z o.o.		*2 006*	*1 871*			
		16 513	**15 090**			

As at 31 December 2019 and as at 31 December 2018 impairment allowances of shares in related parties amounted to PLN 6,052 million and PLN 7,062 million respectively and related mainly to impairment of shares in ORLEN Lietuva.
In 2019 the Company reversed impairment allowances of shares in ORLEN Upstream in the amount of PLN 1,120 million. Additional information about impairment is presented in note 11.4.

11.4. Impairment of non-current assets and right-of-use assets

SELECTED ACCOUNTING PRINCIPLES

Impairment of non-current assetsand right-of-use 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 and righ- of-use 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 2019, an impairment indicators were identified in the Company in accordance with IAS 36 "Impairment allowances of assets" related to the approval on 19 December 2019 Financial Plan of PKN ORLEN S.A. and the ORLEN Group for year 2020 by the Management Board and the Supervisory Board of PKN ORLEN and the update of discount rates for the valuation of fixed assets as at 31 December 2019.

The Financial Plan of PKN ORLEN S.A. and the ORLEN Group for 2020 has been prepared taking into account current macroeconomic assumptions, operational plans and investment plans.
The macroeconomic assumptions of the Financial Plan of PKN ORLEN S.A. and the ORLEN Group for 2020 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.

Production 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 specialized computer software.
For business evaluation, which is mainly based on production assets in ORLEN Upstream Canada, the Reserve Report was prepared (valuation of the concession assessing the production potential of the assets). For exploration assets 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 slight decrease in the level of production potential relative to the last resource verification by 6%.
The assessment of the prospects of exploited deposits 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 decrease in the level of exploration reserves compared to the last resource verification by 15%.
The above described decreases in the level of production potential were offset by falling levels of discount rates and as a result did not result in revaluation.

Due to the lack of a reliable estimate of the price, at which would have taken place a potential transaction to sale the assets of the Group as the recoverable value of its individual assets is its value in use, according to IAS 36.20. The Upstream segment assets test was performed by reference to the fair value reduced by the costs of reclamation.
The fair value is based on the expected discounted cash flows generated by a single CGU (Cash Generating Unit) until the end of extraction. The valuation is based largerly on non-market input data (valuation level 3, as defined in IFRS13 - Fair value measurement) – mainly these are forecasts for future oil and gas prices, and evaluation of the production potential of the reserves.
The impairment tests were performed on the basis of assets of the ORLEN Group as at 31 December 2019 and net cash flows projected in the approved Financial Plan for year 2020 and within Strategy the Mid-term Plan for years 2021-2022 or in the mentioned above Reserve Reports, discounted to their present value using the discount rates which reflect the current market value of money and the specific risks to the valued assets.

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 2019.

Property, plant and equipment, intangible assets and right-of-use assets
Discount rates applied within tests respectively to the defined main cash-generating units ("CGU") in PKN ORLEN is for Refinery CGU 7.15%, Petrochemical CGU 7.39%, Retail CGU 5.68%, Power Industry CGU 4.88%. Useful life adopted for tests is respectively for CGU: Refinery 24 years, Petrochemical 25 years, Power Industry 26 years and for Retail CGU 12 years. After the period covered by the Financial Plan for year 2020 and Mid-term Plan for years 2021-2022 constant rate of cash flows growth was assumed, estimated for Poland at the level of long-term inflation rate of 2.48%.

The Company in 2019, as the result of the impairment tests performed on the separate petrol stations in the Retail segment, recognised impairment losses on assets in the amount of PLN (23) million.

Other impairment losses concerned mainly the Downstream segment in the amount of PLN (23) million and the Corporate Functions area in the amount of PLN (8) million.
As a result, in 2019, the Company recognised the total net impairment effect on impairment losses on assets in the amount of PLN (8) million.

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 Financial Plan for year 2020 and the Mid-Term Plan for years 2021-2022 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.

As at 31 December 2019 the Company, as a result of the impairment test performed, reversed the impairment loss on the investment in shares of ORLEN Lietuva and influenced the financial result in the amount of PLN 1,120 million. This value is presented in financial income in note 10.11.1
The recoverable amount of PKN ORLEN's investment in ORLEN Lietuva shares is PLN 3,418 million.
The reversal of impairment loss on the investment of PKN ORLEN in the ORLEN Lietuva Group is mainly the result of decrease of the weighted average cost of equity from 10.56% to the level of 8.35%, what caused the increase of the return on investment by 2.2 p.p.

The main factor in reducing the weighted average cost of capital for Orlen Lietuva's assets is the decrease in the market risk premium and the risk-free rate. Additional factors affecting the valuation are the expected decline in ORLEN Lietuva's involvement in working capital in the coming years and the update of the investment plan.

Sensitivity analysis of ORLEN Lietuva shares value in use as at 31 December 2019

in PLN million		EBITDA		
	change	-5%	0%	5%
DISCOUNT RATE	- 1 p.p.	*increase of reversal* 85	*increase of reversal* 470	*increase of reversal* 818
	0,0 p.p.	*decrease of reversal* (346)	-	*increase of reversal* 315
	+ 1 p.p.	*decrease of reversal* (711)	*decrease of reversal* (398)	*decrease of reversal* (111)

In 2019, the Company made the impairment allowances on the investment in ORLEN Capital in the net amount of PLN (110) million. The value is presented in finance income (note 10.11.1) and finance cost (note 10.11.2). These impairment allowances are mainly the result of the payment to capital realized in the 2nd quarter of 2019 and the differed tax provision on exchange rate differences on the loan granted, which respectively reduces or increases the value of the Company's equity.

The revaluation of other PKN ORLEN's investments in the stocks and shares of the ORLEN Group companies as at 31 December 2019 did not result in the impairment of these investments.

The total effect of net impairment losses on the value of stock and shares on the Company's financial result in year 2019 amounted to PLN 1,010 million.

In 2018, 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 2018, an impairment allowance of 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.

11.5. Net working capital

Net working capital
The Company defines 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
31/12/2018		9 889	7 709	8 853	8 745
31/12/2019		9 835	7 160	9 779	7 216
Change in working capital in the statement of financial position		**54**	**549**	**926**	**1 529**
Adjustments		**2**	**22**	**(252)**	**(228)**
Change in rights and advances for non-financial non-current assets	*11.5.2*	*-*	*15*	*-*	*15*
Change in investment liabilities	*11.5.3*	*-*	*-*	*(244)*	*(244)*
Other		*2*	*7*	*(8)*	*1*
Change in working capital in the statement of cash flows		**56**	**571**	**674**	**1 301**

ORLEN PKN ORLEN (in PLN million)

11.5.1. 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.
Cost flows 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.
Cost flows 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 Compoany determines the inventory impairment allowances based on estimation of the net realizable values considering the most recent sales prices at the moment of estimations.

	31/12/2019	31/12/2018
Raw materials	5 986	6 120
Semi - finished goods and work in progress	631	754
Finished goods	2 799	2 630
Merchandise	419	385
Inventories, net	**9 835**	**9 889**
Impairment allowances of inventories to net realisable value	5	8
Inventories, gross	**9 840**	**9 897**

The main item of inventories, which turnover period is longer than 12 months after the end of the reporting period are mandatory reserves. As at 31 December 2019 and as at 31 December 2018 the value of mandatory reserves of the Company amounted to PLN 5,580 million and PLN 5,152 million, respectively.

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

	2019	2018
At the beginning of the period	8	8
Recognition	24	16
Reversal	(25)	(14)
Usage	(2)	(2)
	5	**8**

11.5.2. Trade and other receivables

SELECTED ACCOUNTING PRINCIPLES

Receivables
Receivables, excluding trade receivables, are recognised initially at fair value and subsequently at amortised cost using the effective interest rate including expected credit loss. On initial recognition, the Company measures trade receivables that do not have a significant financing component at their transaction price.
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.
Receivables accounted at amortised cost, where the Company applies simplifications, are accounted at the initial recognition in the amount due, and later, including at the end of the reporting period, in the amount of the payment due less impairment allowances.

ESTIMATES

Impairment of trade and other receivables
As default the Company considers the event when the customer does 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

ORLEN PKN ORLEN (in PLN million)

2018 the Company estimates the expected credit loss until maturity of instrument. The expected credit loss is calculated when the receivables are recognised in the statement of financial position and is updated on each subsequent day ending the reporting period.

	NOTE	31/12/2019	31/12/2018
Trade receivables from contracts with customers		6 570	6 986
Other		104	120
Financial assets		**6 674**	**7 106**
Excise tax and fuel charge		122	131
Other taxation, duties, social security and other benefits		11	14
Advances for non-current non-financial assets		132	80
Rights		48	85
Advances for deliveries		40	60
Prepayments		128	233
Grants		5	-
Non-financial assets		**486**	**603**
Receivables, net		**7 160**	**7 709**
Expected credit loss	*11.5.2.1*	260	257
Receivables, gross		**7 420**	**7 966**

Division of financial assets denominated in foreign currencies is presented in note 12.5.2. Division of receivables from related parties is presented in note 13.7.2.
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.

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

	NOTE	2019	2018
At the beginning of the period		257	258
Recognition	*10.12*	178	108
Reversal	*10.12*	(173)	(108)
financial		*(173)*	*(98)*
non-financial		*-*	*(10)*
Usage		(2)	(1)
		260	**257**

11.5.2.2. Ageing analysis of trade receivables and expected credit loss as at 31 December 2019

	Trade receivables, gross value	Expected credit loss (in horizon of whole life)	Weighted average rate of expected credit loss	Trade receivables, net value
current	4 967	16	0.0032	4 951
from 1 to 30 days	1 612	1	0.0006	1 611
from 31 to 60 days	2	2	1,0000	-
from 61 to 90 days	1	1	1,0000	-
more than 90 days past due	224	216	0.9643	8
	6 806	**236**		**6 570**

Detailed information about credit risk is presented in note 12.5.4.

11.5.3. 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.

ORLEN PKN ORLEN (in PLN million)

	31/12/2019	31/12/2018
Trade liabilities	6 051	5 537
Investment liabilities	762	518
Finance lease*	-	26
Other	195	99
Financial liabilities	**7 008**	**6 180**
Payroll liabilities	174	146
Excise tax and fuel charge	1 449	1 495
Value added tax	922	901
Other taxation, duties, social security and other benefits	186	90
Holiday pay accruals	31	32
Other	9	9
Non-financial liabilities	**2 771**	**2 673**
	9 779	**8 853**

** In 2019, the line finance lease was reclassified in accordance with IFRS 16 to the line lease liabilities*

Division of financial liabilities denominated in foreign currencies is presented in note 12.5.2. Division of liabilities from related parties is presented in note 13.7.2.
As at 31 December 2019 and as at 31 December 2018 in the Company there 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.

11.5.3.1. Change in liabilities from contracts with customers

	2019	2018
At the beginning of the period	213	164
Revenues recognised in a given reporting period, included in the balance of liabilities from contracts at the beginning of the period	(95)	(106)
Revenue adjustments	98	95
Advances received, prepayments	31	60
Discount settlement	(41)	-
	206	**213**

The Company fulfils its liabilities from contracts with customers with respect to advance payments received, prepayments up to one year.
Revenues adjustments are 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.

11.6. Net debt and equity management

SELECTED ACCOUNTING PRINCIPLES

Cash, loans, borrowings and bonds
Cash comprises cash on hand and in bank accounts as well as cash in transit. Valuation and outflows of cash and cash equivalents in foreign currencies are based on FIFO (First In First Out) method.
The Company classifies its loans and bonds to financial liabilities measured at amortized cost.
The Company uses simplified methods of the valuation of loans measured at amortized cost if it does not distort the information contained in the statement of financial position, in particular when the period until the repayment date is not long.
Loans for which the Company applies simplifications, are accounted at initial recognition and at the later date, including at the end of the reporting period, at the amount of payment due.

Changes in liabilities from financing activities

	Loans and borrowings (A)	Bonds (B)	Cash (C)	Net debt (A + B - C)	Lease (D)	Cash pool (E)	Change in liabilities from financing activities (A + B + D + E)
01/01/2019 (approved data)	7 537	2 226	3 461	**6 302**	164	1 534	**11 461**
Impact of IFRS 16 adoption					2 012		**2 012**
01/01/2019 (converted data)	7 537	2 226	3 461	**6 302**	2 176	1 534	**13 473**
Cash changes							
net proceeds/(outflows)	-	*(1 110)*	*1 603*	***(2 713)***	*(316)*	*158*	***(1 268)***
interest paid	*(177)*	*(53)*	-	***(230)***	*(48)*	*(19)*	***(297)***
Non-cash changes							
exchange differences	*(73)*	-	*(8)*	***(65)***	*(3)*	*25*	***(51)***
valuation of debt	*179*	*39*	-	***218***	*74*	*18*	***310***
new finance lease agreements, increase in lease remuneration	-	-	-	-	*473*	-	***473***
*other**					*12*		***12***
31/12/2019	**7 466**	**1 102**	**5 056**	**3 512**	**2 368**	**1 716**	**12 652**

** other non-cash changes include mainly liquidation and accrued lease payments, most of which have been paid and recognised in cash changes in net outflows*

PKN ORLEN (in PLN million)

	Loans and borrowings (A)	Bonds (B)	Cash (C)	Net debt (A + B - C)	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, increase in lease remuneration	*-*	*-*	*-*	***-***	*49*	*-*	***49***
31/12/2018	**7 537**	**2 226**	**3 461**	**6 302**	**164**	**1 534**	**11 461**

The Company defined net debt as: non-current and current loans, borrowings and bonds lower by cash and cash equivalents.
The Company to assess the level of debt used ratios: net financial gearing (net debt / equity (calculated as at the end of the period) x 100%) and net debt / EBITDA before net impairment allowances due to property, plant and equipment and intangible assets, other non-current assets and non-current assets classified as held for sale, calculated at the ORLEN Group's consolidated data.

For the purposes of liquidity management, in the ORLEN Group maintance national and international cash pool systems that financial costs within the Group are optimized.
The Company is an Agent in the "cash pool" structures, 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 structures 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" structures 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". Taking into account the operating conditions for cash pool systems within the ORLEN Group there are not enough indications that Participants cash are classified as cash assets at the Bank.
The main reason for recognising cash in cash pool systems as other financial assets or other financial liabilities is the fact that the Company is not independent from the entities participating in the structure. Despite the fact that cash in the cash pool system dedicated to Polish ORLEN Group Companies become the Agent's property, they return again to the Participant and become his property. However, cash in the international cash pool system dedicated to foreign companies of the ORLEN Group become the Agent's property, but the Participant may use them on a voluntary basis within specified limits.

11.6.1. Loans, borrowing and bonds

	Non-current		Current		Total	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Loans	1 884	2 151	246	-	2 130	2 151
Borrowings	5 336	5 386	-	-	5 336	5 386
Bonds	1 002	1 104	100	1 122	1 102	2 226
	8 222	**8 641**	**346**	**1 122**	**8 568**	**9 763**

As at 31 December 2019, 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 2,130 million translated using the exchange rate as at 31 December 2019 (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.

11.6.1.1. Loans

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

	31/12/2019	31/12/2018
EUR - EURIBOR	2 130	2 151
	2 130	**2 151**

As at 31 December 2019 unused credit lines (note 12.5.4) increased by trade and other receivables (note 11.5.2.) and cash exceeded trade and other liabilities (note 11.5.3) by PLN 7,406 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 this 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 2019 these ratios assessed by the creditor banks were at a safe level. The value of covenant as at 31 December 2019 included in the loan agreement of PKN ORLEN (the ratio "consolidated net debt / EBITDA before net impairment allowances due to property, plant and equipment, intangible assets, right-of-use assets,

PKN ORLEN (in PLN million)

other non-current assets and non-current assets classified as held for sale" calculated based on the definition of individual components from loan agreements) amounted to 0.27 and met the obligations contained in loan agreements.

11.6.1.2. Borrowings

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

	31/12/2019	31/12/2018
EUR - fixed interest rate	5 336	5 386
	5 336	**5 386**

As at 31 December 2019 and 31 December 2018 the amount of PLN 5,336 million and PLN 5,386 million, respectively related to a borrowings from ORLEN Capital AB. In the period covered by this 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.

11.6.1.3. Bonds

- by currency (translated into PLN)

	31/12/2019	31/12/2018
PLN	1 102	2 226
	1 102	**2 226**

- by interest rate

	Floating rate bonds		Fixed rate bonds		Total	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Nominal value	1 000	2 000	100	210	1 100	2 210
Carrying amount	1 002	2 015	100	211	1 102	2 226

	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**					

The difference between the nominal value and carrying amount of bonds results from measurement of bonds at amortized cost using the effective interest method.
In the 1st quarter of 2019, PKN ORLEN redeemed long-term bonds with a nominal value of PLN 1 billion issued in 2012 under the Bond Issue Program Agreement of 27 November 2006.
Under the first public bond issue program, F Series remains open with a nominal value of PLN 100 million and under the second public bond issue program, A-E Series with a total nominal value of PLN 1 billion.

11.6.2. Cash

	31/12/2019	31/12/2018
Cash on hand and in bank	5 056	3 461
	5 056	**3 461**
including restricted cash	1 038	58

In 2019, restricted cash increased by PLN 980 million and amounted to PLN 1,038 million, mainly due to collateral established in 4th quarter of 2019 for the tender offer announced by PKN ORLEN to subscribe for the sale of all shares of ENERGA S.A.in the amount of PLN 1 billion.

11.6.3. 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 companies 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 2019 and as at 31 December 2018 amounted to 6.3% and 15.7% respectively;
- net debt of the Group to EBITDA ratio before net impairment allowances of the Group;

ORLEN PKN ORLEN (in PLN million)

– 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 2019 and in 2018 amounted to PLN 3,5 and PLN 3 per share, respectively.

11.7. Equity

SELECTED ACCOUNTING PRINCIPLES

Share capital
Equity paid by shareholders presented at nominal value in accordance with the Company's articles of association and the entry in the National Court 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.*

11.7.1. Share capital

	31/12/2019	31/12/2018
Share capital	535	535
Share capital revaluation adjustment	523	523
	1 058	**1 058**

In accordance with the National Court Register, the share capital of Polski Koncern Naftowy ORLEN S.A. as at 31 December 2019 and as at 31 December 2018 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*	26 000 000	32 500 000	6,08%
Other	253 998 865	317 498 581	59.39%
	427 709 061	**534 636 326**	**100.00%**

* *according to the information from the Exrtraordinary General Shareholders' Meeting of PKN ORLEN of 5 March 2020*

11.7.2. Share premium

	31/12/2019	31/12/2018
Nominal share premium	1 058	1 058
Share premium revaluation adjustment	169	169
	1 227	**1 227**

11.7.3. Retained earnings

	31/12/2019	31/12/2018
Reserve capital	26 886	22 949
Other capital	806	830
Equity resulting from merger under common control	(29)	(29)
Actuarial gains and losses	(17)	(8)
Net profit for the period	4 813	5 434
Impact of IFRS 9 adoption	-	(24)
	32 459	**29 152**

(in PLN million)

11.7.4. Proposal for distribution of the Company's profit for 2019

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 2019 in the amount of PLN 4,813,592,019.09 PLN as follows: PLN 1,283,127,183.00 PLN will be allocated as a dividend payment (PLN 3 per 1 share) and the remaining amount of PLN 3,530,464,836.09 as reserve capital. The Management Board of PKN ORLEN proposes 14 July of 2020 as the dividend date and 28 July of 2020 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.

11.7.5. Distribution of the Company's profit for 2018

The Ordinary General Meeting of Shareholders of PKN ORLEN S.A. on 14 June 2019 distributed 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 was allocated as a dividend payment (PLN 3,5 per 1 share) and the remaining amount of net profit of PLN 3,937,168,128.67 as reserve capital.

11.8. Derivatives and other assets and liabilities

Derivatives and other assets

	Non-current		Current		Total	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Cash flow hedging instruments	182	59	89	278	271	337
currency forwards	*182*	*59*	*88*	*149*	*270*	*208*
commodity swaps	-	-	*1*	*129*	*1*	*129*
Derivatives not designated as hedge accounting	24	15	34	40	58	55
currency forwards	*5*	-	*27*	*5*	*32*	*5*
currency interest rate swaps	*19*	*10*	-	-	*19*	*10*
commodity swaps	-	-	*7*	*35*	*7*	*35*
interest rate swaps	-	*5*	-	-	-	*5*
Derivatives under centralization	71	42	172	131	243	173
commodity swaps	-	-	*149*	*124*	*149*	*124*
currency forwards	*71*	*42*	*23*	*7*	*94*	*49*
Fair value hedging instruments	-	2	4	1	4	3
commodity swaps	-	*2*	*4*	*1*	*4*	*3*
Derivatives	**277**	**118**	**299**	**450**	**576**	**568**
Other financial assets	1 370	916	917	541	2 287	1 457
loans granted	*1 311*	*831*	*8*	*8*	*1 319*	*839*
cash pool	-	-	*343*	*297*	*343*	*297*
receivables on settled derivatives	-	-	*66*	*105*	*66*	*105*
receivables on settled derivatives under centralization	-	-	*156*	*111*	*156*	*111*
financial assets measured at fair value through other comprehensive income	*59*	*59*	-	-	*59*	*59*
hedged item adjustment	-	*4*	*4*	*20*	*4*	*24*
finance lease	-	*22*	-	-	-	*22*
security deposits	-	-	*340*	-	*340*	-
Other non-financial assets	95	100	-	-	95	100
*investment property**	*95*	-	-	-	*95*	-
perpetual usufruct of land	-	*100*	-			*100*
Other assets	**1 465**	**1 016**	**917**	**541**	**2 382**	**1 557**

** In 2019 finance lease item was reclassified in accordance with IFRS 16 to the position lease receivables (short-term and long-term)*

As at 31 December 2019 investment property includes mainly social and office buildings, as well as land. Depending on the characteristics of the property, its fair value was estimated based on the comparative method of appraisal reports prepared by independent experts (hierarchy level 2). Comparative method was applied assuming, that the value of assessed property was equal to the market price of a similar property.

As at 31 December 2019, the Company has security deposits that do not meet the definition of cash equivalents concerning mainly hedging of settlement of transactions on the Intercontinental Exchange Inc. (ICE) and the Commodity Clearing House Inc. (IRGIT).

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Derivatives and other liabilities

	Non-current		Current		Total	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Cash flow hedging instruments	-	-	64	96	64	96
commodity swaps	-	-	64	96	64	96
Derivatives not designated as hedge accounting	-	38	60	60	60	98
interest rate swaps	-	38	19	-	19	38
currency interest rate swaps	-	-	-	27	-	27
currency forwards	-	-	26	12	26	12
commodity swaps	-	-	15	21	15	21
Derivatives under centralization	72	42	178	147	250	189
commodity swaps	-	-	154	140	154	140
currency forwards	72	42	24	7	96	49
Fair value hedging instruments	-	4	4	21	4	25
commodity swaps	-	4	4	21	4	25
Derivatives	**72**	**84**	**306**	**324**	**378**	**408**
Other financial liabilities	108	257	1 973	1 657	2 081	1 914
liabilities on settled derivatives	-	-	109	7	109	7
liabilities on settled derivatives under centralization	-	-	144	115	144	115
investment liabilities	90	96	-	-	90	96
finance lease	-	138	-	-	-	138
cash pool	-	-	1 716	1 534	1 716	1 534
hedged item adjustment	-	2	4	1	4	3
donations	18	21	-	-	18	21
Other non-financial liabilities	-	-	9	6	9	6
deferred income	-	-	9	6	9	6
Other liabilities	**108**	**257**	**1 982**	**1 663**	**2 090**	**1 920**

** In 2019, the finance lease item was reclassified in accordance with IFRS 16 to the position lease liabilities*

Under market risk management, the ORLEN Group launched a process of service centralization derivative financial instruments. PKN ORLEN as part of centralization concludes transactions with a financial institution (Bank or ICE) and subsequently, an intercompany transaction with a company from the ORLEN Group.
Within the commodity and currency exposures, PKN ORLEN acts as an intermediary in this type of transactions. The result of intermediation is presented in the position revenues from sales of services.
Moreover, within the framework of commodity exposure PKN ORLEN concludes transactions with the ORLEN Group company, which the valuation and settlement are presented in other operating activities.

11.8.1. 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	5	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	**5**	

11.8.2. Change in expected credit loss of loans granted

	2019	2018
At the beginning of the period	13	10
Recognition	1	13
Reversal	(9)	(10)
	5	**13**

Data presented in the table above entirely relate to the expected credit loss on loans granted in the amount equal to 12 months' expected credit loss.

11.9. 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

ORLEN PKN ORLEN (in PLN million)

the provision increase or decrease the value of the asset subject to reclamation in the current period. 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.

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 weighted average method. 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 on-going 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 has 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 making 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	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Environmental	426	403	29	34	455	437
Jubilee bonuses and post-employment benefits	127	117	30	28	157	145
CO_2 emissions, energy certificates	-	-	415	229	415	229
Other	-	-	114	85	114	85
	553	**520**	**588**	**376**	**1 141**	**896**

Change in provisions

	Environmental provision	Jubilee bonuses and post-employment benefits provision	CO_2 emissions, energy certificates	Other	Total
01/01/2019	437	145	229	85	896
Recognition	41	29	500	31	601
Reversal	-	(1)	(10)	(1)	(12)
Usage	(23)	(16)	(304)	(1)	(344)
	455	**157**	**415**	**114**	**1 141**
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**

	2019	2018
Change in provisions presented in the statement of financial position	**245**	**135**
Usage of provision for CO_2 emissions, energy certificates from previous year	304	167
Capitalization of environmental provision	(35)	(85)
Actuarial gains and losses	(11)	(2)
Change in provisions in the statement of cash flows	**503**	**215**

PKN ORLEN (in PLN million)

11.9.1. Environmental provision

The Company has legal obligation to clean contaminated land – water environment in the area of production plants in Płock, 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 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.

In 2019 year the assumptions used to calculate the value of environmental provision did not change compared to the previous year.
Components of the provision, adjusted for the inflation effect of 2.5%, which has not changed, compared to the previous year, are discounted based on the risk-free rate set at the level of 10-year government bonds, and for components of the provision with a significantly extended estimated maturity at the level of profitability of 30-year government bonds. As at 31 December 2019 and as at 31 December 2018 the average discount rate amounted to 2.26% and 2.85% respectively.

11.9.2. Provision for jubilee bonuses and post-employment benefits

Change in employee benefits obligations

	NOTE	Jubilee bonuses provision 31/12/2019	Jubilee bonuses provision 31/12/2018	Post-employment benefits 31/12/2019	Post-employment benefits 31/12/2018	Total 31/12/2019	Total 31/12/2018
At the beginning of the period		77	80	68	65	145	145
Current service costs		2	3	3	2	5	5
Interest expenses		2	2	3	2	5	4
Actuarial gains and losses arising from changes in assumptions:		7	1	11	2	18	3
demographic		*1*	*(1)*	*-*	*-*	*1*	*(1)*
financial		*4*	*4*	*10*	*3*	*14*	*7*
other		*2*	*(2)*	*1*	*(1)*	*3*	*(3)*
Payments under programme		(12)	(9)	(4)	(3)	(16)	(12)
	11.9	**76**	**77**	**81**	**68**	**157**	**145**

The carrying amount of employee benefits liabilities is identical to their present value as at 31 December 2019 and 31 December 2018.

Employee benefits liabilities divided into active and retired employees

Active employees 31/12/2019	Active employees 31/12/2018	Retired employees 31/12/2019	Retired employees 31/12/2018	Total 31/12/2019	Total 31/12/2018
139	130	18	15	157	145

Employee benefits liabilities concern active employees and retired employees in Poland

	Jubilee bonuses provision 31/12/2019	Jubilee bonuses provision 31/12/2018	Post-employment benefits 31/12/2019	Post-employment benefits 31/12/2018	Total 31/12/2019	Total 31/12/2018
Maturity of employee benefits analysis						
up to 1 year	14	14	16	14	30	28
above 1 to 5 years	27	26	12	12	39	38
above 5 years	35	37	53	42	88	79
	76	**77**	**81**	**68**	**157**	**145**

The weighted average duration of liabilities for post-employment benefits in 2019 and 2018 was 11 and 10 years, respectively.

In 2019 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 2018 assumptions be used, the provision for the employee benefits would be lower by PLN (16) million.

Sensitivity anslysis to changes in actuarial assumptions

As at 31 December 2019, the Company used the following actuarial assumptions, that had an impact on the level of actuarial provisions: discount rate: 2.0%, expected inflation: 2.8% in 2020, 2.6% in 2021 and 2.5% in subsequent years, the remuneration increase rate: 4% in 2020, 3% in 2021 and 2.5% 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 part of employee benefits, the Company also has additional defined contribution programs, where the obligation is met by paying contributions to separate funds (Employee Pension Plan and Employee Capital Plan). Costs related to this are presented in the position Employee benefits.

11.9.3. Provision for CO2 emissions, energy certificates

Provision for CO_2 emissions and energy certificates comprises mainly of recognition of the provision for cost of CO_2 emissions estimated in the reporting period. As at 31 December 2019 and as at 31 December 2018 the value of the provision amounted to PLN 393 million and PLN 190 million, respectively.

11.9.4. Other provisions

As at 31 December 2019 and as at 31 December 2018 other provisions mainly comprise of provisions for the risk of unfavourable decisions of pending administrative or court proceedings in the amount of PLN 83 million and PLN 56 million, respectively.

12. 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 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 of debt or settlement of the liability is not long.

Financial assets measured 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.

With regard to equity instruments, in particular quoted/unquoted shares held for trading, the Company classifies the instruments as measured at fair value through other comprehensive income.

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.

Impairment of financial assets

The Company recognises a write-off due to expected credit losses on financial assets measured at amortized cost or measured at fair value through other comprehensive income (with the exception of investments in capital assets and contract assets).

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.

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 and estimates the expected credit loss in the horizon up to maturity of the instrument.

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 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.

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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.

12.1. Financial instruments by category and class

Financial instruments by class	Financial instruments by category	NOTE	31/12/2019	31/12/2018
ASSETS				
Measured at fair value through other comprehensive income	Measured at fair value through other comprehensive income	11.8	59	59
Derivatives not designated as hedge accounting	Measured at fair value through profit or loss	11.8	58	55
Derivatives under centralization	Measured at fair value through profit or loss	11.8	243	173
Cash flow hedging instruments	Hedging financial instruments	11.8	271	337
Fair value hedging instruments	Measured at fair value through profit or loss	11.8	4	3
Lease	Excluded from the classification and measurement of IFRS 9		22	22
	Measured at amortized cost		13 958	11 943
Trade receivables	*Measured at amortized cost*	11.5.2	*6 570*	*6 986*
Loans granted	*Measured at amortized cost*	11.8	*1 319*	*839*
Cash	*Measured at amortized cost*		*5 056*	*3 461*
Cash pool	*Measured at amortized cost*	11.8	*343*	*297*
Receivables on settled derivatives	*Measured at amortized cost*	11.8	*222*	*216*
Security deposits	*Measured at amortized cost*	11.8	*340*	-
Hedged item adjustment	*Measured at amortized cost*	11.8	*4*	*24*
Other	*Measured at amortized cost*	11.5.2	*104*	*120*
			14 615	**12 592**
LIABILITIES				
Derivatives not designated as hedge accounting	Measured at fair value through profit or loss	11.8	60	98
Derivatives under centralization	Measured at fair value through profit or loss	11.8	250	189
Cash flow hedging instruments	Hedging financial instruments	11.8	64	96
Fair value hedging instruments	Measured at fair value through profit or loss	11.8	4	25
Lease	Excluded from the classification and measurement of IFRS 9		2 368	164
	Measured at amortized cost		17 657	17 693
Loans	*Measured at amortized cost*	11.6.1.1	*2 130*	*2 151*
Borrowings	*Measured at amortized cost*	11.6.1.2	*5 336*	*5 386*
Bonds	*Measured at amortized cost*	11.6.1.3	*1 102*	*2 226*
Trade liabilities	*Measured at amortized cost*	11.5.3	*6 051*	*5 537*
Investment liabilities	*Measured at amortized cost*	11.5.3, 11.8	*852*	*614*
Cash pool	*Measured at amortized cost*	11.8	*1 716*	*1 534*
Liabilities on settled derivatives	*Measured at amortized cost*	11.8	*253*	*122*
Hedged item adjustment	*Measured at amortized cost*	11.8	*4*	*3*
Other	*Measured at amortized cost*	11.5.3, 11.8	*213*	*120*
			20 403	**18 265**

PKN ORLEN (in PLN million)

12.2. Income, expense, profit and loss and other comprehensive income

	Financial instruments by category	NOTE	2019	2018
Interest income		10.11.1	76	61
from assets measured at amortisated cost	*Measured at amortized cost*		*75*	*60*
from lease	*Excluded from the classification and measurement of IFRS 9*		*1*	*1*
Interest costs		10.11.2	(307)	(277)
from liabilities measured at amortisated cost	*Measured at amortized cost*		*(235)*	*(270)*
from lease	*Excluded from the classification and measurement of IFRS 9*		*(72)*	*(7)*
(Loss)/reversal of loss due to impairment of financial instruments	Measured at amortized cost	10.12	3	(13)
Other operating income	Excluded from the classification and measurement of IFRS 9		2	7
Financial instruments gains/(losses)			445	18
	Measured at amortized cost (assets)	10.11.1, 10.11.2	*79*	*346*
	Measured at amortized cost (liabilities)	10.11.1, 10.11.2	*9*	*(728)*
	Measured at fair value through profit or loss	10.9, 10.10, 10.11.1, 10.11.2	*226*	*369*
	Cash flow hedging financial instruments (ineffective part)	10.9, 10.10	*14*	*7*
	Hedging financial instruments (settlement of hedging costs)	10.9, 10.10	*112*	*20*
	Measured at fair value through other comprehensive income	10.11.1	*5*	*4*
Other finance income/costs	*Measured at amortized cost*	10.11.1, 10.11.2	(10)	(2)
			209	**(206)**
other, excluded from the scope of IFRS 7				
Dividends from related entities		10.11.1	465	866
Foreign exchange differences on dividends		10.11.1	(2)	-
Impairment allowances of shares in related entities		10.11.1, 10.11.2	1 010	1 005
Provisions discounting		10.11.2	(1)	(3)
Interest on tax liabilities		10.11.2	(2)	-
			1 470	**1 868**

The above table presents items of profit or loss in which the result on the valuation and settlement of financial instruments is recognised.
In 2018 gains/(losses) on investments in equity instruments at fair value through other comprehensive income amounted to PLN (7) million.

12.3. Fair value measurement

31/12/2019

	NOTE	Carrying amount	Fair value	Fair value hierarchy Level 1	Level 2	Level 3
Financial assets						
Financial assets measured at fair value through other comprehensive income	11.8	59	59	19	-	40
Loans granted	11.8	1 319	1 334	-	1 334	-
Derivatives, incl.:	11.8	576	576	-	576	-
Derivatives under centralization	11.8	*243*	*243*	-	*243*	
		1 954	**1 969**	**19**	**1 910**	**40**
Financial liabilities						
Loans	11.6.1.1	2 130	2 129	-	2 129	-
Borrowings	11.6.1.2	5 336	5 342	-	5 342	-
Bonds	11.6.1.3	1 102	1 120	1 120	-	-
Derivatives, incl.:	11.8	378	378	-	378	-
Derivatives under centralization	11.8	*250*	*250*	-	*250*	
		8 946	**8 969**	**1 120**	**7 849**	**-**

ORLEN PKN ORLEN (in PLN million)

31/12/2018

	NOTE	Carrying amount	Fair value	Fair value hierarchy Level 1	Level 2	Level 3
Financial assets						
Financial assets measured at fair value through other comprehensive income	11.8	59	59	19	-	40
Loans granted	11.8	839	851	-	851	-
Lease		22	21	-	21	-
Derivatives, incl.:	11.8	568	568	-	568	-
Derivatives under centralization	11.8	*173*	*173*	-	*173*	-
		1 488	**1 499**	**19**	**1 440**	**40**
Financial liabilities						-
Loans	11.6.1.1	2 151	2 151	-	2 151	-
Borrowings	11.6.1.2	5 386	5 394	-	5 394	-
Bonds	11.6.1.3	2 226	2 237	2 127	110	-
Lease		164	164	-	164	-
Derivatives, incl.:	11.8	408	408	-	408	-
Derivatives under centralization	11.8	*189*	*189*	-	*189*	-
		10 335	**10 354**	**2 127**	**8 227**	**-**

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

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

Financial liabilities due to loans, bonds, 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.
For shares unquoted on active market for which there are no observable inputs, fair value determined on the basis of expected discounted cash flows was applied.
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.

12.4. 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 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.
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 currency interest rate swaps transactions).

(in PLN million)

Information on hedging instruments – maturity structure

2019

Risk type / type of instrument	Unit of measure	up to 1 year	above 1 to 3 years	above 3 to 5 years
Cash flow hedge				
Foreign exchange risk				
Currency forwards - long position hedge (buy)				
Nominal value	USD	15 979 876	2 026 170	-
Average exchange rate USD/PLN		3.61	3.93	-
Currency forwards - short position hedge (sell)				
Nominal value	EUR	409 000 000	816 000 000	384 000 000
Average exchange rate EUR/PLN		4.52	4.60	4.69
Commodity risk				
Commodity swaps - future revenues hedge (sell)				
Petrol				
Volume	MT	32 000	-	-
Average price		609.00	-	-
Crude oil				
Volume	BBL	2 065 000	-	-
Average price		57.05	-	-
Commodity swaps - inventories (buy)				
Petrol				
Volume	MT	8 000	-	-
Average price		599.00	-	-
Fair value hedge				
Commodity risk				
Commodity swaps - future revenues hedge (buy)				
Crude oil				
Volume	BBL	141 750	36 130	-
Average price		57.02	56.08	-
Heating oil				
Volume	MT	43 793	-	-
Average price		260.85	-	-
Commodity swaps - future revenues hedge (sell)				
Heating oil				
Volume	MT	4 379	-	-
Average price		580.92	-	-

ORLEN PKN ORLEN (in PLN million)

2018

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 (sell)			
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 flow and fair value which will be recognised in the profit or loss

	31/12/2019	31/12/2018
Currency operating exposure	2020-2023	2019-2021
Commodity risk exposure	2020-2021	2019-2020

(in PLN million)

Hedge accounting effects on financial situation and results

2019

Link type / risk type / type of instrument	Buy (B)/ Sell (S)	Hedging strategies within the cash flow hedge	Unit of measure	Nominal value / volume 31/12/2019	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	1 609 000 000	267	-	64
FX_USD.PLN	B	deliveries for purchases denominated in foreign currency or indexed to exchange rate of foreign currency	USD	18 006 046	3	-	(2)
Commodity risk							
Crude oil	S	time mismatch on crude oil purchases	BBL	2 065 000	-	64	(192)
Crude oil	B		BBL	-	-	-	95
Petrol	S	oversize inventories hedge	MT	32 000	1	-	1
Petrol	B		MT	8 000	-	-	-
					271	**64**	**(34)**
Fair value hedge							
Commodity risk							
Crude oil	B	bitumen sale at fixed price	BBL	177 880	3	-	7
Light fuel oil	S	bitumen sale at fixed price	MT	4 379	-	-	(2)
Heavy fuel oil	B	bitumen sale at fixed price	MT	43 793	1	4	3
Jet	B	JET fuel sale at fixed price	MT	-	-	-	14
					4	**4**	**22**
					275	**68**	**(12)**

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

2018

Link type / risk type / type of instrument	Buy (B)/ Sell (S)	Hedging strategies within the cash flow hedge	Unit of measure	Nominal value / volume 31/12/2018	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)
Heating oil	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

(in PLN million)

Cash flow hedge

2019

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	12	55
Foreign exchange risk (USD)	-	-
Future purchasing costs	2	4
	14	**59**
Commodity risk		
Inventories	(93)	-
Future sales revenues	194	(61)
	101	**(61)**
	115	**(2)**

2018

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

2019

Risk type / position type	Accumulated balance sheet adjustment due to fair value		Item in statement of financial position in which carrying amount was recognised	Change in value of hedged item adjustment in a given period	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
	Assets	Liabilities				
Commodity risk						
Future sales revenues	4	4	Derivatives and other assets and liabilities	(21)	22	1

2018

Risk type / position type	Accumulated balance sheet adjustment due to fair value		Item in statement of financial position in which carrying amount was recognised	Change in value of hedged item adjustment in a given period	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
	Assets	Liabilities				
Commodity risk						
Future sales revenues	24	3	Derivatives and other assets and liabilities	21	(22)	(1)

(in PLN million)

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

2019

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, that includes reclassification adjustment
Foreign exchange risk (EUR/PLN)					
currency forwards	(49)	-		42	Sales revenues
currency forwards	-	-		1	Manufacturing costs (operational)
currency forwards	114	-		114	Other operating income/expenses
Foreign exchange risk (USD/PLN)					
currency forwards	(1)	-		6	Manufacturing costs (operational)
currency forwards	(1)	-		(2)	Other operating income/expenses
	63	**-**		**161**	
Commodity risk					
commodity swaps	91	3	Other operating income and costs	32	Inventories
commodity swaps	-	-		(2)	Cost of sales
commodity swaps	(186)	(5)	Other operating income and costs	15	Sales revenues
	(95)	**(2)**		**45**	
	(32)	**(2)**		**206**	

In the other comprehensive income related to gross hedging reserve in the amount of PLN (21) million, the Company recognises profit or loss in the amount of PLN (32) million recognised in the 12 month period of 2019 and settled derivatives awaiting hedged item in the amount of PLN 11 million, including PLN 21 million from 2019 and PLN (10) million settled from the previous year.

2018

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, 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)**	

(in PLN million)

Reconciliation of equity from hedge accounting

2019

	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				
01/01/2019	**109**	**6**	**102**	**217**
Cash flow hedge				
Impact of valuation of hedging transactions (effective part)	(7)	-	221	214
Reclassification to profit or loss in connection with realization of hedged item, incl.:	(43)	(6)	(112)	(161)
reclassification of instruments from the previous year - no hedged item	-	*(6)*	*(4)*	*(10)*
Instruments for settlement	-	10	11	21
31/12/2019	**59**	**10**	**222**	**291**
Commodity risk				
01/01/2019	**34**	**-**	**-**	**34**
Cash flow hedge				
Impact of valuation of hedging transactions (effective part)	(32)	-	n/a	(32)
Reclassification to profit or loss in connection with realization of hedged item	(45)	-	n/a	(45)
Settlement of ineffective part	(18)	-	-	(18)
31/12/2019	**(61)**	**-**	**-**	**(61)**
Hedging reserve, gross 01/01/2019	**143**	**6**	**102**	**251**
Deferred tax from hedging instruments settlement and valuation	27	1	20	48
Hedging reserve, net 01/01/2019	**116**	**5**	**82**	**203**
Hedging reserve, gross 31/12/2019	**(2)**	**10**	**222**	**230**
Deferred tax from hedging instruments settlement and valuation	-	2	42	44
Hedging reserve, net 31/12/2019	**(2)**	**8**	**180**	**186**

2018

	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**

12.5. 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 with whom trade transactions are concluded with deferred payment.	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 as at 31.12.2019	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 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	cash flow hedge
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 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	cash flow hedge

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.
Exposure to balance sheet currency risk is hedged up to 100% of the amount exposed to this currency risk.
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.

ORLEN PKN ORLEN (in PLN million)

Exposure to commodity price risk related to probable liabilities or receivables in PKN ORLEN is 100% hedged on the volume exposed to this risk (offering customers the price formulas based on a fixed price over time).
Exposure to commodity price risk related to time mismatch on crude oil purchases is hedged on the volume corresponding to 90% of sold products made from the purchased crude oil, exposed to this risk.
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.

12.5.1. Commodity risk

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

Type of hedged raw material/product	Unit of measure	31/12/2019	31/12/2018
Crude oil	bbl	12 536 730	9 408 890
Heating oil	t	48 172	87 489
Other	t	40 000	45 750

The net carrying amount of commodity risk hedging instruments as at 31 December 2019 and as at 31 December 2018 amounted to PLN (76) million and PLN 25 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 on result before tax and hedging reserve to a hypothetical change in prices of products and raw materials:

	Assumed variations		Influence on result before tax		Influence on hedging reserve			
	2019	2018	2019	2018	2019	2018	2019	2018
			Increase of prices		Increase of prices		Total	
Crude oil USD/bbl	32%	29%	(67)	(13)	(96)	(89)	(163)	(102)
Heating oil USD/t	63%	28%	-	-	24	-	24	-
Gasoline USD/t	31%	-	-		(17)		(17)	-
			(67)	**(13)**	**(89)**	**(89)**	**(156)**	**(102)**

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 on their historical volatility in 2019 and 2018. 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.

12.5.2. 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	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Financial assets												
Trade receivables	166	174	543	521	1	1	-	-	-	-	2 771	2 707
Loans granted	41	-	-	-	-	-	331	272	-	-	1 140	752
Derivatives	75	50	4	48	-	-	-	-	-	-	333	395
Cash	710	523	135	115	1 132	36	-	-	-	-	3 727	2 689
Cash pool	44	37	-	-	-	-	-	-	-	-	189	159
Security deposits	-	-	79	-	-	-	-	-	-	-	299	-
Receivables on settled derivatives	-	-	18	28	-	-	-	-	-	-	66	105
Hedged item adjustment	-	-	1	6	-	-	-	-	-	-	4	24
Other	11	3	1	1	-	-	-	-	-	-	51	17
	1 047	**787**	**781**	**719**	**1 133**	**37**	**331**	**272**	**-**	**-**	**8 580**	**6 848**
Financial liabilities												
Loans	501	500	-	-	-	-	-	-	-	-	2 130	2 151
Borrowings	1 253	1 253	-	-	-	-	-	-	-	-	5 336	5 386
Trade liabilities	25	52	1 107	1 013	3	5	-	-	-	43	4 311	4 035
Lease	106	-	-	-	-	-	-	-	-	-	450	-
Investment liabilities	30	19	13	8	1 130	10	-	-	-	-	366	112
Derivatives	5	16	28	40	-	-	-	-	-	-	128	219
Cash pool	124	142	157	184	-	-	-	-	-	-	1 123	1 303
Liabilities on settled derivatives	-	-	29	2	-	-	-	-	-	-	109	7
Hedged item adjustment	-	-	1	1	-	-	-	-	-	-	4	3
Other	3	1	20	-	-	-	-	-	-	-	89	5
	2 047	**1 983**	**1 355**	**1 248**	**1 133**	**15**	**-**	**-**	**-**	**43**	**14 046**	**13 221**

ORLEN 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	
	31/12/2019	31/12/2018	2019	2018	2019	2018	2019	2018
EUR/PLN	+15%	+15%	(1 466)	(1 648)	(1 033)	(707)	(2 499)	(2 355)
USD/PLN	+15%	+15%	6	64	1	24	7	88
CZK/PLN	+15%	+15%	-	1	-	-	-	1
CAD/PLN	+15%	+15%	145	113	-	-	145	113
			(1 315)	**(1 470)**	**(1 032)**	**(683)**	**(2 347)**	**(2 153)**

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 2019 and 2018.
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.

12.5.3. The risk of interest rates changes

Structure of financial instruments subject to risk of interest rates changes

Financial instruments by class		WIBOR		LIBOR USD		EURIBOR		LIBOR CAD		Total	
	NOTE	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Financial assets											
Loans granted	*11.8*	179	87	-	-	177	-	963	752	1 319	839
Derivatives	*11.8*	19*	11*	15	180	318*	215*	-	-	333**	395**
Cash pool	*11.8*	154	138	-	-	189	159	-	-	343	297
		352	**236**	**15**	**180**	**684**	**374**	**963**	**752**	**1 995****	**1 531****
Financial liabilities											
Loans	*11.6.1.1*	-	-	-	-	2 130	2 151	-	-	2 130	2 151
Bonds	*11.6.1.3*	1 002	2 015	-	-	-	-	-	-	1 002	2 015
Derivatives	*11.8*	-	27*	108	150	20	69*	-	-	128	219**
Cash pool	*11.8*	593	231	595	692	528	611	-	-	1 716	1 534
		1 595	**2 273**	**703**	**842**	**2 678**	**2 831**	**-**	**-**	**4 976****	**5 919****

* *In the position financial assets and liabilities – net derivatives, recognised in 2019 and 2018 cross interest rate swaps (CIRS) measured on PLN 19 million and PLN 16 million, respectively, which are sensitive to both WIBOR and EURIBOR interest rates changes.*
** *The position total assets on derivatives includes as at 31 December 2019 and as at 31 December 2018 the valuation of CIRS in the amount of PLN 19 million and PLN 11 million, respectively. The position total liabilities on derivatives as at 31 December 2018 includes the valuation of CIRS in the amount of PLN 27 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	
	31/12/2019	31/12/2018	2019	2018	2019	2018	2019	2018
WIBOR	+0.5p.p.	+0.5p.p.	(6)	(10)	-	-	(6)	(10)
LIBOR USD	+0.5p.p.	+0.5p.p.	(2)	1	-	-	(2)	1
EURIBOR	+0.5p.p.	+0.5p.p.	(8)	(3)	(1)	-	(9)	(3)
LIBOR CAD	+1.0p.p.	+1.0p.p.	10	8	-	-	10	8
			(6)	**(4)**	**(1)**	**-**	**(7)**	**(4)**

At the same percentage interest rates decrease, the sensitive analysis presents 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 2019 and 2018.
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.

ORLEN PKN ORLEN (in PLN million)

12.5.4. Liquidity and credit risk

Liquidity risk

Maturity analysis for financial liabilities as at 31 December 2019

	NOTE	up to 1 year	above 1 to 3 years	above 3 to 5 years	above 5 years	Total	Carrying amount
Loans	*11.6.1.1*	246	1 884	-	-	2 130	2 130
Borrowings	*11.6.1.2*	-	2 140	3 203	-	5 343	5 336
Bonds	*11.6.1.3*	131	1 047	-	-	1 178	1 102
floating-rate bonds - undiscounted value		*29*	*1 047*	-	-	*1 076*	*1 002*
fixed rate bonds - undiscounted value		*102*	-	-	-	*102*	*100*
Trade liabilities	*11.5.3*	6 051	-	-	-	6 051	6 051
Investment liabilities	*11.5.3, 11.8*	762	14	14	62	852	852
Derivatives - undiscounted value	*11.8*	304	66	13	-	383	378
gross exchange amounts, incl.:		*46*	*62*	*13*	-	*121*	*117*
currency forwards	*11.8*	*46*	*62*	*13*	-	*121*	*117*
net exchange amounts, incl.:		*258*	*4*	-	-	*262*	*261*
currency forwards	*7.2.8*	*5*	-	-	-	*5*	*5*
interest rate swaps	*11.8*	*19*	-	-	-	*19*	*19*
commodity swaps	*11.8*	*234*	*4*	-	-	*238*	*237*
Cash pool	*11.8*	1 716	-	-	-	1 716	1 716
Liabilities on settled derivatives	*11.8*	253	-	-	-	253	253
Hedged item adjustment	*11.8*	4	-			4	4
Other	*11.5.3, 11.8*	195	7	7	4	213	213
		9 662	**5 158**	**3 237**	**66**	**18 123**	**18 035**

The maturity analysis of financial liabilities related to lease was presented in note 13.3.1.

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	*11.6.1.1*	-	2 151	-	-	2 151	2 151
Borrowings	*11.6.1.2*	-	2 160	3 234	-	5 394	5 386
Bonds	*11.6.1.3*	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	*11.5.3*	5 537	-	-	-	5 537	5 537
Investment liabilities	*11.5.3, 11.8*	518	13	14	69	614	614
Derivatives - undiscounted value	*11.8*	311	61	34	-	406	408
gross exchange amounts, incl.:		*40*	*11*	*34*	-	*85*	*88*
currency forwards	*11.8*	*16*	*11*	*34*	-	*61*	*61*
currency interest rate swaps	*11.8*	*24*	-	-	-	*24*	*27*
net exchange amounts, incl.:		*271*	*50*	-	-	*321*	*320*
interest rate swaps	*11.8*	-	*38*	-	-	*38*	*38*
commodity swaps	*11.8*	*271*	*12*	-	-	*283*	*282*
Cash pool	*11.8*	1 534	-	-	-	1 534	1 534
Liabilities on settled derivatives	*11.8*	122	-	-	-	122	122
Hedged item adjustment		1	2	-	-	3	3
Other	*11.5.3, 11.8*	125	46	26	87	284	284
		9 310	**4 794**	**4 126**	**156**	**18 386**	**18 265**

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 current liabilities. As at 31 December 2019 and 31 December 2018, 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 2019, 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 2019 systems included a total of 24 ORLEN Group companies;
- international cash-pool system dedicated to foreign companies of the ORLEN Group. As at 31 December 2019 the system comprised 8 foreign ORLEN Group companies.

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 11.6.1.3
In 2019, 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 2019 and as at 31 December 2018 the maximum possible indebtedness due to loans and intercompany borrowings for the Company amounted to PLN 12,573 million and PLN 13,496 million, respectively. As at 31 December 2019 and as at 31 December 2018, PLN 4,969 million and PLN 5,664 million, respectively, remained unused.

The value of guarantees regarding liabilities to third parties granted during ongoing operations as at 31 December 2019 and as at 31 December 2018 amounted to PLN 2,370 million and PLN 468 million, respectively. The amount of PLN 2 billion is a bank guarantee for liabilities under the call issued by PKN ORLEN to subscribe for the sale of all shares of ENERGA S.A. Other guarantees concerned 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 2019 and as at 31 December 2018 amounted to PLN 9,831 million and PLN 9,962 million, respectively. They were mainly related to secure of ORLEN Capital future liabilities due to these transactions of Eurobonds issuance and timely payment of liabilities by related parties. The Company received revenues from guarantees given in 2019 and 2018 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) or the current report from the business information agency.
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 11.5.2, 11.8).

As at 31 December 2019 and as at 31 December 2018 the Company received bank and insurance guarantees of PLN 942 million and PLN 762 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, guarantees and letters of credit.

As at 31 December 2019 and 31 December 2018, respectively the amount of PLN 1,320 million and PLN 839 million related to loans granted within ORLEN Group. Part of these loans is hedged. In the period covered by this 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.

13. OTHER EXPLANATORY NOTES

13.1. Concessions held

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

31/12/2019	Remaining concession periods (in years)
Electrical energy: manufacturing, distribution, trade	6
Heating energy: manufacturing, transmission, distribution, trade	6 - 11
Liquid and gaseous fuels: manufacturing, transmission, storage, transshipment, trade in Poland and abroad	6 - 11
Natural gas: trade in Poland and abroad	6

As at 31 December 2019 and as at 31 December 2018 the Company had no liabilities related to concession services in scope of IFRIC 12 – Service concession arrangements.

13.2. 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 – in PLN thousand

	31/12/2019		31/12/2018	
	Distribution of electricity	Trade of gas	Distribution of electricity	Trade of gas
Non-current assets				
Property, plant and equipment	69 461	-	71 469	-
Intangible assets	181	-	208	-
Current assets				
Inventories	3	-	-	-
Trade and other receivables	2 376	63 213	2 848	104 691
Current liabilities				
Trade and other liabilities	3 267	77 389	3 794	121 741

Separate statement of profit or loss – in PLN thousand

	2019		2018	
	Distribution of electricity	Trade of gas	Distribution of electricity	Trade of gas
Sales revenues	32 209	548 419	35 394	908 602
Cost of sales	(28 760)	(532 286)	(33 037)	(892 963)
Gross profit on sales	**3 449**	**16 133**	**2 357**	**15 639**
Other operating expenses	(77)	-	(66)	-
Profit from operations	**3 372**	**16 133**	**2 291**	**15 639**
Net profit	**3 372**	**16 133**	**2 291**	**15 639**

In 2019 the Company did not receive income from property rights to the distribution network.

13.3. Leases

SELECTED ACCOUNTING PRINCIPLES

Leases
Detailed accounting principles are described in Note 5 Impact of IFRS changes on separate financial statements

PROFESSIONAL JUDGMENT
In the field of contracts in which the Company is a lessee, when the assessment or the contract contains a lease is not clear, the Company makes a professional judgment whether the definition of lease in accordance with IFRS 16 is fulfilled.
In the field of contracts in which the Company is a lessor, the Management Board makes a judgment classified lease contracts as finance lease or operating lease based on the analysis of the economic content of the transaction.

ORLEN PKN ORLEN (in PLN million)

13.3.1. The Company as a lessee

Change in assets due to right-of-use

	Land	Buildings and constructions	Machinery and equipment	Vehicles and other	Total
Net carrying amount at 01/01/2019 - Impact of IFRS 16 adoption					
Gross carrying amount	1 305	271	-	436	2 012
	1 305	**271**	**-**	**436**	**2 012**
increases/(decreases), net					
New finance lease agreements	120	125	-	228	473
Depreciation	(48)	(65)	(4)	(184)	(301)
Impairment allowances	(21)	(7)	-	-	(28)
recognition	*(50)*	*(4)*	-	-	*(54)*
reversal	*25*	*4*	-	-	*29*
Reclassifications *	72	125	18	14	229
Other	(1)	(3)	-	(45)	(49)
	1 427	**446**	**14**	**449**	**2 336**
Net carrying amount at 31/12/2019					
Gross carrying amount	1 514	577	27	630	2 748
Accumulated depreciation	(66)	(124)	(13)	(181)	(384)
Impairment allowances	(21)	(7)	-	-	(28)
	1 427	**446**	**14**	**449**	**2 336**

* *The line reclassification includes gross values, depreciation of property, plant and equipment and perpetual usufruct of land which were recognised as at 31 December 2018 as finance lease under IAS 17*

The total value of expenses from lease agreements presented in financing activities in the statement of cash flows in 2019 amouted to PLN 364 million.

As at 31 December 2019 the Company reclassified right-of-use assets to investment property in the amount of PLN 31 million.

Maturity analysis of lease liabilities

	31/12/2019
up to 1 year	368
from 1 to 2 years	272
from 2 to 3 years	201
from 3 to 4 years	163
from 4 to 5 years	143
above 5 years	2 779
	3 926
Discount	(1 558)
	2 368

Amounts from lease contracts recognised in the statement of profit or loss and other comprehensive income

		2019
Costs due to:		**(124)**
interest on lease	Finance costs	(72)
short-term lease	Cost by nature: External Services	(19)
variable lease payments not recognised in valuation of lease liabilities	Cost by nature: External Services	(33)

13.3.2. The Company as a lessor

The Company as at the initial date, classifies leases as finance or operating lease.
In order to make the above classification the Company assesses whether the entire risk and benefits resulting from ownership of the underlying asset were transferred to a lessee. If the entire risk and benefits were transferred to a lessee, the lease is classified as a finance lease, in the opposite situation - as operating lease.

PKN ORLEN (in PLN million)

Financial lease

Maturity analysis for lease payments

	31/12/2019
up to 1 year	2
from 1 to 2 years	1
from 2 to 3 years	1
from 3 to 4 years	1
from 4 to 5 years	1
above 5 years	24
	30
Discount	(8)
	22

Operating lease

Maturity analysis for lease payments

	31/12/2019
up to 1 year	39
from 1 to 2 years	25
from 2 to 3 years	23
from 3 to 4 years	22
from 4 to 5 years	19
above 5 years	137
	265

As at 31 December 2019, the net carrying amount of the Company's property, plant and equipment leased to other entities under operating lease agreements amounted to PLN 132 million and related mainly to own land (PLN 46 million) as well as buildings and constructions (PLN 86 million).
Lease payments under operating leases are recognised on a straight-line basis over the lease period as revenues from the sale of products and services.
Operating leases relates mainly to property owned by the Company, subject to lease agreements.
Revenues from operating lease for the 2019 amounted to PLN 49 million.

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

The total amount of investment expenditures together with borrowing costs incurred in 2019 and 2018 amounted to PLN 3,923 million and PLN 1,358 million, respectively, including PLN 52 million and PLN 67 million of investments relating to environmental protection. The above amount includes the impact of IFRS 16 implementation in the amount of PLN 2,012 million.
As at 31 December 2019 and as at 31 December 2018 future commitments resulting from contracts signed until this date amounted to PLN 3,184 million and PLN 596 million, respectively.

13.5. 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.
At the end of reporting period the Company discloses information on contingent liabilities if:
- *has a possible obligation, which arose as a result of past events, the existence of which will be confirmed only when one or more uncertain future events occur that are not fully controlled by the Company, or*

has a current obligation, which arose as a result of past events, but an outflow of funds have economic benefits in it, is not probable or the Company is not able to make a valuate liabilities reliably enough.
The Company does not disclose the contingent liability when the probability of outflow the funds included economic benefits is remote.

ESTIMATES

Contingent assets
The Company makes estimations with respect to financial effects of disclosed contingent assets based on the value of previously recognized related costs that the Company expects to recover (e.g. under insurance contracts signed) or the value of subjects to proceedings in which the Company act as plantiff.

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.

13.5.1. Contingent assets

On 5 March 2020 PERN S.A. informed Company that due to the stock count of crude oil delivered by the tank farm in Adamów, carried out by PERN S.A. as a pipeline system operator, the Company's operating stock of crude oil REBCO-type (Russian Export Blend Crude Oil) is lower by 89,653 net metric tons due to differences in the methodology for calculating the quantity of this stock. Consequently, according to PERN S.A. as at 31 December 2019, the Company's operating stock of REBCO-type crude oil amounted to 535,812 net metric tons.

(in PLN million)

Company does not agree with PERN S.A. position, because in the opinion of Company it remains without merit, unproven and inconsistent with the binding agreements between PKN ORLEN and PERN S.A., and the current methodology used for calculating the quantity of REBCO-type crude oil sent by PERN S.A. to Company is correct and has never been questioned before. PKN ORLEN is currently analysing the possibilities of taking appropriate legal steps related to the information provided by PERN S.A. and reserves the right to take all actions aimed at protecting the legitimate interests of Company, including pursuing claims related to infromation shared by PERN S.A. on the quantity of Company's operating stock of REBCO-type crude oil. Regardless of this, being the most cautious, Company adjusted the stock by the amount of PLN (156) million in correspondence with other operating expenses. In the opinion of Company, the amount of the allowance on stock is also a contingent asset of Company.

13.5.2. 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 84 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 have been held (last on 28 September 2018), during which witnesses submitted by the parties were heard by the court . On 19 December 2018, a hearing took place, during which the Court heard the parties' position in the scope of the grounds for any repeal of the freezing order. By a decision of 2 January 2019 the Regional Court set aside the order granting security for claims. Warter Fuels S.A. submitted a complaint against this decision on 5 February 2019. PKN ORLEN submitted a response to the complaint. The matter of complaint consideration is at the stage of secondary proceedings, i.e. before the Court of Appeal in Łódź. The freezing order has been legally repealed. 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 has not been considered yet. The court is currently looking for an expert or institute to issue an opinion. 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.

13.6. Excise tax guarantees

Excise tax guarantees and excise tax on goods and merchandise under the excise tax suspension procedure as at 31 December 2019 and as at 31 December 2018 amounted to PLN 2,391 million and PLN 2,231 million, respectively.

13.7. Related party transactions

As at 31 December 2019 and as at 31 December 2018 and in 2019 and 2018 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.

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

	2019	2018
Short-term employee benefits	42.8	40.3
Board of Directors	*13.0*	*9.5*
Supervisory Board	*1.1*	*1.2*
Other key executive personnel	*28.7*	*29.6*
Post-employment benefits	0.1	-
Other key executive personnel	*0.1*	-
Termination benefits	2.1	11.1
Board of Directors	*0.2*	*1.2*
Other key executive personnel	*1.9*	*9.9*
	45.0	**51.4**

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 2019 and 31 December 2018 PKN ORLEN has provisions for post-employment benefits in the amount of PLN 0.3 million and PLN 0.2 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

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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
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 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.

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

	Subsidiaries		Jointly- controlled entities		Total	
	2019	2018	2019	2018	2019	2018
Sales	46 847	46 961	2 978	2 774	49 825	49 735
Revenues under centralization of derivative financial instruments	1 224	711	-	-	1 224	711
Purchases	(7 403)	(6 539)	(38)	(32)	(7 441)	(6 571)
Costs under centralization of derivative financial instruments	(856)	(718)	-	-	(856)	(718)
Finance income, incl.:	421	810	107	192	528	1 002
Dividends	*358*	*674*	*107*	*192*	*465*	*866*
Finance costs (mainly interest)	(169)	(288)	-	-	(169)	(288)

	Subsidiaries		Jointly- controlled entities		Total	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Trade and other receivables	3 304	3 089	520	585	3 824	3 674
Other assets	1 776	1 199	-	-	1 776	1 199
Loans granted	*1 319*	*839*	-	-	*1 319*	*839*
Cash pool	*343*	*297*	-	-	*343*	*297*
Receivables on settled derivatives under centralization	*113*	*41*	-	-	*113*	*41*
Finance lease	-	*22*	-	-	-	*22*
Lease receivables	22	-	-	-	22	-
Derivatives under centralization	128	17	-	-	128	17
Trade and other liabilities	945	600	4	4	949	604
Borrowings and bonds	5 336	5 496	-	-	5 336	5 496
Other liabilities	1 762	1 611	-	-	1 762	1 611
Cash pool	*1 716*	*1 534*	-	-	*1 716*	*1 534*
Liabilities on settled derivatives under centralization	*44*	*74*	-	-	*44*	*74*
Lease liabilities	103	-	-	-	103	-
Derivatives under centralization	52	173	-	-	52	173

Above transactions with related parties include mainly sales and purchase of refinery and petrochemicals products and services.
In 2019 and 2018, there were no significant transactions in the Company with related parties on other than as arm's length basis.

Additionally, in 2019, based on submitted declarations, there were transactions between entities, in which key positions were held by close relatives with the other key management personnel of the Parent Company and entities of the ORLEN Group.
In 2019 and as at 31 December 2019, the Company identified the following transactions:
- sale and purchase amounted to PLN 0.9 million and PLN (2.3) million, respectively;
- balance of liabilities amounted to PLN 0.4 million.
The above transactions concerned mainly the purchases and sales of fuels and diesel oil.

13.7.3. Transactions with entities related to the State Treasury

As at 31 December 2019 and 31 December 2018 the State Treasury owned 27.52% of PKN ORLEN and has ability to exert a significant influence on it.
The Company identified related party transactions with the State Treasury on the basis of "Regulation of the Council of Ministers of 27 March 2019 on the list of companies in which the rights of the State Treasury shares carry other than the President Council of Ministers members of

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the Council of Ministers', Government Plenipotentiaries or state legal entities including single-member companies of the State Treasury" with subsequent updates.

In 2019 and in 2018 and as at 31 December 2019 and 31 December 2018, the Company identified the following transactions:

	2019	2018
Sales	1 640	1 610
Purchases	(3 543)	(4 188)

	31/12/2019	31/12/2018
Trade and other receivables	268	192
Trade and other liabilities	582	119

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 (loans, guarantees, bank fees, commission) with Bank PKO BP, Bank Pekao S.A. and Bank Gospodarstwa Krajowego (bank fees, commission).

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

	2019	2018
Audit of the financial statements	**1.4**	**0.9**
Other assurance services	**0.4**	**0.7**
reviews of financial statements	*0.4*	*0.5*
other services	*-*	*0.2*
	1.8	**1.6**

In the period covered by this separate financial statements the entity authorized to conduct audit of the Company's financial statements was Deloitte Audyt spółka z ograniczoną odpowiedzialnością spółka komandytowa. 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. Deloitte Audyt spółka z ograniczoną odpowiedzialnością spółka komandytowa was selected 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 by resolution of the Supervisory Board No. 2071/18 of 20 December 2018 as amended by resolution No. 2103 / 19 of 25 January 2019.

EVENTS AFTER THE END OF THE REPORTING PERIOD

As at the date of approval of these separate financial statements, the Company is in the process of analysing the potential effects of Coronavirus COVID-19. The Company has implemented appropriate internal procedures to ensure continuity of operating activities. Currently, the Company observes a decrease in global demand for crude oil, including a decrease in demand for jet fuel, diesel oil and gasoline. The Company also expects a slowdown in the global economy and monitors the situation on the financial markets on an ongoing basis, including the quotations on the WSE. The Company is in the process of estimating the qualitative and quantitative impact of a pandemic on the financial position and future financial results of the Company and plans to complete this analysis before publishing the interim data for the 1st quarter of 2020

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

This separate financial statements were approved by the Management Board on 18 March 2020.

Signature Not Verified
Dokument podpisany przez Daniel Obajtek; PKN Orlen S.A.
Data: 2020.03.18 14:05:00 CET
……………………………………..
Daniel Obajtek
President of the Board

Signature Not Verified
Dokument podpisany przez ARMEN KONRAD ARTWICH; POLSKI KONCERN NAFTOWY ORLEN S.A.
Data: 2020.03.18 14:15:23 CET
……………………………………..
Armen Artwich
Member of the Board

Signature Not Verified
Dokument podpisany przez Adam Wojciech Burak
Data: 2020.03.18 15:34:37 CET
……………………………………..
Adam Burak
Member of the Board

Signature Not Verified
Dokument podpisany przez Patrycja Klarecka
Data: 2020.03.18 16:26:27 CET
……………………………………..
Patrycja Klarecka
Member of the Board

Signature Not Verified
Dokument podpisany przez ZBIGNIEW MARIUSZ LESZCZYŃSKI; POLSKI KONCERN NAFTOWY ORLEN S.A.
Data: 2020.03.18 16:15:25 CET
……………………………………..
Zbigniew Leszczyński
Member of the Board

Signature Not Verified
Dokument podpisany przez MICHAŁ MAREK RÓG; POLSKI KONCERN NAFTOWY ORLEN S.A.
Data: 2020.03.18 15:00:28 CET
……………………………………..
Michał Róg
Member of the Board

Signature Not Verified
Dokument podpisany przez Jan Włodzimierz Szewczak
Data: 2020.03.18 13:44:05 CET
……………………………………..
Jan Szewczak
Member of the Board

Signature Not Verified
Dokument podpisany przez Józef Węgrecki
Data: 2020.03.18 14:40:07 CET
……………………………………..
Józef Węgrecki
Member of the Board