Polski Koncern Naftowy ORLEN
Spółka Akcyjna

ORLEN GROUP

CONSOLIDATED QUARTERLY REPORT

FOR THE 1st QUARTER 2020

ORLEN GROUP - SELECTED DATA

	PLN million		EUR million	
	3 MONTHS ENDED 31/03/2020	3 MONTHS ENDED 31/03/2019	3 MONTHS ENDED 31/03/2020	3 MONTHS ENDED 31/03/2019
Sales revenues	22 077	25 246	5 022	5 874
Profit from/(Loss) from operations increased by depreciation and amortisation (EBITDA)	(969)	1 829	(220)	426
EBITDA before net impairment allowances	(465)	1 839	(106)	428
Profit/(Loss) from operations (EBIT)	(1 904)	996	(433)	232
Profit/(Loss) before tax	(2 562)	994	(583)	231
Net profit/(Loss) before net impairment allowances	(1 741)	859	(396)	200
Net profit/(loss)	**(2 245)**	**849**	**(511)**	**198**
Total net comprehensive income	(2 275)	690	(517)	161
Net profit/(loss) attributable to equity owners of the parent	(2 244)	849	(510)	198
Total net comprehensive income attributable to equity owners of the parent	(2 274)	690	(517)	161
Net cash from operating activities	530	1 191	121	277
Net cash (used) in investing activities	(1 527)	(666)	(347)	(155)
Net cash (used) in financing activities	(135)	(1 036)	(31)	(241)
(Decrease) in cash and cash equivalents	(1 132)	(511)	(257)	(119)
Net profit/(loss) and diluted net profit/(loss) per share attributable to equity owners of the parent (in PLN/EUR per share)	(5.25)	1.98	(1.19)	0.46
	31/03/2020	31/12/2019	31/03/2020	31/12/2019
Non-current assets	39 798	39 277	8 742	9 223
Current assets	28 563	31 925	6 275	7 497
Total assets	**68 361**	**71 202**	**15 017**	**16 720**
Share capital	1 058	1 058	232	248
Equity attributable to equity owners of the parent	36 322	38 596	7 979	9 063
Total equity	**36 332**	**38 607**	**7 981**	**9 065**
Non-current liabilities	14 787	14 315	3 248	3 362
Current liabilities	17 242	18 280	3 788	4 293
Number of shares	427 709 061	427 709 061	427 709 061	427 709 061
Carrying amount and diluted carrying amount per share attributable to equity owners of the parent (in PLN/EUR per share)	84.92	90.24	18.65	21.19

PKN ORLEN – SELECTED DATA

	PLN million		EUR million	
	3 MONTHS ENDED 31/03/2020	3 MONTHS ENDED 31/03/2019	3 MONTHS ENDED 31/03/2020	3 MONTHS ENDED 31/03/2019
Sales revenues	17 238	20 290	3 921	4 721
Profit/(Loss) from operations increased by depreciation and amortisation (EBITDA)	(88)	1 014	(20)	236
Profit/(Loss) from operations (EBIT)	(555)	596	(126)	139
Profit/(Loss) before tax	(3 204)	607	(729)	141
Net profit/(Loss) before net impairment allowances	(971)	515	(221)	120
Net profit/(loss)	**(3 022)**	**511**	**(687)**	**119**
Total net comprehensive income	(3 196)	488	(727)	114
Net cash from operating activities	881	464	200	108
Net cash from/(used in) investing activities	(514)	85	(117)	20
Net cash (used) in financing activities	(625)	(1 055)	(142)	(246)
Net (decrease) in cash	(258)	(506)	(59)	(118)
Net profit/(loss) and diluted net profit/(loss) per share (in PLN/EUR per share)	(7.07)	1.19	(1.61)	0.28
	31/03/2020	31/12/2019	31/03/2020	31/12/2019
Non-current assets	34 923	36 939	7 672	8 674
Current assets	22 292	23 337	4 897	5 480
Total assets	**57 215**	**60 276**	**12 568**	**14 154**
Share capital	1 058	1 058	232	248
Total equity	**31 728**	**34 924**	**6 970**	**8 201**
Non-current liabilities	12 022	11 769	2 641	2 764
Current liabilities	13 465	13 583	2 958	3 190
Number of shares	427 709 061	427 709 061	427 709 061	427 709 061
Carrying amount and diluted carrying amount per share (in PLN/EUR per share)	74.18	81.65	16.30	19.17

The above financial data for the 3-month period of 2020 and 2019 was translated into EUR using the following exchange rates:

- items in the statement of profit or loss and other comprehensive income and the statement of cash flows - by the arithmetic average of average exchange rates quoted by the National Bank of Poland as of the last day of each month during the reporting period: from 1 January to 31 March 2020 – 4.3963 EUR/PLN and 1 January to 31 March 2019 – 4.2978 EUR/PLN;
- items of assets, equity and liabilities – by the average exchange rate published by the National Bank of Poland as at 31 March 2020 – 4.5523 EUR/PLN and as at 31 December 2019– 4.2585 EUR/PLN.

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INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE 3-MONTH PERIOD ENDED 31 MARCH 2020

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

ORLEN ORLEN GROUP (in PLN million)

A. INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION

Consolidated statement of profit or loss and other comprehensive income

	NOTE	3 MONTHS ENDED 31/03/2020 (unaudited)	3 MONTHS ENDED 31/03/2019 (unaudited)
Sales revenues	5.1	22 077	25 246
revenues from sales of finished goods and services		*17 922*	*21 239*
revenues from sales of merchandise and raw materials		*4 155*	*4 007*
Cost of sales	5.2	(22 706)	(22 392)
cost of finished goods and services sold		*(19 023)*	*(18 813)*
cost of merchandise and raw materials sold		*(3 683)*	*(3 579)*
Gross profit/(loss) on sales		**(629)**	**2 854**
Distribution expenses		(1 620)	(1 465)
Administrative expenses		(507)	(421)
Other operating income	5.5	3 183	141
Other operating expenses	5.5	(2 351)	(147)
(Loss)/reversal of loss due to impairment of financial instruments		8	(10)
Share in profit from investments accounted for using the equity method		12	44
Profit/(Loss) from operations		**(1 904)**	**996**
Finance income	5.6	387	264
Finance costs	5.6	(1 043)	(266)
Net finance income and costs		**(656)**	**(2)**
(Loss)/reversal of loss due to impairment of financial instruments		(2)	-
Profit/(Loss) before tax		**(2 562)**	**994**
Tax expense		317	(145)
current tax		*(152)*	*(183)*
deferred tax		*469*	*38*
Net profit/(loss)		**(2 245)**	**849**
Other comprehensive income:			
which will not be reclassified subsequently into profit or loss		**(11)**	**(7)**
gains/(losses) on investments in equity instruments at fair value through other comprehensive income		*(13)*	*(8)*
deferred tax		*2*	*1*
which will be reclassified into profit or loss		**(19)**	**(152)**
hedging instruments		*(478)*	*(356)*
hedging costs		*193*	*82*
exchange differences on translating foreign operations		*189*	*80*
deferred tax		*77*	*42*
		(30)	**(159)**
Total net comprehensive income		**(2 275)**	**690**
Net profit/(loss) attributable to		**(2 245)**	**849**
equity owners of the parent		*(2 244)*	*849*
non-controlling interest		*(1)*	*-*
Total net comprehensive income attributable to		**(2 275)**	**690**
equity owners of the parent		*(2 274)*	*690*
non-controlling interest		*(1)*	*-*
Net profit/(loss) and diluted net profit/(loss) per share attributable to equity owners of the parent (in PLN per share)		(5.25)	1.98

The accompanying notes disclosed on pages 9 – 27 are an integral part of this the interim condensed consolidated financial statements.

ORLEN ORLEN GROUP (in PLN million)

Consolidated statement of financial position

	NOTE	31/03/2020 (unaudited)	31/12/2019
ASSETS			
Non-current assets			
Property, plant and equipment		32 090	32 363
Intangible assets		2 308	1 600
Right-of-use asset	5.11.1	4 198	3 952
Investments accounted for using the equity method		690	678
Deferred tax assets		184	51
Derivatives	5.8	5	310
Long-term lease receivables		10	13
Other assets	5.8	313	310
		39 798	**39 277**
Current assets			
Inventories		12 172	15 074
Trade and other receivables		8 262	9 669
Current tax assets		342	262
Cash and cash equivalents		5 104	6 159
Derivatives	5.8	1 650	243
Short-term lease receivables		12	12
Other assets	5.8	985	468
Non-current assets classified as held for sale		36	38
		28 563	**31 925**
Total assets		**68 361**	**71 202**
EQUITY AND LIABILITIES			
EQUITY			
Share capital		1 058	1 058
Share premium		1 227	1 227
Hedging reserve		120	328
Revaluation reserve		(44)	(33)
Exchange differences on translating foreign operations		1 036	847
Retained earnings		32 925	35 169
Equity attributable to equity owners of the parent		**36 322**	**38 596**
Non-controlling interests		**10**	**11**
Total equity		**36 332**	**38 607**
LIABILITIES			
Non-current liabilities			
Loans and bonds	5.7	8 685	8 185
Provisions	5.9	1 125	1 113
Deferred tax liabilities		1 059	1 474
Derivatives	5.8	185	2
Lease liabilities		3 574	3 380
Other liabilities	5.8	159	161
		14 787	**14 315**
Current liabilities			
Trade and other liabilities		11 953	15 132
Lease liabilities		655	618
Liabilities from contracts with customers		356	246
Loans and bonds	5.7	600	422
Provisions	5.9	1 503	1 236
Current tax liabilities		137	124
Derivatives	5.8	820	266
Other liabilities	5.8	1 218	236
		17 242	**18 280**
Total liabilities		**32 029**	**32 595**
Total equity and liabilities		**68 361**	**71 202**

The accompanying notes disclosed on pages 9 – 27 are an integral part of this the interim condensed consolidated financial statements.

(in PLN million)

Consolidated statement of changes in equity

	Equity attributable to equity owners of the parent							
	Share capital and share premium	Hedging reserve	Revaluation reserve	Exchange differences on translating foreign operations	Retained earnings	Total	Non-controlling interests	Total equity
01/01/2020	2 285	328	(33)	847	35 169	38 596	11	38 607
Net (loss)	-	-	-	-	(2 244)	(2 244)	(1)	(2 245)
Components of other comprehensive income	-	(208)	(11)	189	-	(30)	-	(30)
Total net comprehensive income	**-**	**(208)**	**(11)**	**189**	**(2 244)**	**(2 274)**	**(1)**	**(2 275)**
31/03/2020	**2 285**	**120**	**(44)**	**1 036**	**32 925**	**36 322**	**10**	**36 332**
(unaudited)								
01/01/2019 (approved data)	2 285	361	(15)	709	32 387	35 727	12	35 739
Impact of IFRS 16 adoption	-	-	-	-	(4)	(4)	-	(4)
01/01/2019 (converted data)	2 285	361	(15)	709	32 383	35 723	12	35 735
Net profit	-	-	-	-	849	849	-	849
Components of other comprehensive income	-	(232)	(7)	80	-	(159)	-	(159)
Total net comprehensive income	**-**	**(232)**	**(7)**	**80**	**849**	**690**	**-**	**690**
31/03/2019	**2 285**	**129**	**(22)**	**789**	**33 232**	**36 413**	**12**	**36 425**
(unaudited)								

The accompanying notes disclosed on pages 9 – 27 are an integral part of this the interim condensed consolidated financial statements.

ORLEN ORLEN GROUP (in PLN million)

Consolidated statement of cash flows

	3 MONTHS ENDED 31/03/2020 (unaudited)	3 MONTHS ENDED 31/03/2019 (unaudited)
Cash flows from operating activities		
Profit/(Loss) before tax	**(2 562)**	**994**
Adjustments for:		
Share in profit from investments accounted for using the equity method	(12)	(44)
Depreciation and amortisation	935	833
Foreign exchange loss	557	15
Net interest	35	70
(Profit) on investing activities, incl.:	(600)	(19)
recognition/(reversal) of impairment allowances of property, plant and equipment, intangible assets and other non-current assets	*504*	*10*
settlement and valuation of derivative financial instruments	*(1 106)*	*(28)*
Change in provisions	318	251
Change in working capital	1 408	(542)
inventories, incl.:	*2 984*	*(955)*
impairment allowances of inventories to net realizable value	*2 075*	*(63)*
receivables	*1 478*	*(987)*
liabilities	*(3 054)*	*1 400*
Other adjustments, incl.:	676	199
rights received free of charge	*(179)*	*(165)*
security deposits	*481*	*(1)*
change in settlements of settled derivatives not designated for hedge accounting purposes	*188*	*331*
Income tax (paid)	(225)	(566)
Net cash from operating activities	**530**	**1 191**
Cash flows from investing activities		
Acquisition of property, plant and equipment, intangible assets and right-of-use asset	(1 233)	(834)
Disposal of property, plant and equipment, intangible assets and right-of-use asset	22	171
Short term deposits	(108)	-
Settlement of derivatives not designated as hedge accounting	(199)	(8)
Other	(9)	5
Net cash (used) in investing activities	**(1 527)**	**(666)**
Cash flows from financing activities		
Change in cash related to acquisition of non-controlling interest of UNIPETROL, a.s	-	212
Proceeds from loans received	126	304
Repayment of loans	(2)	(410)
Redemption of bonds	-	(1 000)
Interest paid from loans and bonds	(14)	(29)
Interest paid on lease	(52)	(15)
Payments of liabilities under lease agreements	(193)	(97)
Other	-	(1)
Net cash (used) in financing activities	**(135)**	**(1 036)**
Net (decrease) in cash and cash equivalents	**(1 132)**	**(511)**
Effect of changes in exchange rates	77	(16)
Cash and cash equivalents, beginning of the period	6 159	4 192
Cash and cash equivalents, end of the period	**5 104**	**3 665**
including restricted cash	*1 089*	*82*

The accompanying notes disclosed on pages 9 – 27 are an integral part of this the interim condensed consolidated financial statements.

EXPLANATORY NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Principal activity of the ORLEN Group

The Parent Company of the Polski Koncern Naftowy ORLEN S.A. Capital Group is Polski Koncern Naftowy ORLEN S.A. ("PKN ORLEN", "Company", "Parent Company") with its headquarters in Płock, 7 Chemików Street.
The core business of the ORLEN Group is the processing of crude oil and the production of fuel, petrochemical and chemical products as well as their wholesale and retail sale. The ORLEN Group also conducts exploration, recognition and extraction of hydrocarbons, and generates, distributes and trades of electricity and heat.
The activity of the ORLEN Group companies is also service-related activity: storage of crude oil and fuels, transportation, maintenance and overhaul services, laboratory, security, design, administrative, insurance and financial services.

2. Information on principles adopted in the preparation of the interim condensed consolidated financial statements

2.1. Statement of compliance and general principles of preparation

This interim condensed consolidated financial statements were prepared in accordance with requirements of IAS 34 "Interim financial reporting" and in the scope required by 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 present the Polski Koncern Naftowy ORLEN S.A. Capital Group's ("Group", "ORLEN Group") financial position as at 31 March 2020 and as at 31 December 2019, financial results and cash flows for the 3-month period ended 31 March 2020 and 31 March 2019.

This interim condensed consolidated financial statements were prepared on the assumption that the Group will continue to operate as a going concern in the foreseeable future. As at the date of approval of this interim condensed consolidated financial statements there is no evidence indicating that the Group will not be able to continue its operations as a going concern.

The Parent Company and the entities comprising the ORLEN Group have unlimited period of operations.

This interim condensed consolidated financial statements, except for the consolidated statement of cash flows, were prepared using the accrual basis of accounting.

2.2. Accounting principles and amendments to International Financial Reporting Standards (IFRS)

2.2.1. Accounting principles

In this interim condensed consolidated financial statements, the significant accounting policies applied by the Group and significant values based on judgments and estimates were the same as described in individual explanatory notes in the Consolidated Financial Statements for 2019.

Selected accounting principles	Note	Page
Investments in subsidiaries, jointly controlled entities and associates	7.1	14
Operating segments	8	19
Sales revenues	11.1	21
Costs	11.8	24
Income tax expenses (tax expense)	11.13	26
Property, plant and equipment	12.1	28
Exploration and extraction of mineral resources	12.1	28
Intangible assets	12.2	29-30
Investments accounted for under equity method	12.3	31
Impairment of property, plant and equipment and intangible assets	12.4	33
Inventories	12.5.1	36
Trade and other receivables	12.5.2	37
Trade and other liabilities	12.5.3	38
Cash, loans and bonds	12.6	38
Equity	12.7	41
Provisions	12.9	43-44
Financial instruments	13	46-47
Fair value measurement	13	46-47
Lease	14.2	61
Contingent assets and liabilities	14.4	62-63

2.3. Functional currency and presentation currency of financial statements and methods applied to translation of financial statements of foreign entities

2.3.1. Functional currency and presentation currency

The functional currency of the Parent Company and presentation currency of this interim condensed consolidated financial statements is Polish Zloty (PLN). Possible differences in the amount of PLN 1 million when summing up the items presented in the explanatory notes result from the adopted rounding's. The data is presented in PLN million, unless otherwise stated.

ORLEN GROUP (in PLN million)

2.3.2. Methods applied to translation of financial data

Translation into PLN of financial statements of foreign entities, for consolidation purposes:
- particular assets and liabilities – at spot exchange rate as at the end of the reporting period,
- items of the statement of profit or loss and other comprehensive income and the statement of cash flows - at the average exchange rate for the reporting period (arithmetic average of daily average exchange rates published by the National Bank of Poland ("NBP") in a given period).

Foreign exchange differences resulting from the above recalculations are recognised in equity in the line exchange differences on translating foreign operations.

CURRENCY	Average exchange rate for the reporting period		Exchange rate as at the end of the reporting period	
	3 MONTHS ENDED 31/03/2020	3 MONTHS ENDED 31/03/2019	31/03/2020	31/12/2019
EUR/PLN	4.3231	4.3037	4.5523	4.2585
USD/PLN	3.9222	3.7890	4.1466	3.7977
CZK/PLN	0.1689	0.1676	0.1665	0.1676
CAD/PLN	2.9212	2.8507	2.9214	2.9139

2.4. Information concerning the seasonal or cyclical character of the ORLEN Group's operations in the presented period

There is no significant seasonality or cyclicality to the ORLEN Group's operations.

3. Financial situation and the organization of the ORLEN Group

3.1. Impact of coronavirus pandemic on ORLEN Group's operations

The outbreak of the coronavirus pandemic has caused a blockade of transport on a global scale and an unprecedented drop in global demand for jet fuel, diesel and gasoline. As a consequence, it led to a drop in demand for crude oil, which in the second decade of March collided with increased extraction after the fiasco of the agreement between OPEC and Russia regarding the limitation of crude oil extraction. The prospect of an increase in excess of crude oil supply over crude oil demand on a scale exceeding available storage capacities caused a sharp and deep decline in crude oil prices, which was in time and scale faster than price adjustments on the markets of fuel and crude oil products.

This situation affected to a large extent the results achieved by the Group in the 1st quarter of 2020. In particular, the Group suffered both a decrease in crude oil prices and a sharp drop in demand for its products and in consequence decrease in their prices, which is reflected in the results of all operating segments. Since the outbreak of the epidemic PKN ORLEN and entities comprising the Group have taken a number of actions in order to adapt to constantly changing business environment, as well as to prevent the spread of COVID-19 infections, both within its own employees and to support the government's fight against coronavirus.

Below the Group presented the impact of the coronavirus pandemic on selected areas of the Group's operations.

Group's results by operating segments, macroeconomic situation and estimates regarding the impact of COVID-19 on the Group's financial plans, which were basis of the impairment tests were presented in note 5.4.

Actions taken by the Group in connection with COVID-19 pandemic

Entities comprising the ORLEN Group have taken a number of actions in connection with COVID-19 pandemic.

At the time when first cases of COVID-19 appeared in the country, the ORLEN Group developed emergency action plans to ensure the continuity of operations of critical infrastructure and the provision of key services provided by PKN ORLEN. Similar actions were taken by other entities comprising the Group.

The Group adjusts its operations on an ongoing basis to the changing economic situation.

In the 1st quarter of 2020 as well as presently all ORLEN petrol stations remain open, there are no disruptions in any area of operations within the concern. There were also no disruptions in Group's operations on foreign markets as a result of COVID-19 pandemic. In Group's opinion currently there are no threats to the supply chain, both with respect to purchase of raw materials and goods, as well as in the field of internal logistic processes (among others supply of liquid fuels from the production plant to fuel terminals and then to petrol stations).

With respect to ongoing purchases, the Group has implemented additional actions in order to limit the risk of potential breach of contractual terms and deliveries terms by suppliers as a result of change in economic situation, especially:
- in the area of investment purchases additional procedures regarding ongoing monitoring of fulfilment of contractual terms and deadlines as well as financial condition of suppliers have been implemented and procedures regarding launching purchasing processes for substitute contractors, if needed,
- in the area of direct purchases actions were taken in order to extend supplier databases for emergency situations, managing supplies from alternative sources as well as cooperation with key suppliers with respect to ongoing reporting of inventory stock and appearing risks in supply chain and ad hoc preparation of alternative action plans in order to assure operational continuity,
- procedures were implemented regarding ongoing analysis of liquidity risk with respect to key suppliers and their current ability to settle liabilities to subcontractors for construction works on the basis of declarations and taking appropriate actions, including shortening payment terms in individual cases, if needed.

The Group has taken a number of preventive measures in order to limit the spread of the virus at the premises and protection of employees, among others:
- a number of new procedures and guidelines with respect to personnel and material movement were taken, especially aiming at minimizing direct contact and implementing temperature control with respect to personnel staying at the premises; where possible, employees were given the opportunity to work remotely; procedures ensuring availability of key personnel of Group entities were implemented,
- limitation of business trips and participation in business meetings and instead using media such as phones, Internet messengers and videoconferences were recommended,

- employees were equipped with protection means (protective masks, gloves) as well as disinfectants; hygiene, sanitation and disinfection procedures were implemented,
- in order to ensure continuity of ORLEN petrol stations' operations (own and franchised) regular disinfections, limitation in number of clients who could be at the petrol station at the same time and temperature controls were introduced; plexiglas barriers at the checkouts were installed; restaurant areas were excluded from use and new methods of payments directly at distributors through ORLEN Pay application were introduced.

The Group estimates that the total cost incurred in 1st quarter 2020 due to the above actions amounted to approximately PLN (11) million.

Prosocial activities taken by the Group in the fight against coronavirus

So far the Group made a decision to allocate over PLN 100 million for the fight against coronavirus. Most of those funds were transferred to uniform and medical services, which are involved to the greatest extent in helping people infected with coronavirus and health protection of others. Those funds are allocated for the purchase of medical masks, medical equipment, safety uniforms, gloves. As part of in-kind support the Group donated also disinfectants, to which subsidiary ORLEN Oil switched over its production, and organized actions of free products and goods releases for uniform services and drivers waiting to cross the border. In-kind and cash donations were, among others, given also through the ORLEN Foundation to medical facilities and Material Reserves Agency.

In 1st quarter of 2020 the value of donations in this respect recognized in other operating cost by the Group amounted to PLN (6,3) million. Significant portion of the expenses described above were incurred in April and will affect the result of the 2nd quarter of 2020.

Analysis of impact of changes in economic situation on valuation of other assets and liabilities of the Group

Inventory impairment allowances to net realizable values

Record drops in crude oil prices as well as turmoil on global markets caused by coronavirus pandemic, which resulted in rapid fall of demand and decrease in prices of Group's products, affected the recognition by the Group of significant inventory impairment allowances to net realizable values. The value of net impairment allowances recognized in 1st quarter of 2020 in this respect amounted to PLN (2 017) million. Additional information in note 5.3.

Estimation of expected credit loss ECL

The Group performed detailed analysis of impact of coronavirus pandemic on expected credit loss calculation in terms of the potential need to modify the assumptions made for estimations and including additional risk factor related to current economic situation and forecasts for the future.

The Group took a number of actions and launched support packages for its customers, who may be most exposed to insolvency risk, in order to enable them to continue operations on the fuel market, including especially extension of payment terms. Current economic situation which results in significant decreases in sales in retail and wholesale segment may turn into reduction in receivables balance in the future. Nevertheless, the Group expects that the level of repayment of receivables presented in the balance sheet as at 31 March 2020, which payment dates fall in the coming months, will not change significantly. Additionally, receivables from entities, which, in opinion of the Group, are exposed most to insolvency risk in the short term, are covered by collaterals.

The Group also expects, that the actions taken by the Government in order to support entrepreneurs under so-called "anti-crisis shield" will additionally result in reduction of potential liquidity problems for part of customers, who may suffer most from negative effects of even temporary decrease in demand due to quarantine.

On the basis of performed analysis as well as taken into consideration above points and fact, that due to relatively short period of epidemic, there are currently no available and reliable data, which could be the basis for estimation of additional risk factor related to receivables repayment in the coming future, the Group did not identify any indicators for modification of assumptions taken for estimation of expected credit loss as at 31 March 2020.

The Group plans to analyse on the current basis the situation on the markets and incoming signals from contractors which could indicate deterioration of financial situation and if there is a need, update adopted estimates for ECL calculation for the purpose of preparation of half-year financial statements.

Impairment of property plant and equipment, intangible assets and right-of-use assets

The outbreak of COVID-19 pandemic resulted in significant changes in business conditions and economic situation, which the Group considers an impairment indicators. Therefore the Group decided to perform impairment tests at the end of 1st quarter 2020. Additional information were included in note 5.4.

Liquidity situation

As at the date of preparation of this interim condensed consolidated financial statements the financial situation of the Group is stable. Working capital decreased by PLN 1,408 million compared to 31 December 2019, which was mainly related to decline in crude oil prices, which translated into the value of inventories, receivables and liabilities, as well as sharp reduction in demand related to coronavirus epidemic. The Group does not identify currently and within the next 12 months problems with liquidity. The Group also does not see risk of default on loans or other financing agreements. The Group takes optimization actions and assumes maintaining a safe level of net debt and covenants.

As at now the Group estimates, that it has sufficient sources of funding for implementation of all significant development and investment projects as well as acquisitions as planned.

Other accounting estimates

As at the date of preparation of this interim condensed consolidated financial statements the Group does not identify any significant risks related to potential breach of the terms of commercial contracts and supply contracts (including crude oil supplies).

3.2. Group achievements and factors that have a significant impact on the interim condensed consolidated financial statements

Profit or loss for the 3 months of 2020

Sales revenues of the ORLEN Group for the 3 months of 2020 amounted to PLN 22,077 million and was lower by PLN (3,169) million (y/y). The decrease of sales revenues (y/y) result mainly from lower volume sales by (8)% (in Downstream and Retail segments) and reflects also (21)% decrease of crude oil prices and, as a result, also quotations of major products. In the 3-month period of 2020 in comparison to the same period of 2019 the fuel prices decreased by (15)%, diesel oil by (20)%, heavy heating oil by (40)%, ethylene by (5)% and propylene by (11)%.

The operating expenses increased totally by PLN (555) million (y/y) to the amount of PLN (24,833) million, mainly as a result of recognition of inventory impairment allowances to net realizable value in the amount of PLN (2,017) million due to a decrease in crude oil and petroleum product prices.

The positive result of other operating activities amounted to PLN 832 million and included mainly impact of net settlement and valuation of derivative financial instruments related to operating exposure (non-designated instruments for hedge accounting purposes) in the amount of PLN 1,238 million and the recognition of impairment allowances of property, plant and equipment and intangible assets, right of-use asset and other non-current assets mainly in upstream segment in Poland in the amount of PLN (115) million and in Canada in the amount of PLN (381) million. The result of other operating activities in the 3-month period of 2020 was higher by PLN 838 million (y/y) mainly due to discontinuation of hedge accounting for transactions hedging exposure resulting from time mismatch on crude oil purchases from 1 January 2020. Detailed information in note 5.5.

Share in profit from investments accounted for using the equity method was lower by PLN (32) million (y/y) and amounted to PLN 12 million.

As a result, the operating result amounted to PLN (1,904) million and was lower by PLN (2,900) million (y/y). An additional comment regarding the main reasons of the change in result from operations increased by depreciation and amortisation (so-called EBITDA) is presented in point B1.

Net finance costs in the described period amounted to PLN (656) million and included mainly net foreign exchange loss in the amount of PLN (450) million, net interest expenses in the amount of PLN (80) million and settlement and valuation of financial instruments in the amount of PLN (128) million.

After the deduction of tax charges in the amount of PLN 317 million, the net result of the ORLEN Group for the 3 months of 2020 amounted to PLN (2,245) million and was lower by PLN (3,094) million (y/y).

Statement of financial position

As at 31 March 2020, the total assets of the ORLEN Group amounted to PLN 68,361 million and was lower by PLN (2,841) million in comparison with 31 December 2019.

As at 31 March 2020, the value of non-current assets amounted to PLN 39,798 million and was higher by PLN 521 million in comparison with the end of the previous year, mainly due to the increase in property, plant and equipment and intangible assets by PLN 435 million.

The change in balance of property, plant and equipment and intangible assets comprised mainly investment expenditures in the amount of PLN 916 million, including development of fertilizer production capacities in Anwil, construction of the Glikol installation in ORLEN Południe, revitalization of POX in the Unipetrol Group, expenditure on the renovation carried out in the downstream segment and projects in retail and upstream segment and depreciation and amortisation in the amount of PLN (792) million and granted CO_2 emission rights for 2020 in the amount of PLN 740 million.

The value of current assets decreased by PLN (3,362) million, mainly as a result of an decrease balance of inventories by PLN (2,902) million, balance of cash and cash equivalents by PLN (1,055) million with a decrease in trade and other receivables by PLN (1,407) million by increase of valuations of derivatives by PLN 1,407 million (detailed information in note 5.5.) and receivables due to settlement of derivatives by PLN 611 million. The decrease in value of inventories is mainly the result of impairment allowances of inventories to net realizable value in the amount of PLN (2,017) million. The decrease in trade receivables results mainly from lower volume sales and lower prices in downstream segment.

As at 31 March 2020, total equity amounted to PLN 36,332 million and was lower by PLN (2,275) million in comparison with the end of 2019, mainly due to recognition of net result for the 3-month period of 2020 in the amount of PLN (2,245) million, the negative impact of the change in balance of hedging reserve in the amount PLN (208) million and the impact of exchange differences on translating foreign operations in the amount of PLN 189 million.

The value of trade and other liabilities decreased by PLN (3,179) million compared to the end of 2019 mainly due to decrease of trade liabilities in the amount of PLN (2,407) million, investment liabilities in the amount of PLN (319) million and tax liabilities in the amount of PLN (306) million. The decrease in liabilities results mainly from the lower amount of purchased crude oil and commodities and lower prices on the markets.

As at 31 March 2020 the value of provisions amounted to PLN 2,628 million and was higher by PLN 279 million compared to the end of 2019, mainly due to net provision balance increase of estimated CO_2 emissions and energy certificates in the total amount of PLN 294 million. The change results mainly from the recognition of provision for the 1st quarter of 2020 in the amount of PLN 249 million based on weighted average price method of owned rights and certificates

As at 31 March 2020, net financial indebtedness of the ORLEN Group amounted to PLN 4,181 million and was higher by PLN 1,733 million in comparison with the end of 2019. The change in net financial indebtedness included mainly the net proceeds of loans and borrowings in the amount of PLN 124 million, an decrease in cash and cash equivalents balance by PLN 1,055 million and the net impact of negative exchange differences from revaluation of the valuation of debt and interest in the total amount of PLN 554 million.

Statement of cash flows for the 3 months of 2020

Proceeds of net cash from operating activities for the 3 months of 2020 amounted to PLN 530 million and comprised mainly result on operating activities increased by depreciation and amortisation EBITDA in the amount of PLN (969) million, the positive impact of the decrease in net working capital by PLN 1,408 million decreased by income taxes paid in the amount of PLN (225) million and profit on investing activities in the amount of PLN (600) million related mainly of settlement and valuation of derivative financial instruments, change in provisions in the amount of PLN 318 million and other adjustments in the amount of PLN 676 million related mainly to security deposits in the amount of PLN 481 million.

Net cash used in investing activities for the 3 months of 2020 amounted to PLN (1,527) million and comprised mainly of net expenses for the acquisition and sales of property, plant and equipment, intangible assets and right-of-use asset in the amount of PLN (1,211) million, conclusion of short-term deposits with maturity over 3 months in the amount of PLN (108) million and settlement of derivatives not designated as hedge accounting in the amount of PLN (199) million.

Net outflows of cash from financing activities for the 3 months of 2020 amounted to PLN (135) million and comprised mainly of net inflows of loans in the amount PLN 124 million, interest paid in the amount of PLN (66) million, payments of liabilities under lease agreements in the amount of PLN (193) million.

Following inclusion of the revaluation of cash due to exchange differences, the cash balance in the 3 months of 2020 decreased by PLN (1,055) million and as at 31 March 2020 amounted to PLN 5,104 million.

In the 3-month period of 2020, restricted cash increased by PLN 1,007 million and amounted to PLN 1,089 million, mainly due to collateral established in 4th quarter 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.

Factors and events which may influence future results

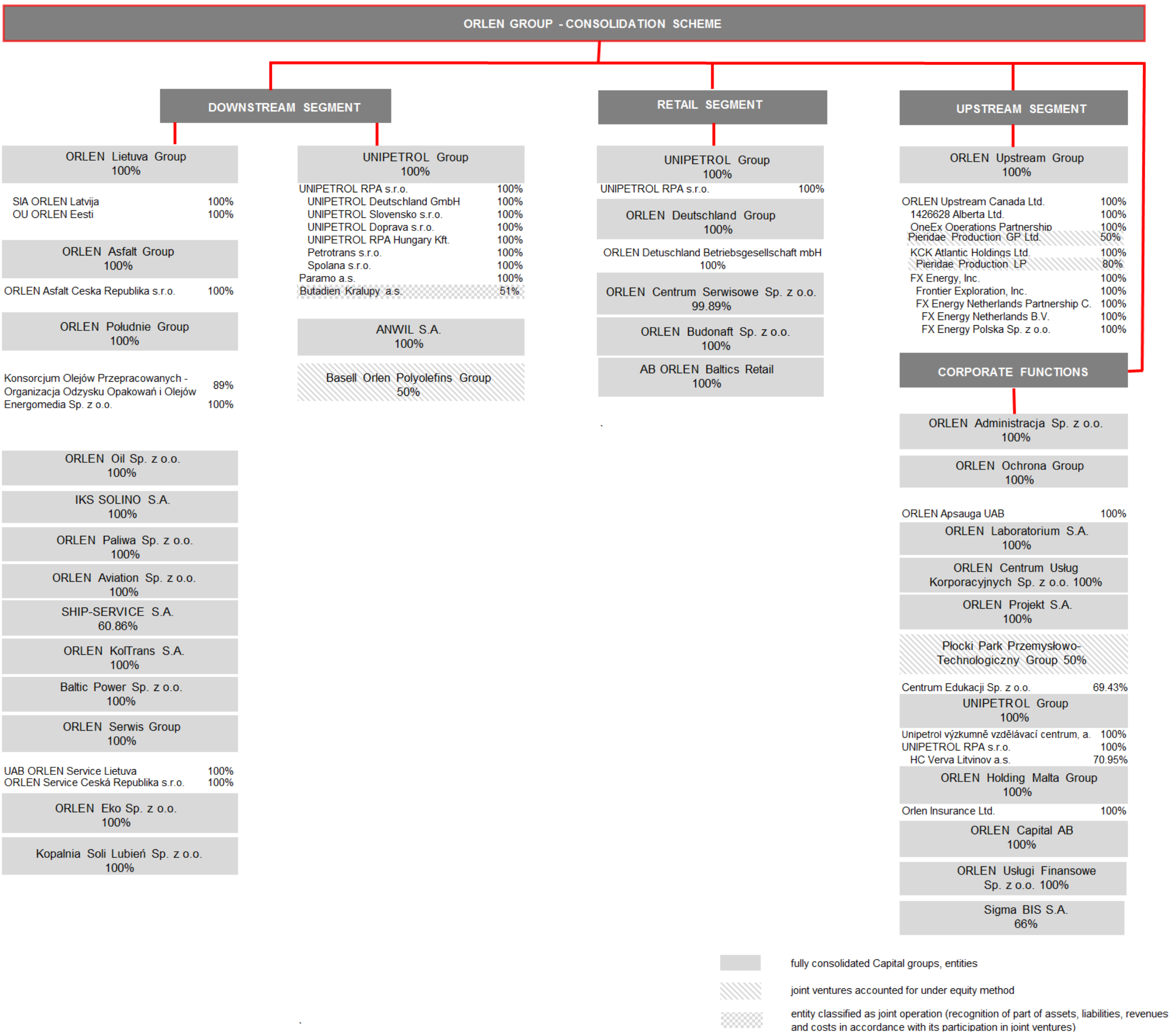
The factors that will affect future financial results of the ORLEN Group include:

- macroeconomic and geopolitical environment - crude oil and other energy resources prices, quotations on refinery and petrochemical products, foreign exchange rates (mainly EUR/USD, PLN/USD, PLN/EUR) and the tariff war between the US and China as well as the US conflict with Iran,
- economic situation - GDP level, fuel and other products of the Group consumption on the markets of its operations and the situation on the labour market,
- availability of production instances,
- applicable legal regulations.

3.3. Organization of the ORLEN Group

The ORLEN Group includes PKN ORLEN as the Parent Company and entities located in Poland, Germany, the Czech Republic, Lithuania, Malta, Sweden, the Netherlands, Slovakia, Hungary, Estonia, Latvia and the USA and Canada.

PKN ORLEN as the Parent Company is a multi-segment entity, appropriately allocated to all operating segments and corporate functions.



3.4. Changes in the structure of the ORLEN Group from 1 January 2020 up to the date of preparation of this report

- on 14 February 2020 the name of UAB EMAS from the ORLEN Serwis Group was changed to UAB ORLEN Service Lietuva;
- on 8 April 2020 the Extraordinary General Meeting of Shareholders of the FX Energy Poland Sp. z o.o. took place, at which a resolution regarding the dissolution of FX Energy Poland Sp. z o.o. was adopted and thus the company liquidation process was started.

Changes in the Group structure are an element of the ORLEN Group strategy, assuming a focus on core activities and allocating capital for the development of the Group in the most prospective areas.

ORLEN ORLEN GROUP (in PLN million)

4. Segment's data

The operations of the ORLEN Group are conducted in:

- the Downstream segment, which includes integrated areas of refining, petrochemical production and sales and operations in the area of energy production,
- the Retail segment, which includes activity carried out at petrol stations,
- the Upstream segment, which includes activity related to exploration and extraction of mineral resources,

and Corporate Functions, which include activities related to management, administration and remaining activities not allocated to separate operating segments i.e. reconciling items.
The allocation of the ORLEN Group's companies to operating segments and Corporate Functions was presented in note 3.3.

Revenues, costs, financial results, increases in non-current assets

for the 3-month period ended 31 March 2020

	NOTE	Downstream Segment (unaudited)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
External revenues	5.1	13 304	8 609	145	19	-	22 077
Inter-segment revenues		3 878	24	-	116	(4 018)	-
Sales revenues		17 182	8 633	145	135	(4 018)	22 077
Operating expenses		(20 169)	(8 085)	(165)	(432)	4 018	(24 833)
Other operating income	5.5	2 941	10	179	53	-	3 183
Other operating expenses	5.5	(1 768)	(23)	(530)	(30)	-	(2 351)
(Loss)/reversal of loss due to impairment of financial instruments		3	-	-	5	-	8
Share in profit from investments accounted for using the equity method		12	-	-	-	-	12
Profit/(Loss) from operations		**(1 799)**	**535**	**(371)**	**(269)**	**-**	**(1 904)**
Net finance income and costs	5.6						(656)
(Loss)/reversal of loss due to impairment of financial instruments							(2)
(Loss) before tax							**(2 562)**
Tax expense							317
Net (loss)							**(2 245)**
Depreciation and amortisation	5.2	**624**	**167**	**94**	**50**	**-**	**935**
EBITDA		**(1 175)**	**702**	**(277)**	**(219)**	**-**	**(969)**
Increases in non-current assets		**765**	**265**	**176**	**38**	**-**	**1 244**

for the 3-month period ended 31 March 2019

	NOTE	Downstream Segment (unaudited)	Retail Segment (unaudited)	Upstream Segment (unaudited)	Corporate Functions (unaudited)	Adjustments (unaudited)	Total (unaudited)
External revenues	5.1	16 518	8 544	163	21	-	25 246
Inter-segment revenues		4 059	62	-	99	(4 220)	-
Sales revenues		20 577	8 606	163	120	(4 220)	25 246
Operating expenses		(19 940)	(8 085)	(140)	(333)	4 220	(24 278)
Other operating income	5.5	121	17	-	3	-	141
Other operating expenses	5.5	(110)	(15)	-	(22)	-	(147)
(Loss)/reversal of loss due to impairment of financial instruments		-	(2)	-	(8)	-	(10)
Share in profit from investments accounted for using the equity method		44	-	-	-	-	44
Profit/(Loss) from operations		**692**	**521**	**23**	**(240)**	**-**	**996**
Net finance income and costs	5.6						(2)
Profit before tax							**994**
Tax expense							(145)
Net profit							**849**
Depreciation and amortisation	5.2	**571**	**157**	**70**	**35**	**-**	**833**
EBITDA		**1 263**	**678**	**93**	**(205)**	**-**	**1 829**
Increases in non-current assets		**1 441**	**2 157**	**151**	**316**	**-**	**4 065**
impact of IFRS 16 adoption		1 117	2 056	4	290	-	**3 467**

EBITDA *– profit/(loss) from operations increased by depreciation and amortisation*
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.*

ORLEN GROUP (in PLN million)

Assets by operating segments

	31/03/2020 (unaudited)	31/12/2019
Downstream Segment	43 926	47 199
Retail Segment	9 974	9 945
Upstream Segment	4 011	4 440
Segment assets	**57 911**	**61 584**
Corporate Functions	10 485	9 705
Adjustments	(35)	(87)
	68 361	**71 202**

5. Other notes

5.1. Sales revenues

PROFESSIONAL JUDGMENT

Based on analyses of contractual clauses in sales contracts, the Group identified the agency model mainly in the area of LPG sales, natural gas sales and non-fuel merchandise sales by ORLEN Deutschland to customers network. In other transactions the Group acts as a principal.

The Group has a VITAY loyalty program for retail clients. 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 Group'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 realisation, based on empirical data of points used compared to those issued to the customer in the last 36 months.
The Group assessed, which 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.

	3 MONTHS ENDED 31/03/2020 (unaudited)	3 MONTHS ENDED 31/03/2019 (unaudited)
Revenues from sales of finished goods and services	17 922	21 239
revenues from contracts with customers	*17 865*	*21 185*
excluded from scope of IFRS 15	*57*	*54*
Revenues from sales of merchandise and raw materials, net	4 155	4 007
revenues from contracts with customers	*4 154*	*4 007*
excluded from scope of IFRS 15	*1*	*-*
Sales revenues, incl.:	**22 077**	**25 246**
revenues from contracts with customers	*22 019*	*25 192*

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

Performance obligations

As part of the contractual obligations, the Group commits to deliver to its customers mostly refining, petrochemical products and goods, energy, crude oil and gas. Under these agreements, the Group acts as a principal. Transaction prices in existing contracts with customers are not constrained.
There are no significant contracts in force in the Group, which allow for obligations for returns, refunds or other similar obligations. There is no significant financing component in contracts with customers. The Group 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 related product complies with agreed-upon specification. They are not a distinct service.
In the Downstream and Upstream 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 mostly in two-week periods (so-called Fleet Cards).
Usually payment is due after transferring good or service. In contracts with customers in Downstream and Retail segments, in most cases payment terms not exceeding 30 days are used, while in the Upstream segment payment terms not exceeding 60 days are used.
The variability of consideration in contracts with customers is connected mainly with volume rebates.

Revenues according to categories taking into account significant economic factors affecting their recognition

Except of revenues according to product type and geographical region presented in notes 5.1.1 and 5.1.2, the Group analyses revenues based on the type of contract, date of transfer, contract duration and sales channels.

Revenues based on a fixed price constitute the majority of revenues in the Group. The customer has the right to discounts, penalties, which in accordance with IFRS 15 constitute an element of variable consideration. The Group recognises revenues in the amount of consideration, to which – in line with expectations- it will be entitled and which will not be reversed in the future. Consequently, the Group adjusts revenues for highly probable discounts and penalties, which recognition are highly probable. The variability of consideration in contracts with customers is largely related to volume rebates. The Group also defers the part of revenue related to the VITAY loyalty program, according to which the customer is entitled to future benefits (i.e. VITAY points).

(in PLN million)

As part of the Downstream segment, with respect to sales of petrochemical and refinery products, the Group recognises revenue from satisfaction of performance obligation, depending on the terms of delivery (Incoterms) used. In case of some deliveries, the Group is obliged to organize transport and/or insurance. When the control of good passes to the customer before transport is performed, the delivery of goods and transport (and possibly insurance) becomes separate performance obligations. The delivery of goods is an obligation satisfied at a point in time, while transport is a continuous obligation (satisfied over time). In case of transport and insurance, the customer simultaneously receives and consumes benefits from the service.
In the retail segment, the moment of satisfaction of performance obligation is the moment of transfer of good, except for sales of fuels using Fleet Cards. In case of sales satisfied over time, the Group recognises revenues at least on a monthly basis, where settlements between parties to the contract take place periodically and reflect the amount of consideration that the Group is entitled for transfer of goods and services to the customer. Revenue recognized over time mainly relate to the sale of energy and heat within the Downstream segment, the sale of fuels using Fleet cards within Retail segment and the sale of gas and crude oil within the Upstream segment.

The majority of contracts within the Group are short-term. Revenues on services for which start and end dates fall in different reporting periods (long-term contracts) are recognised according to the stage of their completion, if the result of the transaction can be reliably estimated. Long-term contracts that remain unfulfilled in full as at the balance sheet date relate to construction and assembly contracts and energy sales.

The Group realizes sales directly to end customers in the Retail segment, managing the network of nearly 2,836 fuel stations, including 2,301 own brand stations and a further 535 stations operated under franchise agreements.
The Group's sales to customers in the Downstream segment are carried out using a network of complementary infrastructure components - fuel terminals, land transhipment bases, pipeline networks, as well as rail transport and tanker trucks.

5.1.1. Sales revenues of operating segments according to product type

	3 MONTHS ENDED 31/03/2020 (unaudited)	3 MONTHS ENDED 31/03/2019 (unaudited)
Downstream Segment		
Revenue from contracts with customers IFRS 15	**13 296**	**16 496**
Light distillates	2 057	2 485
Medium distillates	6 375	8 196
Heavy fractions	917	1 530
Monomers	820	879
Polymers	420	655
Aromas	295	246
Fertilizers	231	266
Plastics	363	377
PTA	402	490
Other*	1 416	1 372
Excluded from scope of IFRS 15	**8**	**22**
	13 304	**16 518**
Retail Segment		
Revenue from contracts with customers IFRS 15	**8 565**	**8 517**
Light distillates	3 236	3 100
Medium distillates	4 491	4 647
Other **	838	770
Excluded from scope of IFRS 15	**44**	**27**
	8 609	**8 544**
Upstream Segment		
Revenue from contracts with customers IFRS 15	**145**	**163**
NGL ***	60	84
Crude oil	41	24
Natural Gas	42	54
Other	2	1
	145	**163**
Corporate Functions		
Revenue from contracts with customers IFRS 15	**13**	**16**
Excluded from scope of IFRS 15	**6**	**5**
	19	**21**
	22 077	**25 246**

** Other includes mainly: brine, industrial salt, vacuum distillates, acetone, ammonia, butadiene, phenol, technical gases, caprolactam, soda lye and sulphur. In addition, it includes revenues from sale of services and materials.*
*** Other mainly includes the sale of non-fuel merchandise*
**** NGL (Natural Gas Liquids)*

During the 3-month period ended 31 March 2020 and 31 March 2019 revenues from none of Group customers individually exceeded 10% of the total sales revenues of the ORLEN Group.

ORLEN ORLEN GROUP (in PLN million)

5.1.2. Sales revenues according to geographical region – as per location of customer's headquarters

	3 MONTHS ENDED 31/03/2020 (unaudited)	3 MONTHS ENDED 31/03/2019 (unaudited)
Revenue from contracts with customers		
Poland	*11 280*	*12 152*
Germany	*3 579*	*3 845*
Czech Republic	*2 788*	*3 286*
Lithuania, Latvia, Estonia	*1 399*	*2 012*
Other countries	*2 973*	*3 897*
	22 019	**25 192**
excluded from scope of IFRS 15		
Poland	*14*	*26*
Germany	*18*	*-*
Czech Republic	*26*	*28*
	58	**54**
	22 077	**25 246**

Position Other countries comprises mainly of sales to customers from Switzerland, Singapore, Ukraine, Slovakia, the United Kingdom and Hungary.

5.2. Operating expenses

Cost by nature

	3 MONTHS ENDED 31/03/2020 (unaudited)	3 MONTHS ENDED 31/03/2019 (unaudited)
Materials and energy	(15 913)	(17 883)
Cost of merchandise and raw materials sold	(3 683)	(3 579)
External services	(1 103)	(1 007)
Employee benefits	(802)	(720)
Depreciation and amortisation	(935)	(833)
Taxes and charges	(769)	(647)
Other	(177)	(126)
	(23 382)	**(24 795)**
Change in inventories	(1 146)	484
Cost of products and services for own use	(305)	33
Operating expenses	**(24 833)**	**(24 278)**
Distribution expenses	1 620	1 465
Administrative expenses	507	421
Cost of sales	**(22 706)**	**(22 392)**

5.3. Impairment allowances of inventories to net realizable value

	3 MONTHS ENDED 31/03/2020 (unaudited)	3 MONTHS ENDED 31/03/2019 (unaudited)
Increase	(2 145)	(13)
Decrease	128	178

During the 3-month period ended 31 March 2020 the line increase includes recognition of inventory impairment allowances to net realizable value due to a decrease in crude oil and petroleum product prices.

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

As at 31 March, 2020, the ORLEN Group identified indicators for impairment tests in accordance with IAS 36 "Impairment of assets" related to the coronavirus pandemic and its impact on future estimated cash flows generated by cash-generating units.

Impairment tests were conducted based on the ORLEN Group's assets as at 31 March 2020 and net cash flows updated in accordance with the judgments and estimates explained below, discounted to their present value using discount rates reflecting current market estimates of the time value of money and risks typical for the assets being valued. In connection with the current economic situation, uncertainty of demand and supply, which affect the shaping and forecasting of macroeconomic data, the ORLEN Group will analyse and, if necessary, update the adopted assumptions.

A detailed description of the adopted principles for testing for impairment in the ORLEN Group and the description of valuation techniques were presented in the annual consolidated financial statements and the principles applied as at 31 March 2020 are consistent with them.

ORLEN ORLEN GROUP (in PLN million)

Production assets of the Upstream segment

Production assets in the Upstream segment located in Poland and Canada were valued by independent companies. This valuation was updated based on the latest estimates of crude oil, gas and condensate prices, while maintaining the remaining assumptions of the reserves report presented in the ORLEN Group Consolidated Financial Statements for the year ended 31 December 2019.

Asset impairment tests based on price updates have shown the need of impairment. Details on the amount of impairments are presented in the note below.

Production assets of Downstream segment

The probability of obtaining planned sales volumes and margins of Downstream segment production assets was analysed. As a result of this analysis, a correction of assumptions made under the Financial Plan of PKN ORLEN S.A. and the ORLEN Group for 2020 was prepared, assuming, among others temporary weakening of demand and decrease in margins during 2020. The assumptions regarding margins and exchange rates for 2021 and 2022 were also updated. It was assumed that cash flows after 2022 remain at the level of estimation based on the ORLEN Group Mid-Term Plan approved on 20 December 2018. The Group assumes that by the end of 2022, as a result of optimization and efficiency processes launched, it will return to its originally planned cash flows.

Asset impairment tests based on updated assumptions have not confirmed the need to make impairment losses of the Downstream segment assets of the ORLEN Capital Group.

Assets of Retail segment

The assets of the retail segment were verified in terms of sales plans, sales volumes and margins realized in the 1st quarter of 2020. On this basis, the ORLEN Group stated that there was no need to carry out impairment tests. Therefore, the valuations prepared at the end of 2019 remain valid.

Discount Rates

Discount rates have been calculated as the weighted average cost of equity and foreign capital. The sources of macroeconomic indicators necessary to determine the discount rate were the publications of prof. Aswath Damodaran (source: http://pages.stern.nyu.edu) and government bond quotes available as at 31 March 2020. Due to the high uncertainty that characterizes the current economic situation in the presented valuations for the Downstream and Retail segments, the market risk premium available on 31 March 2020 in the publications of prof. Aswath Damodaran increased by 1 pp. This affected into an increase in the cost of equity and the discount rate, as per the presentation below. This adjustment does not apply to the upstream discount rates because the risk of uncertainty has been included in updated crude oil, gas and condensate prices.

The structure of discount rates applied as part of impairment tests of assets by major cash flow generating units at the ORLEN Group as at 31 March 2020

	Poland				Czech Republic			Lithuania		Canada	Germany
	Refining	Petrochemical	Retail	Upstream	Refining	Petrochemical	Retail	Refining	Retail	Upstream	Retail
Cost of equity	10.69%	10.46%	9.96%	10.12%	10.46%	10.24%	9.74%	11.36%	10.57%	8.44%	7.15%
Cost of debt after tax	2.02%	2.02%	2.02%	2.02%	1.88%	1.88%	1.88%	2.13%	2.13%	1.16%	0.24%
Capital structure	0.54	0.43	1.03	1.11	0.54	0.43	1.03	0.5352	1.0342	0.5639	1.0342
Nominal discount rate	**7.67%**	**7.94%**	**5.92%**	**5.86%**	**7.47%**	**7.74%**	**5.74%**	**8.15%**	**6.28%**	**5.82%**	**3.64%**
Long-term rate of inflation	2.48%	2.48%	2.48%	2.48%	2.22%	2.22%	2.22%	1.88%	1.88%	1.82%	1.38%

The forecasts and assumptions described above were based on the best estimates and knowledge available as at the balance date. These assumptions will be subject to ongoing verification and updating.

Net impairments for property, plant and equipment, intangible assets and assets due to rights of use

	NOTE	3 MONTHS ENDED 31/03/2020 (unaudited)
ORLEN Upstream Group		(496)
ORLEN Upstream Poland		(115)
ORLEN Upstream Canada		(381)
Other		(8)
	5.5	**(504)**

As a result of the analysis based on updated raw material price forecasts and using the current discount rate, the ORLEN Group recognized impairments for the production assets of the Upstream segment as at 31 March 2020 with a total value of PLN (496) million.

ORLEN Upstream Canada recognized net impairments PLN (381) million (impairments for cash-generating units mainly: Ferrier, Southern Alberta, Kaybob, Central Alberta Gas, Peace River Oil).

ORLEN Upstream Poland recognized net impairments PLN (115) million (a reversal for mining assets of the Płotki project in the amount of PLN 35 million and an impairment for exploration assets of Edge and Płotki projects in the amount of PLN (150) million).

Fair value of Upstream segment assets in the Upstream Group being impaired

	31/03/2020
ORLEN Upstream Canada	4 017
ORLEN Upstream Poland	396
	4 413

Other impairments for property, plant and equipment, intangible assets and net asset rights resulted mainly from the withdrawal of assets from use and related to the PKN ORLEN Retail segment PLN (3) million and Downstream PLN (5) million.

The total impact of recognized net impairments on the ORLEN Group's non-current assets in the 1st quarter of 2020 is PLN (504) million.

Sensitivity analysis of the value in use of assets, which were impaired as at 31 March 2020

ORLEN Upstream Canada

in PLN million EBITDA

DISCOUNT RATE change	-5%	0%	+5%
- 1 p.p.	*increase in allowance* (74)	*decrease in allowance* 52	*decrease in allowance* 176
0,0 p.p.	*increase in allowance* (118)	-	*decrease in allowance* 121
+ 1 p.p.	*increase in allowance* (158)	*increase in allowance* (48)	*decrease in allowance* 64

ORLEN Upstream Polska

in PLN million EBITDA

DISCOUNT RATE change	-5%	0%	+5%
- 1 p.p.	*decrease in allowance* 7	*decrease in allowance* 32	*decrease in allowance* 52
0,0 p.p.	*increase in allowance* (19)	-	*decrease in allowance* 19
+ 1 p.p.	*increase in allowance* (51)	*increase in allowance* (28)	*increase in allowance* (11)

5.5. Other operating income and expenses

Other operating income

	3 MONTHS ENDED 31/03/2020 (unaudited)	3 MONTHS ENDED 31/03/2019 (unaudited)
Profit on sale of non-current non-financial assets	3	10
Reversal of provisions	54	5
Reversal of impairment allowances of property, plant and equipment and intangible assets, right-of-use asset, other non-current assets and classified as held for sale	34	4
Penalties and compensations	28	18
Settlement and valuation of derivative financial instruments related to operating exposure	2 955	22
Ineffective part related to valuation and settlement of operating exposure	14	38
Settlement of hedging costs	46	32
Other	49	12
	3 183	**141**

Other operating expenses

	3 MONTHS ENDED 31/03/2020 (unaudited)	3 MONTHS ENDED 31/03/2019 (unaudited)
Loss on sale of non-current non-financial assets	(8)	(9)
Recognition of provisions	(6)	(15)
Recognition of impairment allowances of property, plant and equipment and intangible assets, right-of-use asset, other non-current assets and classified as held for sale	(538)	(14)
Penalties, damages and compensations	(4)	-
Settlement and valuation of derivative financial instruments related to operating exposure	(1 717)	(43)
Ineffective part related to valuation and settlement of operating exposure	(27)	(31)
Settlement of hedging costs	(1)	-
Other, incl.:	(50)	(35)
donations	*(27)*	*(18)*
	(2 351)	**(147)**

ORLEN ORLEN GROUP (in PLN million)

In the 3-month period ended 31 March 2020 the line recognition of impairment allowances of property, plant and equipment and intangible assets, right-of-use asset and other non-current assets concerned mainly recognition of impairment allowances in upstream segment in Poland in the amount of PLN (115) million and in Canada in the amount of PLN (381) million. Additional information in note 5.4.

For the 3-month period ended 31 March 2020 and 31 March 2019 the net positions of valuation and settlement of derivative financial instruments related to operating exposure (instruments non-designated for hedge accounting purposes) amounted to PLN 1,238 million and PLN (21) million, respectively, and mainly related to commodity swaps hedging time mismatch on crude oil purchases and bitumen hedging.

The change in the net position of valuations and settlements of derivative financial instruments related to operating exposure results from discontinuation of hedge accounting for transactions hedging exposure resulting from time mismatch on crude oil purchases. As at 31 March 2019, the transaction valuation was recognised in revaluation reserve, while as at 31 March 2020 both the valuation and settlement of the transaction are recognised in other operating activities. The change in the valuation of transaction results from the decrease in crude oil prices related to the coronavirus crisis on the market and the Saudi Arabia-Russia price war as well as the weakening of PLN against USD.

5.6. Finance income and costs

Finance income

	3 MONTHS ENDED 31/03/2020 (unaudited)	3 MONTHS ENDED 31/03/2019 (unaudited)
Interest calculated using the effective interest rate method	12	14
Settlement and valuation of derivative financial instruments	353	241
Other	22	9
	387	**264**

Finance costs

	3 MONTHS ENDED 31/03/2020 (unaudited)	3 MONTHS ENDED 31/03/2019 (unaudited)
Interest calculated using the effective interest rate method	(65)	(49)
Interest on lease	(26)	(25)
Interest on tax liabilities	(1)	(2)
Net foreign exchange loss	(450)	(3)
Settlement and valuation of derivative financial instruments	(481)	(166)
Other	(20)	(21)
	(1 043)	**(266)**

Borrowing costs capitalized in the 3-month period ended 31 March 2020 and 31 March 2019 amounted to PLN (9) million and PLN (10) million, respectively.

During the 3-month period ended 31 March 2020 and 31 March 2019 the net positions of valuation and settlement of derivative financial instruments (non-designated instruments for hedge accounting purposes) amounted to PLN (128) million and PLN 75 million, respectively and related mainly to hedging the risk of changes in exchange rates with regard to payments of invoices in foreign currency, the currency hedge for liquidity transactions, and to hedging interest rates and payment of bonds interests.

The main impact on the change in valuation and settlement of derivative financial instruments in the 3-month period ended 31 March 2020 was depreciation of the PLN against USD and EUR on financial markets.

5.7. Loans and bonds

	Non-current		Current		Total	
	31/03/2020 (unaudited)	31/12/2019	31/03/2020 (unaudited)	31/12/2019	31/03/2020 (unaudited)	31/12/2019
Loans	2 014	1 884	388	252	2 402	2 136
Bonds	6 671	6 301	212	170	6 883	6 471
	8 685	**8 185**	**600**	**422**	**9 285**	**8 607**

As at 31 March 2020 indebtedness due to loans mainly 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 PLN 2,276 million translated using the exchange rate as at 31 March 2020 (representing EUR 500 million).

Detailed information on issue/redemption of bonds is presented in note 5.13.

As at 31 March 2020 and as at 31 December 2019 the maximum possible indebtedness due to loans amounted to PLN 9,429 million and PLN 9,160 million, respectively. As at 31 March 2020 and as at 31 December 2019 PLN 6,779 million and PLN 6,742 million, respectively, remained unused.

In the period covered by this interim condensed consolidated financial statements, as well as after the reporting date, there were no instances of violation of principal or interest repayment nor breach of loan covenants.

ORLEN ORLEN GROUP (in PLN million)

5.8. Derivatives and other assets and liabilities

Derivatives and other assets

	Non-current		Current		Total	
	31/03/2020 (unaudited)	31/12/2019	31/03/2020 (unaudited)	31/12/2019	31/03/2020 (unaudited)	31/12/2019
Cash flow hedging instruments	5	291	368	174	373	465
currency forwards	*5*	*291*	*13*	*169*	*18*	*460*
commodity swaps	*-*	*-*	*355*	*5*	*355*	*5*
Derivatives not designated as hedge accounting	-	19	1 277	65	1 277	84
currency forwards	*-*	*-*	*41*	*27*	*41*	*27*
commodity swaps	*-*	*-*	*1 236*	*38*	*1 236*	*38*
currency interest rate swaps	*-*	*19*	*-*	*-*	*-*	*19*
Fair value hedging instruments	-	-	5	4	5	4
commodity swaps	*-*	*-*	*5*	*4*	*5*	*4*
Derivatives	**5**	**310**	**1 650**	**243**	**1 655**	**553**
Other financial assets	65	72	985	468	1 050	540
receivables on settled derivatives	*-*	*-*	*721*	*110*	*721*	*110*
financial assets measured at fair value through other comprehensive income	*53*	*66*	*-*	*-*	*53*	*66*
hedged item adjustment	*6*	*-*	*104*	*4*	*110*	*4*
security deposits	*-*	*-*	*48*	*354*	*48*	*354*
short-term deposits	*-*	*-*	*112*	*-*	*112*	*-*
other	*6*	*6*	*-*	*-*	*6*	*6*
Other non-financial assets	248	238	-	-	248	238
*investment property **	*227*	*219*	*-*	*-*	*227*	*219*
other	*21*	*19*	*-*	*-*	*21*	*19*
Other assets	**313**	**310**	**985**	**468**	**1 298**	**778**

** As at 31 March 2020 and as at 31 December 2019, the line investment property includes right-of-use asset in the amount of PLN 41 million and 42 million, respectively.*

Derivatives and other liabilities

	Non-current		Current		Total	
	31/03/2020 (unaudited)	31/12/2019	31/03/2020 (unaudited)	31/12/2019	31/03/2020 (unaudited)	31/12/2019
Cash flow hedging instruments	131	1	101	82	232	83
currency forwards	*131*	*1*	*85*	*-*	*216*	*1*
commodity swaps	*-*	*-*	*16*	*82*	*16*	*82*
Derivatives not designated as hedge accounting	48	1	615	180	663	181
currency forwards	*-*	*1*	*116*	*42*	*116*	*43*
commodity swaps	*-*	*-*	*484*	*119*	*484*	*119*
interest rate swaps	*-*	*-*	*15*	*19*	*15*	*19*
currency interest rate swaps	*48*	*-*	*-*	*-*	*48*	*-*
Fair value hedging instruments	6	-	104	4	110	4
commodity swaps	*6*	*-*	*104*	*4*	*110*	*4*
Derivatives	**185**	**2**	**820**	**266**	**1 005**	**268**
Other financial liabilities	149	152	634	223	783	375
liabilities on settled derivatives	*-*	*-*	*447*	*209*	*447*	*209*
investment liabilities	*94*	*94*	*-*	*-*	*94*	*94*
hedged item adjustment	*-*	*-*	*5*	*4*	*5*	*4*
refund liabilities	*-*	*-*	*7*	*10*	*7*	*10*
*other**	*55*	*58*	*175*	*-*	*230*	*58*
Other non-financial liabilities	10	9	584	13	594	22
deferred income	*10*	*9*	*584*	*13*	*594*	*22*
Other liabilities	**159**	**161**	**1 218**	**236**	**1 377**	**397**

** As at 31 March 2020 and as at 31 December 2019, the line other in non-current other financial liabilities relates mainly to liabilities due to donations in the amount of PLN 14 million and PLN 18 million, and a guarantees in the amount of PLN 40 million and PLN 39 million, respectively, while in the current part it relates to the value of the deposit for the settlement of contracts concluded on the ICE exchange in the amount of PLN 175 million.*

Description of changes of derivatives designated as hedge accounting is presented in note 5.5.

ORLEN ORLEN GROUP (in PLN million)

5.9. Provisions

	Non-current		Current		Total	
	31/03/2020 (unaudited)	31/12/2019	31/03/2020 (unaudited)	31/12/2019	31/03/2020 (unaudited)	31/12/2019
Environmental	826	817	42	42	868	859
Jubilee bonuses and post-employment benefits	257	256	48	49	305	305
CO_2 emissions, energy certificates	-	-	1 255	961	1 255	961
Other	42	40	158	184	200	224
	1 125	**1 113**	**1 503**	**1 236**	**2 628**	**2 349**

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

As compared to the previous reporting period the Group did not change the valuation methods concerning financial instruments.
Methods applied in determining the fair value were described in the Consolidated Financial Statements for 2019 in note 13.3.
In the position financial assets measured at fair value through other comprehensive income, quoted/unquoted shares not held for trading are presented. With respect to shares unquoted on active market for which there are no observable inputs, fair value is determined on the basis of expected discounted cash flows.

Fair value hierarchy

	Carrying amount (unaudited)	Fair value (unaudited)	Fair value hierarchy Level 1	Level 2	Level 3
Financial assets					
Financial assets measured at fair value through other comprehensive income	53	53	13	-	40
Derivatives	1 655	1 655	-	1 655	-
	1 708	**1 708**	**13**	**1 655**	**40**
Financial liabilities					
Loans	2 402	2 402	-	2 402	-
Bonds	6 883	6 996	6 996	-	-
Derivatives	1 005	1 005	-	1 005	-
	10 290	**10 403**	**6 996**	**3 407**	**-**

The fair value of financial assets and liabilities quoted on active markets is determined based on market quotations (i.e. Level 1). In other cases, the fair value is determined based on other input data which are directly or indirectly observable (i.e. Level 2) or unobservable inputs (i.e. Level 3).
There were no reclassifications in the Group between levels of the fair value hierarchy during the reporting and comparative period.

5.11. Lease

5.11.1. Group 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 01/01/2020					
Gross carrying amount	1 795	1 685	125	1 012	**4 617**
Accumulated depreciation	(81)	(205)	(24)	(322)	**(632)**
Impairment allowances	(24)	(5)	(2)	(2)	**(33)**
	1 690	**1 475**	**99**	**688**	**3 952**
increases/(decreases), net					
New lease agreements, increase in lease remuneration	52	91	-	177	320
Depreciation	(16)	(36)	(5)	(86)	(143)
Impairment allowances	6	-	-	-	6
Other	(1)	65	(1)	-	63
	1 731	**1 595**	**93**	**779**	**4 198**
Net carrying amount at 31/03/2020 (unaudited)					
Gross carrying amount	1 846	1 846	123	1 169	4 984
Accumulated depreciation	(97)	(246)	(28)	(388)	(759)
Impairment allowances	(18)	(5)	(2)	(2)	(27)
	1 731	**1 595**	**93**	**779**	**4 198**

(in PLN million)

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

		3 MONTHS ENDED 31/03/2020 (unaudited)	3 MONTHS ENDED 31/03/2019 (unaudited)
Costs due to:		**(67)**	**(32)**
interest on lease	Finance costs	(26)	(25)
short-term lease	Cost by nature: External Services	(29)	(6)
lease of low-value assets that are not short-term lease	Cost by nature: External Services	(2)	-
variable lease payments not recognised in valuation of lease liabilities	Cost by nature: External Services	(10)	(1)

5.11.2. Group as a lessor

Financial lease

The Group classifies leases as finance or operating lease at the commencement date.
In order to make the above classification the Group assesses whether it transfers substantially all the risks and rewards incidental to ownership of an underlying asset to a lessee. If the entire risk and benefits were transferred to a lessee, the lease is classified as a finance lease, otherwise - as an operating lease.

The Group as a lessor in finance lease, recognised as at 1 January 2019, in accordance with IFRS 16 subleasing agreements in the Unipetrol Group for which the value of lease payments due as at 31 March 2020 and as at 31 December 2019 amounted to PLN 22 million and PLN 25 million, respectively.

Operating lease

Assets transferred by the Group to other entities for use under an operating lease agreement are classified as the Group's assets. Lease payments under operating leases are recognised as revenues from the sale of products and services on a straight-line basis over the lease period.
Revenues from operating lease for the 3-month period ended 31 March 2020 and 31 March 2019 amounted to PLN 58 million and PLN 54 million, respectively.

5.12. Future commitments resulting from signed investment contracts

As at 31 March 2020 and as at 31 December 2019 the value of future commitments resulting from investment contracts signed until that day amounted to PLN 4,421 million and PLN 5,100 million, respectively.

5.13. Issue, redemption and repayment of debt securities

In the 3-month period ended 31 March 2020 as part of:
a) the first public bond issue program, F Series remains open with a nominal value of PLN 100 million;
b) the second public bond issue program, A-E Series with a total nominal value of PLN 1 billion.

5.14. Proposal for distribution of the profit for 2019

Taking into consideration current and forecasted macroeconomic situation, especially on the financial market and in the fuel and gas sector, as well as planned capital expenditure of the ORLEN Group, after conducting additional analyses the Management Board of PKN ORLEN decided to change proposal for the Ordinary General Shareholders' Meeting regarding distribution of the Company's net profit for 2019, announced on 18 March 2020.
Following the decision, the Management Board recommends to distribute the net profit of PKN ORLEN for the year 2019 in the amount of PLN 4,813,592,019.09 as follows: the amount of PLN 427,709,061.00 will be allocated as a dividend payment (PLN 1 per 1 share) and the remaining amount of PLN 4,385,882,958.09 as a reserve capital. The Management Board of PKN ORLEN proposes to maintain previously proposed dates: 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 Ordinary General Shareholders' Meeting of PKN ORLEN, which will make a conclusive decision in this matter.

5.15. Contingent assets

In accordance with the information published in Consolidated Financial Statements of the ORLEN Group for 2019 in note 14.4.1, in March 2020 PERN S.A. informed PKN ORLEN about differences in the quantity of the operating stock of crude oil REBCO-type (Russian Export Blend Crude Oil) in relation 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 reason for non-compliance are differences in the methodology for calculating the quantity of this stock.

As at 31 March 2020 as confirmed by PERN S.A., PKN ORLEN's operating stock of crude-oil REBCO-type amounted to 568,191 net metric tons. The difference in the quantity of stocks increased by 1,298 net metric tons compared to 2019 and amounted to 90,951 net metric tons.

PKN ORLEN does not agree with PERN S.A. position, because in the opinion of PKN ORLEN 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 PKN ORLEN 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 PKN ORLEN, including pursuing claims related to information shared by PERN S.A. on the quantity of PKN ORLEN's operating stock of REBCO-type crude oil.

Regardless of this, being the most cautious, PKN ORLEN adjusted in 2019 the stock by the amount of PLN (156) million in other operating expenses. In addition, in the 1st quarter of 2020, as a result of the identified additional shortage, PKN ORLEN charged PLN (1) million to other operating expenses. In the opinion of PKN ORLEN, the adjustment of inventories as at 31 March 2020 in the amount of PLN (157) million is also a contingent asset of PKN ORLEN.

5.16. Contingent liabilities

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

I.P.-95 s.r.o. compensation claim against Unipetrol RPA s.r.o.
On 23 May 2012, Unipetrol RPA s.r.o. received from the District Court in Ostrava a claim brought by I.P.-95 s.r.o. for compensation related to the filing by Unipetrol RPA s.r.o. a motion for bankruptcy of I.P.-95 s.r.o. in November 2009. The total amount of the claim is approximately PLN 298 million, translated using the exchange rate as at 31 March 2020 (representing CZK 1,789 million). Unipetrol RPA s.r.o. is one of eight defendants which were jointly and severally claimed. At the request of the I.P.-95 s.r.o proceeding was pending concerning the accession to the claim as plaintiff NESTARMO TRADING LIMITED. The court refused the Company permission to enter to the case. In February 2018, the court dismissed in entirety claim ruling in favour of Unipetrol RPA s.r.o. On 3 April 2018, I.P.-95 s.r.o. appealed against the decision of the court of first instance. On 22 May 2018, the District Court in Ostrava obliged I.P. - 95 s.r.o. to pay the appeal fee. On 11 December 2018, the court of second instance dismissed the appeal of I.P.-95 s.r.o. from the judgment of the District Court in Ostrava. The judgment is binding. On 20 March 2019 I.P. - 95 s.r.o. filed a cassation appeal against the judgment of the court of second instance. According to Unipetrol RPA s.r.o. the claim is without merit.

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.

Polocktransneft Druzhba claim against AB ORLEN Lietuva
On 21 September 2017, AB ORLEN Lietuva received from the court a claim brought by the Belarusian company Polocktransneft Druzhba (operator of the Belarus section of the Druzhba pipeline) for payment of compensation for crude oil (so-called 'technological oil') which from 1992 was located in Lithuanian section of the Druzhba pipeline and used by ORLEN Lietuva after operation of this section was stopped in 2006. Polocktransneft Druzhba believes that this oil was its property. The value of the claim is approximately PLN 348 million, translated using the exchange rate as at 31 March 2020 (representing USD 84 million). The claim also includes a request for procedural interest and litigation cost. ORLEN Lietuva responded to the claim. On 15 March 2018 a hearing took place. On 29 March 2018, the court dismissed the plaintiff's claim. Polocktransneft Druzhba appealed against the judgment dismissing the claim. ORLEN Lietuva responded to the appeal. The hearing took place on 6 May 2019. The witness, the former chief representative of the Druzhba Polocktransneft in Lithuania, was heard. On 4 September 2019, another hearing was held, at which the Court decided several procedural issues, including admitted evidence from expert opinions appointed by the parties, refused to attach to the case documents from other criminal cases requested by Polocktransneft Druzhba. The court appealed the plaintiff and the defendant to submit documents and information to the case file by 22 October 2019. On 6 November 2019, on 22 January 2020 and on 7 February 2020 subsequent hearings were held at which documentary evidence was submitted and witness was questioned. On 9 March 2020 the Court of Appeal dismissed the plaintiff's appeal. Polocktransneft Druzbha has the right to lodge a cassation appeal within 3 months from the date of delivery of the judgment of the Court of Appeal. According to ORLEN Lietuva, the above claim is without merit.

UAB Baltpool claim against ORLEN Lietuva
In May 2019, UAB Baltpool (an entity administering the funds and responsible for collecting fees for so-called Public Service Obligation in Lithuania) filed a claim against ORLEN Lietuva for payment of system fees (so–called PSO fees) related to electricity consumption for the period from February 2013 to March 2019 (excluding May 2017). The claim relates to unpaid by ORLEN Lietuva system fees on the amount of electricity generated and consumed by ORLEN Lietuva for own needs. ORLEN Lietuva believes, that such system fees (self-producer fees) are not due. The value of the dispute together with interest was included in the books of ORLEN Lietuva and amounted to PLN 69 million, translated using the exchange rate as at 31 March 2020 (representing EUR 15.2 million).
The case is connected with 7 administrative cases brought by ORLEN Lietuva (since 2013), in which ORLEN Lietuva challenges the legality of charging PSO on electricity generated and consumed for own needs. All these administrative cases are suspended in connection with proceedings pending before the Court of Justice of the EU. The outcome of the case brought by UAB Baltpool depends on a large extent on the outcome of these administrative proceedings and proceedings before the Court of Justice of the EU. The Court of Justice of the EU decided, that the Lithuanian PSO program constitutes the nature of state aid. In the opinion of the ORLEN Lietuva the claims are without merit.

POLWAX S.A. - ORLEN Projekt S.A. dispute
On 19 April 2019 ORLEN Projekt filed a claim against POLWAX with the District Court in Rzeszów for payment of the amount of PLN 6.7 million together with due statutory interest for delay in commercial transactions in respect of remuneration for performed and received by POLWAX construction works in connection with the Agreement concluded on 7 April 2017 for "Construction and start-up of the paraffin wax solvent deoiling installation together with auxiliary installations for POLWAX .S.A.".

ORLEN GROUP (in PLN million)

On 23 May 2019 the Court issued a warrant for payment to ORLEN Projekt in a writ of payment proceedings covering the entire amount claimed, thanks to which ORLEN Projekt obtained subsequently a bailiff's security for this amount on the POLWAX bank account. The motion submitted by POLWAX for overturning the warrant of payment was dismissed by the decision of the Court of First Instance. POLWAX appealed against the decision of the Court of First Instance, however on 16 March 2020 the Court of Appeal in Rzeszów issued a decision rejecting POLWAX's complaint. The lawsuit's files were transferred back to the District Court in order to carry on evidence proceeding.
On 31 May 2019 ORLEN Projekt filed another claim against POLWAX with the District Court in Rzeszów for payment of further PLN 6.5 million together with due statutory interest for delay in commercial transactions in respect of further part of remuneration for performed and received by POLWAX construction works.This claim was then extended twice - the extension of the claim as at 20 September 2019 by the amount of PLN 13.9 million for groundless reimbursement of a performance guarantee and covering the costs of its execution, and the extension of the claim as at 6 November 2019 by the amount of PLN 25 million for other claims related to withdrawal from the Agreement by ORLEN Projekt due to POLWAX's fault, up to the total amount of PLN 45 million. The case is pending.
On 25 February 2020 ORLEN Projekt received from POLWAX a request for payment of PLN 132 million, consisting of the following: PLN 84 million for damages incurred by POLWAX as a real loss and PLN 48 million for lost benefits resulting from improper performance and failure to perform the Agreement by ORLEN Projekt.
According to the information held by ORLEN Projekt, on 2 March 2020, the District Court in Rzeszów received a lawsuit of POLWAX against ORLEN Projekt for payment of PLN 132 million together with interest due for delay.
The case is currently at the stage of examining the formal requirements of the lawsuit filed by POLWAX and the Court has not issued any judgements within it so far, in particular it has not yet ordered the delivery of a copy of the lawsuit to ORLEN Projekt. In the opinion of ORLEN Projekt, POLWAX claims covered by the request for payment and a lawsuit are without merit and immediately after the delivery of a copy of a lawsuit, ORLEN Projekt will take measures provided for by law to show their groundlessness.
According to the information held by ORLEN Projekt, before filing the lawsuit, POLWAX filed a request to the District Court in Rzeszów for securing the claims it intended to pursue from ORLEN Projekt, however, the Court entirely dismissed the request by the order as at 6 February 2020.
On 10 March 2020 POLWAX published current report no. 7/2020 informing about filing a lawsuit with the court for payment of PLN 10 million due to: removal and utilization of waste of contaminated soil from the Investment area, and non-contractual soil storage outside the investment area on plot no. 3762/70. On 11 March 2020, POLWAX filed a lawsuit against ORLEN Projekt with the District Court in Rzeszów for payment of PLN 9.7 million together with interest due for delay. On 17 March 2020 the Court issued an order to deliver to ORLEN Projekt a copy of the statement of claim and obliging the defendant to submit a response to the statement of claim within 1 month from delivery of the copy of the statement of claim. According to ORLEN Projekt, the POLWAX claims pursued by the second statement of claim are without merit and immediately after delivery of a copy of the lawsuit, ORLEN Projekt will take measures provided for by law to show their groundlessness.

Except of described above proceedings, the Group has not identified any other significant contingent liabilities.

5.17. Related parties transactions

5.17.1. Transactions of the key executive personnel and their relatives with related parties of the ORLEN Group

As at 31 March 2020 and as at 31 December 2019 and in the 3-month period ended 31 March 2020 and 31 March 2019, on the basis of submitted declarations, there were no transactions of related parties of the ORLEN Group with the Members of the Management Board and the Supervisory Board of the Parent Company.

In the 3-month period ended 31 March 2020 on the basis of submitted declarations there were no transactions of close relatives with the other key executive personnel of the Parent Company with related parties, transactions with key executive personnel of the ORLEN Group companies with related parties of ORLEN Group was immaterial and not exceeded PLN 5 thousand.

In the 3-month period ended 31 March 2019 on the basis of submitted declarations, there were no transactions of close relatives with the other key executive personnel of the Parent Company and key executive personnel of the ORLEN Group companies with related parties.

As at 31 March 2020 the trade and other liabilities due to the above transactions was not significant and as at 31 March 2019 there were no balance of liabilities.

5.17.2. Remuneration of key executive personnel of the Parent Company and the ORLEN Group companies

	3 MONTHS ENDED 31/03/2020 (unaudited)	3 MONTHS ENDED 31/03/2019 (unaudited)
Parent Company		
Short-term employee benefits	11.1	10.5
Termination benefits	1.3	0.9
Subsidiaries		
Short-term employee benefits	41.6	37.7
Post-employment benefits	0.1	-
Other long term employee benefits	0.1	0.5
Termination benefits	0.9	1.5
	55.1	**51.1**

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

ORLEN ORLEN GROUP (in PLN million)

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

	Sales		Purchases	
	3 MONTHS ENDED 31/03/2020 (unaudited)	3 MONTHS ENDED 31/03/2019 (unaudited)	3 MONTHS ENDED 31/03/2020 (unaudited)	3 MONTHS ENDED 31/03/2019 (unaudited)
Jointly-controlled entities	**734**	**775**	**(35)**	**(33)**
joint ventures	*696*	*740*	*(12)*	*(12)*
joint operations	*38*	*35*	*(23)*	*(21)*
	734	**775**	**(35)**	**(33)**

	Trade and other receivables		Trade and other liabilities	
	31/03/2020 (unaudited)	31/12/2019	31/03/2020 (unaudited)	31/12/2019
Jointly-controlled entities	**568**	**540**	**19**	**16**
joint ventures	*550*	*529*	*10*	*10*
joint operations	*18*	*11*	*9*	*6*
	568	**540**	**19**	**16**

The above transactions with related parties include mainly sales and purchases of refinery and petrochemicals products and services.
During the 3-month period ended 31 March 2020 and 31 March 2019 there were no related parties transactions within the Group concluded on other than an arm's length basis.

Additionally, during the 3-month period ended 31 March 2020, 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 the 3-month period ended 31 March 2020 and as at 31 March 2020, the Group identified the following transactions:
- sale and purchase amounted to PLN 0.04 million and PLN (1.6) million, respectively;
- balance of liabilities amounted to PLN 1.1 million.

The above transactions concerned mainly the purchases and sales of fuels and diesel oil.

5.17.4. Transactions with entities related to the State Treasury

As at 31 March 2020 and as at 31 December 2019, the State Treasury owns 27.52% of the Parent Company's shares - PKN ORLEN and has ability to exert a significant influence on it.
The Group identified transactions with related parties with the State Treasury on the basis of "The Council of Ministers Regulation 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 the Council of Ministers', Government Plenipotentiaries or state legal entities including single-member companies of the State Treasury".

During the 3-month period ended 31 March 2020 and 31 March 2019 and as at 31 March 2020 and as at 31 December 2019, the Group identified the following transactions:

	3 MONTHS ENDED 31/03/2020 (unaudited)	3 MONTHS ENDED 31/03/2019 (unaudited)
Sales	492	422
Purchases	(1 384)	(1 074)

	31/03/2020 (unaudited)	31/12/2019
Trade and other receivables	269	339
Trade and other liabilities	580	683

Above transactions were concluded on an arm's length basis, were related to the ORLEN Group current operating activities and concerned mainly fuel sales, purchase and sales 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, commissions).

5.18. Guarantees

Excise tax guarantees and excise tax on goods and merchandise under the excise tax suspension procedure as at 31 March 2020 and as at 31 December 2019 amounted to PLN 3,152 million and PLN 2,826 million, respectively.

5.19. Events after the end of the reporting period

On 30 April 2020 PKN ORLEN as a result of announced on 5 December 2019 Tender Offer acquired 331,313,082 shares of ENERGA representing approximately 80% of the share capital of ENERGA and corresponding to approximately 85% of the total number of votes at the General Meeting of the company. The price amounted to PLN 8,35 per one Share and the value of all acquired Shares amounted to approximately PLN 2.77 billion and was covered by own resources and consortium credit line. The effect of the settlement of the acquisition of ENERGA S.A. will be presented in the Report of ORLEN Group for the half year of 2020.

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

OTHER INFORMATION TO CONSOLIDATED QUARTERLY REPORT

FOR THE 3-MONTH PERIOD ENDED 31 MARCH 2020

(in PLN million)

B. OTHER INFORMATION TO CONSOLIDATED QUARTERLY REPORT

1. Major factors having impact on EBITDA and EBITDA LIFO

Profit or loss for the 1st quarter of 2020

Result from operations increased by depreciation and amortisation (so-called EBITDA) in the 1st quarter of 2020 amounted to PLN (969) million and PLN 1,829 million in the corresponding period of 2019.

In March 2020, there was a rapid decrease in quotations and, as a consequence, the weighted average cost of oil consumption is overestimated by the high oil quotations from previous months. Therefore, the result of the 1st quarter of 2020 includes a negative effect PLN (2,017) million due to the revaluation of inventory value to net realisable value (NRV) in accordance with IAS 2 - inventories, as a result of a decrease in oil prices and as a result of lower quotations of refinery and petrochemical products. In turn, the above impact of net changes in the revaluation of inventories to net realizable value in the 1st quarter of 2019 was positive and amounted to PLN 165 million.

Additionally, EBITDA in the 1st quarter of 2020 includes the net impact of impairment allowances of assets in the amount of PLN (504) million, which concerned mainly upstream assets in Canada and Poland in connection with updating hydrocarbon prices. To compare impact of impairment allowances of assets in the 1st quarter of 2019 was not significant and amounted to PLN (10) million.

As a result EBITDA in the 1st quarter 2020 before consideration of net impact of the revaluation of inventories and impairment allowances of assets amounted to PLN 1,552 million and was lower by PLN (122) million (y/y).

The ORLEN Group measures inventories in the financial statements in accordance with International Financial Reporting Standards at the purchase price using weighted average method. Therefore, an increase in crude oil prices (by weighted average cost in comparison to the valuation of crude oil according to LIFO method) has a positive impact and the decrease has a negative impact on the reported EBITDA.
Impact of decreasing crude oil prices in the 1st quarter of 2020 on inventory valuation recognised in EBITDA amounted to PLN (2,017) million.

As a result, profit from operations increased by depreciation and amortisation before consideration of impact of changes in crude oil prices on inventory valuation (so-called EBITDA LIFO) and the above described net impairment allowances of assets amounted to PLN 1,607 million and was lower by PLN (407) million.

Changes in macroeconomic factors increased result of the ORLEN Group by PLN 457 million (y/y) and included mainly the positive effects of lower consumption of raw materials for own energy needs as a result of a decrease of crude oil quotations by (13) USD/bbl and higher differential Ural/Brent, improvement in margins on light distillates and heavy refinery fractions. Above positive effects was limited by lower margins on medium distillates, petrochemical products, fertilizers and PVC.

Coronavirus pandemic and the introduction of mid-March 2020 the first package of restrictions provoked strong market pressure on volume sales of the ORLEN Group. The decrease in total sales of the ORLEN Group by (8)% (y/y) resulted mainly due to lower by (10)% (y/y) refinery and petrochemical volumes in downstream segment. Retail segment volumes decreased by (1)% (y / y) mainly on the German market with higher fuel sales on Polish and Czech markets, while the upstream segment increased hydrocarbon production and sales by 11% (y/y). The above changes in sales trends resulted in a negative volume effect of PLN (125) million (y/y).

The negative impact of the other factors amounted to PLN (739) million (y/y) and included mainly:

- PLN 1,332 million (y/y) – change in the balance of other operating activities (after elimination of net impact of impairment allowances of assets), mainly due to the recognition of valuation and settlement of net derivative financial instruments,
- PLN (1,851) million (y/y) – the negative impact of revaluation of inventories to net realisable value for the available inventory layers according to LIFO method. In the 1st quarter of 2020, the impact of revaluation of inventories amounted to PLN (1,609) million, while in the corresponding period of 2019, the abovementioned effect was positive and amounted to PLN 242 million,
- PLN (220) million (y/y) – increase in general and labour costs and the negative impact of using historical inventory layers in connection with ongoing installation's shutdowns, partially compensated by higher wholesale and retail trade margins.

2. The most significant events in the period from 1 January 2020 up to the date of preparation of this report

JANUARY 2020	**Changes in the Supervisory Board** PKN ORLEN announced that Ms Izabela Felczak-Poturnicka resigned with the effect from 16 January 2020 from the position of Chairwoman of the PKN ORLEN Supervisory Board which was entrusted to her in the Resolution no. 35 of the Annual General Meeting of PKN ORLEN dated 14 June 2019. **Changes in the composition of the Management Board** PKN ORLEN announced that the Supervisory Board of PKN ORLEN S.A., following its meeting on 30 January 2020 appointed Mr Jan Szewczak to hold the position of the Member of the Company's Management Board, responsible for finance, with the effect from 3 February 2020 and Mr Adam Burak to hold the position of the Member of the Company's Management Board, responsible for communication and marketing, with the effect from 3 February 2020.
FEBRUARY 2020	**Signing an agreement for realization of project of building Visbreaking Installation at production plant in Plock** PKN ORLEN announced that on 5 February 2020, as a part of investment project called: "Visbreaking Installation at production plant in Plock", it signed an agreement with consortium of companies: KTI Poland S.A. and IDS-BUD S.A. for design, deliveries and building "in turn key" formula of the Visbreaking Basic Installation for a total amount of approximately PLN 750 million. The project's implementation aims to improve crude oil production efficiency by increasing the yield of high-margin products as a result of in-depth conversion of vacuum residue from the Crude Distillation Unit. The cost of investment will amount to approximately PLN 1 billion The finalization of the investment is planned by the end of 2022.

PKN ORLEN submitted to the European Commission a notification for concentration regarding the planned taking control over ENERGA S.A. headquartered in Gdańsk
PKN ORLEN announced that on 26 February 2020 it submitted to the European Commission a notification for concentration ("Notification") regarding the planned taking control over ENERGA S.A. headquartered in Gdansk ("ENERGA") by the Company ("Transaction").
Notification, submitted by the Company, initiates the formal proceedings regarding control of concentration.
Notification includes, apart from the description of the parties and Transaction assumptions, description of parties activity on the certain markets and presents arguments on the influence of the Transaction on the competition on that markets.
One of the conditions under which the Company announced a tender offer for the sale of all shares of ENERGA wass obtaining by the Company the European Commission decision approving the merger involving the takeover of control of the ENERGA.

MARCH 2020

Changes in the composition of the Supervisory Board
PKN ORLEN announced that Extraordinary General Meeting of Shareholders of PKN ORLEN on 5 March 2020 dismissed from the Supervisory Board Ms Małgorzata Niezgoda and appointed Mr Wojciech Jasiński as a Chairman of the Supervisory Board and Mr Dominik Kaczmarski as a member of the Supervisory Board.

Extension of the subscription period and change in the content of a tender offer to subscribe for the sale of all shares of ENERGA headquartered in Gdansk
PKN ORLEN announced that on 26 March 2020 the Company's Management Board decided to extend until 22 April 2020 the subscription period in the tender offer to subscribe for the sale of all shares issued by ENERGA, announced by the Company on 5 December 2019 ("Tender Offer").
In addition, changes have been made to the content of the Tender Offer related to the change of place of accepting subscriptions in the Tender Offer.
The subscription period has been extended due to justified circumstances indicating that the target of the Tender Offer may not be achieved by the original date of completing the subscription, i.e. until 9 April 2020.

European Commission consent for taking control over ENERGA by PKN ORLEN
PKN ORLEN announced that on 31 March 2020 it obtained an unconditional decision of the European Commission approving the merger involving the takeover of control of ENERGA.
In connection with decision of the European Commission granting consent to the concentration involving the takeover of control of ENERGA, the legal condition, under which the Company announced a tender offer to subscribe for the sale of all shares of ENERGA, has been fulfilled.

APRIL 2020

The main part of investment of Polyethylene 3 Unit at UNIPETROL RPA, s.r.o. has been completed
PKN ORLEN announced that the realisation of the main part of investment of Polyethylene 3 Unit (PE3) building at the Czech production plant of UNIPETROL RPA, s.r.o. in Litvinov, has been completed. The unit in the part producing natural polyethylene was handed over to UNIPETROL RPA, s.r.o.
The guarantee test of the part of the plant producing black polyethylene will be completed as soon as possible after the restrictions connected with the COVID-19 pandemic are lifted. The unit for the production of natural polyethylene can work with 100% of the total name plate capacity of the PE3 unit.
The constructed PE3 unit is to ultimately produce a total of 270 thousand tonnes per year of high density polyethylene and replaces the production of one of the two existing production units with a capacity of 120 thousand tonnes per year. Thanks to the launch of the new installation, the production capacity of the Czech production plant in Litvinov will increase from 320 to 470 thousand tonnes of per year. The total cost of the investment is planned at ca. CZK 9.6 billion.

Change of price in a tender offer to subscribe for the sale of all shares of ENERGA
PKN ORLEN announced that on 15 April 2020 the Company's Management Board decided to increase the price in a tender offer to subscribe for the sale of all shares of ENERGA ("Shares"), announced by the Company on 5 December 2019 from the level of PLN 7 per one Share to the level of PLN 8,35 per one Share.
Current price in the Tender Offer that has been increased was paid for all shares of ENERGA subscribed for sale in the whole period of the Tender Offer, i.e. from 31 January 2020 to 22 April 2020. On 15 April 2020, additional funds in the amount of PLN 560 million were blocked for this purpose and constitute restricted cash.

Condition reserved in a tender offer to subscribe for the sale of all shares of ENERGA has been fulfilled
PKN ORLEN announced that on 20 April 2020 it has obtained an information from Powszechna Kasa Oszczędności Bank Polski S.A. Oddział – Biuro Maklerskie in Warsaw as an intermediary in a tender offer to subscribe for the sale of all shares of ENERGA, announced by the Company on 5 December 2019 and changed by the announcement as at 26 March 2020 and announcement as at 15 April 2020 that the number of Shares subscribed for sale under the Tender Offer corresponds at least to 66% of the aggregate number of votes.
According to that information the condition reserved in the Tender Offer, mentioned in item 6 and 30 c) of the Tender Offer, has been fulfilled.

Mr Daniel Obajtek appointed to the position of the President of the Company's Management Board for the next term of office
PKN ORLEN announced that the Minister of the State Assets, acting as an entity authorised to exercise the rights attached to the Company's shares owned by the Polish Stare Treasury, appointed Mr Daniel Obajtek to the Company's Management Board for the new common term of office, starting from the day coming after the day of termination of the current common term of office of the Company's Management Board, i.e. after the day of the Ordinary General Meeting that will approve financial statement for 2019.
Subsequently, the Company's Management Board appointed Mr Daniel Obajtek to hold the position of the President of PKN ORLEN Management Board during the new common term of office of the Company's Management Board, starting from the day coming after the day of termination of the current common term of office of the Company's Management Board.

Number of shares of ENERGA that were the subject of transactions concluded under the Tender Offer announced on 5 December 2019
PKN ORLEN announced that on 27 April 2020 it has obtained an information from Powszechna Kasa Oszczędności Bank Polski S.A. Oddział – Biuro Maklerskie in Warsaw, that the subject of transaction concluded under the Tender Offer were:
a) 33 533 320 ordinary bearer shares of ENERGA, corresponding to 33 533 320 votes. The transaction was completed at the Warsaw

(in PLN million)

Stock Exchange on 21 April 2020, it referred to the shares subscribed in the period between 31 January 2020 and 9 April 2020 (inclusive).

b) 152 851 762 ordinary bearer shares of ENERGA, corresponding to 152 851 762 votes. The transaction was completed at the Warsaw Stock Exchange on 27 April 2020, it referred to the shares subscribed in the period between 10 April 2020 and 22 April 2020 (inclusive).

c) 144 928 000 certificated registered shares of ENERGA, corresponding to 289 856 000 votes. The transaction was completed on the base of the civil law agreement on 27 April 2020, it referred to the shares subscribed in the period between 10 April 2020 and 22 April 2020 (inclusive).

Thus, the subject of transactions concluded under the Tender Offer were shares representing approximately 80% of the share capital of ENERGA and corresponding to approximately 85% of the total number of votes at the General Meeting of ENERGA.
Settlement of the transaction mentioned in point a) above has been completed on 24 April 2020. The transaction mentioned in points b) and c) above has been completed on 30 April 2020.

3. Other information

3.1. Composition of the Management Board and the Supervisory Board

As at the date of preparation of this interim condensed consolidated financial statements, the composition of the management and supervisory bodies of the Company is as follows:

Management Board

Daniel Obajtek – President of the Management Board, Chief Executive Officer
Adam Burak – Member of the Management Board, Communication and Marketing
Armen Konrad Artwich – Member of the Management Board, Corporate Affairs
Patrycja Klarecka – Member of the Management Board, Retail Sales
Zbigniew Leszczyński – Member of the Management Board, Development
Michał Róg – Member of the Management Board, Wholesale and International Trades
Jan Szewczak – Member of the Management Board, Chief Financial Officer
Józef Węgrecki – Member of the Management Board, Operations

Supervisory Board

Wojciech Jasiński – Chairman of the Supervisory Board
Andrzej Szumański – Vice-Chairman of the Supervisory Board, Independent Member of the Supervisory Board
Anna Wójcik – Secretary of the Supervisory Board
Barbara Jarzembowska – Independent Member of the Supervisory Board
Andrzej Kapała – Independent Member of the Supervisory Board
Michał Klimaszewski – Independent Member of the Supervisory Board
Roman Kusz – Independent Member of the Supervisory Board
Jadwiga Lesisz – Member of the Supervisory Board
Dominik Kaczmarski – Member of the Supervisory Board
Anna Sakowicz-Kacz – Independent Member of the Supervisory Board

3.2. Shareholders holding directly or indirectly via related parties at least 5% of total votes at the Parent's General Shareholders' Meeting to the submission date of this report

Shareholder	Percentage share in total voting rights at Shareholder's Meeting as at submission date	Number of shares as at submission date
State Treasury	27.52%	117 710 196
Nationale-Nederlanden OFE*	7.01%	30 000 000
Aviva OFE*	6.08%	26 000 000
Other	59.39%	253 998 865
	100.00%	**427 709 061**

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

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

As at the date of preparation of this interim condensed consolidated financial statements, the Members of the Management Board and the Supervisory Board did not hold any shares in PKN ORLEN.
In the period covered by this interim condensed consolidated financial statements, there were no changes in the ownership of PKN ORLEN shares held by Members of the Management Board and the Supervisory Board.

(in PLN million)

3.4. Information on loan sureties or guarantees granted by the Parent Company or its subsidiaries to one entity or its subsidiary where the total value of existing sureties or guarantees is significant

PKN ORLEN is the guarantor of the 2 tranches of Eurobonds issued by an irrevocable and unconditional guarantees issued to the bondholders. The guarantees were granted for the duration of the Eurobond issue as in the following table:

	Nominal value					Value of guarantee issued	
	EUR	PLN	Subscription date	Expiration date	Rating	EUR	PLN
Eurobonds	750	3 318 **	7.06.2016	7.06.2023	BBB-, Baa2	1 100	5 008
Eurobonds	500	2 131 *	30.06.2014	30.06.2021	BBB-, Baa2	1 000	4 552
	1 250	**5 449**				**2 100**	**9 560**

The bonds have a fixed interest rate of 2.5%.
* translated using exchange rate as at 31 December 2014
** translated using exchange rate as at 31 December 2016
The value of guarantees granted was translated using the exchange rate as at 31 March 2020

Moreover, as at 31 March 2020 and as at 31 December 2019, the Group granted sureties and guarantees to subsidiaries for third parties of PLN 919 million and PLN 1,003 million, respectively, and mainly related to the timely payment of liabilities by subsidiaries.

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

The ORLEN Group did not publish forecasts of its results for a particular year.

QUARTERLY FINANCIAL INFORMATION
PKN ORLEN

FOR THE 1st QUARTER 2020

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

QUARTERLY FINANCIAL INFORMATION OF PKN ORLEN (in PLN million)

C. QUARTERLY FINANCIAL INFORMATION OF PKN ORLEN

Separate statement of profit or loss and other comprehensive income

	3 MONTHS ENDED 31/03/2020 (unaudited)	3 MONTHS ENDED 31/03/2019 (unaudited)
Sales revenues	17 238	20 290
revenues from sales of finished goods and services	*10 342*	*10 961*
revenues from sales of merchandise and raw materials	*6 896*	*9 329*
Cost of sales	(16 771)	(18 476)
cost of finished goods and services sold	*(10 144)*	*(9 490)*
cost of merchandise and raw materials sold	*(6 627)*	*(8 986)*
Gross profit on sales	**467**	**1 814**
Distribution expenses	(1 147)	(1 008)
Administrative expenses	(283)	(217)
Other operating income	1 220	120
Other operating expenses	(823)	(104)
(Loss)/reversal of loss due to impairment of financial instruments	11	(9)
Profit/(Loss) from operations	**(555)**	**596**
Finance income	372	265
Finance costs, incl.:	(2 997)	(261)
recognition of impairment allowances of shares in related parties	*(2 043)*	-
Net finance income and costs	**(2 625)**	**4**
(Loss)/reversal of loss due to impairment of financial instruments	(24)	7
Profit/(Loss) before tax	**(3 204)**	**607**
Tax expense	182	(96)
current tax	*(93)*	*(123)*
deferred tax	*275*	*27*
Net profit/(loss)	**(3 022)**	**511**
Other comprehensive income:		
which will not be reclassified subsequently into profit or loss	**(6)**	**2**
gains/(losses) on investments in equity instruments at fair value through other comprehensive income	*(7)*	*2*
deferred tax	*1*	-
which will be reclassified into profit or loss	**(168)**	**(25)**
hedging instruments	*(262)*	*(126)*
hedging costs	*54*	*95*
deferred tax	*40*	*6*
	(174)	**(23)**
Total net comprehensive income	**(3 196)**	**488**
Net profit/(loss) and diluted net profit/(loss) per share (in PLN per share)	(7.07)	1.19

(in PLN million)

Separate statement of financial position

	31/03/2020 (unaudited)	31/12/2019
ASSETS		
Non-current assets		
Property, plant and equipment	15 095	15 253
Intangible assets	1 318	1 074
Right-of-use asset	2 378	2 336
Shares in related parties	14 470	16 513
Derivatives	78	277
Long-term lease receivables	21	21
Other assets	1 563	1 465
	34 923	**36 939**
Current assets		
Inventories	8 312	9 835
Trade and other receivables	5 286	7 160
Current tax assets	63	10
Cash	4 840	5 056
Derivatives	1 872	299
Short-term lease receivables	1	1
Other assets	1 773	917
Non-current assets classified as held for sale	145	59
	22 292	**23 337**
Total assets	**57 215**	**60 276**
EQUITY AND LIABILITIES		
EQUITY		
Share capital	1 058	1 058
Share premium	1 227	1 227
Hedging reserve	18	186
Revaluation reserve	(12)	(6)
Retained earnings	29 437	32 459
Total equity	**31 728**	**34 924**
LIABILITIES		
Non-current liabilities		
Loans, borrowings and bonds	8 645	8 222
Provisions	553	553
Deferred tax liabilities	498	814
Derivatives	170	72
Lease liabilities	2 052	2 000
Other liabilities	104	108
	12 022	**11 769**
Current liabilities		
Trade and other liabilities	6 869	9 779
Lease liabilities	352	368
Liabilities from contracts with customers	194	206
Loans, borrowings and bonds	488	346
Provisions	793	588
Current tax liabilities	-	8
Derivatives	1 896	306
Other liabilities	2 873	1 982
	13 465	**13 583**
Total liabilities	**25 487**	**25 352**
Total equity and liabilities	**57 215**	**60 276**

(in PLN million)

Separate statement of changes in equity

	Share capital and share premium	Hedging reserve	Revaluation reserve	Retained earnings	Total equity
01/01/2020	2 285	186	(6)	32 459	34 924
Net (loss)	-	-	-	(3 022)	(3 022)
Items of other comprehensive income	-	(168)	(6)	-	(174)
Total net comprehensive income	**-**	**(168)**	**(6)**	**(3 022)**	**(3 196)**
31/03/2020	**2 285**	**18**	**(12)**	**29 437**	**31 728**
(unaudited)					
01/01/2019	2 285	203	(6)	29 152	31 634
Net profit	-	-	-	511	511
Items of other comprehensive income	-	(25)	2	-	(23)
Total net comprehensive income	**-**	**(25)**	**2**	**511**	**488**
31/03/2019	**2 285**	**178**	**(4)**	**29 663**	**32 122**
(unaudited)					

QUARTERLY FINANCIAL INFORMATION OF PKN ORLEN (in PLN million)

Separate statement of cash flows

	3 MONTHS ENDED 31/03/2020 (unaudited)	3 MONTHS ENDED 31/03/2019 (unaudited)
Cash flows from operating activities		
Profit/(Loss) before tax	**(3 204)**	**607**
Adjustments for:		
Depreciation and amortisation	467	418
Foreign exchange loss	542	4
Net interest	25	65
(Profit)/Loss on investing activities, incl.:	1 846	(42)
recognition of impairment allowances of shares in related parties	*2 043*	-
Change in provisions	205	158
Change in working capital	617	(379)
inventories, incl.:	*1 525*	*(473)*
impairment allowances of inventories to net realizable value	*1 003*	*(4)*
receivables	*1 865*	*(984)*
liabilities	*(2 773)*	*1 078*
Other adjustments, incl.:	536	74
rights received free of charge	*(86)*	*(67)*
security deposits	*481*	-
Income tax (paid)	(153)	(441)
Net cash from operating activities	**881**	**464**
Cash flows from investing activities		
Acquisition of property, plant and equipment, intangible assets and right-of-use asset	(404)	(317)
Acquisition of shares	-	(1)
Disposal of property, plant and equipment, intangible assets and right-of-use asset	6	56
Interest received	4	11
Expenses from non-current loans granted	(108)	(52)
Proceeds from non-current loans granted	2	1
Change in cash related to purchase of non-controlling interest of UNIPETROL, a.s.	-	212
Proceeds from cash pool facility	16	172
Settlement of derivatives not designated as hedge accounting	(29)	2
Other	(1)	1
Net cash from/(used in) investing activities	**(514)**	**85**
Cash flows from financing activities		
Bonds issued	-	195
Redemption of bonds	-	(1 057)
Interest paid from loans, bonds and cash pool	(17)	(34)
Interest paid on lease	(40)	(8)
(Outflows) from cash pool facility	(505)	(115)
Payments of liabilities under lease agreements	(100)	(36)
Other	37	-
Net cash (used) in financing activities	**(625)**	**(1 055)**
Net (decrease) in cash	**(258)**	**(506)**
Effect of changes in exchange rates	42	2
Cash, beginning of the period	5 056	3 461
Cash, end of the period	**4 840**	**2 957**
including restricted cash	*1 018*	*46*

This consolidated quarterly report was approved by the Management Board of the Parent Company on 5 May 2020.

Signature Not Verified
Dokument podpisany przez Daniel Obajtek; PKN Orlen S.A.
Data: 2020.05.05 16:12:46 CEST

……………………..……………
Daniel Obajtek
President of the Board

Signature Not Verified
Dokument podpisany przez ARMEN KONRAD ARTWICH; POLSKI KONCERN NAFTOWY ORLEN S.A.
Data: 2020.05.05 16:18:18 CEST

……………………..……………
Armen Artwich
Member of the Board

Signature Not Verified
Dokument podpisany przez Adam Wojciech Burak
Data: 2020.05.05 16:33:28 CEST

……………………..……………
Adam Burak
Member of the Board

Signature Not Verified
Dokument podpisany przez Patrycja Klarecka
Data: 2020.05.05 16:37:54 CEST

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Patrycja Klarecka
Member of the Board

Signature Not Verified
Dokument podpisany przez ZBIGNIEW MARIUSZ LESZCZYŃSKI; POLSKI KONCERN NAFTOWY ORLEN S.A.
Data: 2020.05.05 17:07:20 CEST

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Zbigniew Leszczyński
Member of the Board

Signature Not Verified
Dokument podpisany przez MICHAŁ MAREK RÓG; POLSKI KONCERN NAFTOWY ORLEN S.A.
Data: 2020.05.05 17:20:52 CEST

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Michał Róg
Member of the Board

Signature Not Verified
Dokument podpisany przez Jan Włodzimierz Szewczak
Data: 2020.05.05 15:51:08 CEST

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Jan Szewczak
Member of the Board

Signature Not Verified
Dokument podpisany przez Józef Węgrecki
Data: 2020.05.05 16:00:43 CEST

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Józef Węgrecki
Member of the Board