POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA

MANAGEMENT BOARD REPORT ON THE OPERATIONS

FOR THE YEAR ENDED 31 DECEMBER 2012
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1. BASIC INFORMATION ON THE POLSKI KONCERN NAFTOWY ORLEN S.A. (“PKN ORLEN”)

1.1 PKN ORLEN

PKN ORLEN (the “Parent Company”, the “Company”) together with the companies being members forming the Polski Koncern Naftowy ORLEN S.A. Capital Group (“ORLEN Group”) is the leader in the oil sector in the region – it is the leading producer and distributor of refinery and petrochemical products. The core business of PKN ORLEN is crude oil processing, production of gasolines, diesel oil, heating oil, aviation fuel, plastics and petrochemical products. The Company was founded by incorporation of Centrala Produktów Naftowych, leading distributor of engine fuels, and fuel producer - Polski Koncern Naftowy, which took place in September 1999. On 12 April 2000, the Company changed its business name to Polski Koncern Naftowy ORLEN Spółka Akcyjna.

PKN ORLEN is one of the largest oil industry corporation in the East-Central Europe. The company is managing six refineries in Poland, Czech Republic and Lithuania. The largest, integrated refinery and petrochemical complex is located in Plock, classified to the group of the most modern and effective objects of this kind in Europe.

PKN ORLEN at the end of the year 2012 had the network of 1,767 fuel stations on the Polish market. The retail activity is also run on the German, Czech and Lithuanian market and the whole retail network includes almost 2,700 fuel stations. Effective logistics infrastructure consisting of over- and underground warehouse centres and pipelines network is a background for the retail segment.

The key installation of PKN ORLEN’s petrochemical segment is the Olefins installation of the maximum production capacities of approximately 700 thousand tonnes of ethylene and 380 thousand tonnes of propylene per year. Monomers produced by PKN ORLEN constitute the input for the polymers installations in Basell ORLEN Polyolefins Sp. z o.o. and the polyvinyl chloride installation in the ANWIL Group. Other products are placed on both Polish market and exported (Czech Republic, Denmark, Germany and Lithuania).

In November 2012 the Strategy of the ORLEN Group for 2013-2017 was adopted and presented. The main pillars of the strategy are to maintain solid financial foundations, gradually increase the dividend paid to the shareholders and to further increase value through improving efficiency and enhancing investments in new segments.

Main development investments are focused on the new segments – exploration and extraction and of hydrocarbons and production of electric energy. Following a positive decision issued by the Minister of Environment in February 2013 concerning the assignment of two subsequent concession owned by ExxonMobil Exploration and Production Poland, PKN ORLEN, through its subsidiary ORLEN Upstream Sp. z o.o., holds in aggregate 10 concessions for inland and sea exploration of crude oil and natural gas. The current priority is to evaluate and exploit gas from non-conventional sources.

Also a project is implemented involving the construction of a gas and steam power plant in Wloclawek of the capacity of 463 MWe, scheduled to be commissioned at the end of 2015.

PKN ORLEN considers the corporate social responsibility as an essential condition for sustainable growth and long-term commitment towards employees, environment and stakeholders holders. The Company performs a wide range of actions – starting from projects to the employees’ benefit, charity and sponsorship activity and cooperation with local communities – up to participation in global initiatives, such as Global Compact or Responsible Care and Fair Trade.

At the end of 2012 PKN ORLEN employed 4,445 people.

1.2 Mission, values and rules of conduct, corporate social responsibility

Mission: We discover and process natural resources to fuel the future.

Credo: ORLEN. FUELLING THE FUTURE

Values and rules of conduct

During the last years in the area of business activities many significant changes occurred – technological progress, new sources of energy but also a financial crisis or new communications channels.

Based on numerous analyses and taking into account the above changes, the Management Board of PKN ORLEN adopted, on 4 September 2012, a document titled “Values and rules of conduct of PKN ORLEN”. It is a manual concerning internal relations at PKN ORLEN, but also external relations – with business partners, local communities, natural environment and competition.

The document contains new mission and a set of values equivalent to the challenges faced currently by PKN ORLEN. The values are supposed to strengthen the position of PKN ORLEN and show the way to attain ambitious goals to the firm and its people.
The ethics belongs to everyday targets and tasks of all employees. In 2012, the Ethics Committee was appointed and is responsible mainly for: initiating the ORLEN Group’s activities in the area of corporate culture, monitoring and examining events of non-compliance, applying recovery measures in the area of “Values and Rules of Conduct of PKN ORLEN” but also initiating and presenting recommendations of advertising and educational actions in this respect.

Ethics, honest behaviour and proper development of corporate culture are constantly subject to the Management Board of PKN ORLEN interest.

Corporate Social Responsibility (CSR)

Corporate social responsibility is one of the ways to effective and efficient achievement of the assumed goals for PKN ORLEN. The activity of PKN ORLEN is dedicated to improve standards in the area of health protection, safety, education and behaviour. The range of implemented actions is extremely wide and involves, among others, providing support to current and ex-employees, family-type children’s homes, sponsoring scholarships, educational programmes, assisting non-governmental organisations as well as state and voluntary units of fire brigade.

On 20 August 2001 the Foundation ORLEN – DAR SERCA was established; it is one of the first corporate foundations on the Polish market. The foundation is successful in implementing its own projects serving the social life quality improvement, long-term programmes for family-type children’s homes, equalling educational opportunities for talented youth and supporting local communities.

One of the most important programmes implemented since the moment of establishing the Foundation is providing comprehensive assistance to the family-type children’s homes. More than 2 thousand children from approximately 260 homes all around Poland take advantage of the Foundation’s help. For a few years family-type children’s homes have participated in summer holidays organised by the Foundation, where recreation is joined with sports and education.

PKN ORLEN follows all the corporate governance principles stipulated in the “Code of Best Practice for WSE Listed Companies”. Not only mandatory rules are implemented but also recommendations provided for the above Code are followed.

In 2012, PKN ORLEN was awarded a special prize for investor relations with the use of modern communications media via Internet in the V edition of the contest ‘ZSE The Golden Issuers Website’. This is another distinction granted to PKN ORLEN for quality and manner of communicating with the market investors and stock exchange analysts. In 2012, a mobile version of corporate website was started, which was adapted to browse websites on mobile phones and other mobile devices (http://m.orlen.pl/en/).

PKN ORLEN has been distinguished for meeting high standards of corporate social responsibility and in 2012 was awarded “Silver CSR Leaf”. The classification of firms was prepared based on the ISO 26000 standard, which points out the areas where the CSR companies should undertake activities.

In 2012, PKN ORLEN was also distinguished by local governments in the ranking Polish Economy Pillars, and awarded a Top Employers Polska certificate for exceptional working conditions and golden statuette of Trusted Brand in the European consumers’ survey. From the very beginning it has also maintained its position in a small elite group of RESPECT Index companies associating CSR companies listed on WSE.
1.3 Management Board of PKN ORLEN

On 18 September 2008, Mr Dariusz Jacek Krawiec was appointed as President of the Management Board and CEO of the Company. On 24 March 2011, for the first time in the history of PKN ORLEN, Mr Dariusz Jacek Krawiec was reappointed by the Supervisory Board for the Board's President for the next term of office. Previously, from June to September 2008, he acted as Vice-President of the Management Board of PKN ORLEN.

He graduated from Poznań University of Economics. In the years 1992-1997 he worked for Bank PEKAO S.A. and consulting firms Ernst & Young and Price Waterhouse. In 1998, he was with the UK branch of Japanese investment bank Nomura plc headquartered in London, where he was responsible for the Polish market. From 1998 to 2002, he served as President of the Management Board and CEO of Impexmetal S.A. In 2002, he became President of the Management Board of Elektrim S.A. From 2003 to 2004, he was managing director for Sindicatum Ltd London. From 2006 to 2008, he served as President of the Management Board of Action S.A.

He has a wealth of experience working on corporate supervisory bodies. He has chaired the supervisory boards of Huta Aluminium “Konin” SA, Metalexfrance S.A. of Paris, S and ISA of Lausanne, ce-market.com S.A. He has also been member of the supervisory boards of Impexmetal S.A., Elektrim S.A., PTC Sp. z o.o., Elektrim Telekomunikacja Sp. z o.o., Elektromagaxeka S.A., Elektrom Volt S.A. and PTE AIG. Currently, he serves as Chairman of the Supervisory Board of Unipetrol a.s.

In June 2008, Mr Sławomir Jędrzejczyk was appointed as Member of the Management Board of PKN ORLEN. He served as the Member of the Management Board until September 2008, on 18 September he became Vice-President of PKN ORLEN's Management Board. On 24 March 2011 Mr Sławomir Jędrzejczyk was reappointed by the Supervisory Board of PKN ORLEN to the position of Vice-President of the Management Board, for the common three year term of office, starting from 30 June 2011.

He is a graduate of the Łódź University of Technology. In 1997, he completed program realized by The Association of Chartered Certified Accountants in London, from which he obtained the title of British Certified Auditor. In the years 1992-1997, he worked for Telebud, ASEA Brown Boveri and PriceWaterhouse. From 1997 to 2002, he served as Member of the Management Board, CFO, of Impexmetal S.A. He has been chairman and member of the supervisory boards of the Group companies in Poland, Europe, Singapore and the US. In 2002-2003, he held the position of CFO at ORFE S.A. and Member of the Management Board of Cefarm Śląski S.A. In 2003-2005, he headed the Controlling Division at the Telekomunikacja Polska Group. From 2005 to June 2008, he served as President of the Management Board, CEO, of TP EmiTel Sp. z o.o., member company of the Telekomunikacja Polska Group. Currently, he serves as Deputy Chairman of the Supervisory Board of Unipetrol a.s. as well as Member of the Management Board of AB ORLEN Lietuva.

Mr Piotr Chełmiński was appointed as Member of PKN ORLEN Management Board responsible for Petrochemical Operations, effective from 10 March 2012. At the same time the Company's Supervisory Board agreed for holding by Mr Piotr Chełmiński a position in the Board of Directors of Unipetrol a.s., PKN ORLEN's subsidiary.

Mr Piotr Chełmiński is a graduate of the Warsaw University of Agriculture. During his professional career he has accumulated years of experience holding various positions on the management boards of Polish and other foreign-owned companies, including listed companies. In the years 1995 – 1996 he served as Vice-President for sales, marketing and export of Okocimskie Zakłady Prowarskie S.A. From 1996 to 1999 he worked for Eckes Granini GmbH & Co. KG as Regional Director for CEE region and as President of Eckes Granini Polska S.A. During 1999-2001 he has been a Member of the Board of Directors, Browar Dojlidy Sp. z o.o. From 2001 to 2002 he held the position of the Member of the Board of Directors and Member of the Supervisory Board of Werner & Merz Polska Sp. z o.o. In 2001 – 2006 he served as Member of the Board of Directors and as Member of the Supervisory Board – direct operational supervision of Sales and Marketing, Kamis-Przyswarz S.A. From 2006 to 2009 he served as Vice-President for Sales and Marketing, Gament S.A. in Torun and as Member of the Board of Directors, Gament Holdings S.A. Luxembourg. He was entrusted with the post of Chairman of Board of Directors and CEO at Unipetrol a.s. in December 2009. Currently, he serves as Chairman of the Supervisory Board of ANWIL S.A. and Member of the Supervisory Board of Basell ORLEN Polyolefins Sp. z o.o.

In March 2007, Mr Krystian Pater was appointed as Member of the Management Board of PKN ORLEN. On 24 March 2011 he was reappointed by the Supervisory Board of PKN ORLEN to the position of Member of the Management Board, for the common three year term of office, starting from 30 June 2011.

He is a graduate of the Nicolaus Copernicus University in Torun, Faculty of Chemistry. He has completed post-graduate courses in Chemical Engineering and Equipment at the Warsaw University of Technology (1989), "Management and Marketing" at the Paweł Włodkowic University College (1997), Petroleum Sector Management (1998) and Enterprise Value Management (2001-2002) at the Warsaw School of Economics.

Since 1993, he was involved in Petrochemia Plock S.A. and later on, in PKN ORLEN, where from 2005 to 2007 he served as Executive Director responsible for Refining Production. Currently, he is Member of the Management Board of AB ORLEN Lietuva and Member of the Supervisory Board of Unipetrol a.s. Additionally, he serves as Vice-President of the Management Board of SITPNG, Member of the Management Board of EUROPIA, CONCawe and Chairman of the Association of Oil Industry Workers in Plock.

Mr Marek Podstawski was appointed to the position of the Member of PKN ORLEN Management Board in charge of Sales, effective from 19 March, 2012. From January 2009, he served as Executive Director for Retail Sales at PKN ORLEN.

He is a graduate of AGH University of Science and Technology in Cracow. He holds an MBA studies at the University of Minnesota/Warsaw School of Economics.

He has an extensive track record of leading international teams and large expertise in strategy development, leadership, finance, project management as well as crisis management. From 1990 to 1992 he worked at Central Plants of Metallurgy Automation, then till 1996 he worked in DuPont Conoco Poland. After conversion of the company in ConocoPhillips consortium he worked in retail, wholesale, marketing, business development, unification of financial management systems, including Central Europe, Germany and US. He was promoted to Director for Wholesale Programs at the company’s head office in Houston and thereafter he became Director for Strategic Planning. From 2009 to 2010 he was a member of the Management Board of Benzina s.r.o. Currently, he serves as Chairman of the Supervisory Board of ORLEN Deutschland GmbH.
1.4 The most important events in 2012 and until the publication of the Management Board Report

The most important events in 2012:

**JANUARY**

On 12 January 2012 Extraordinary General Meeting of PKN ORLEN dismissed from the Supervisory Board Mr Krzysztof Kolach and concurrently appointed to the Supervisory Board Mr Michał Gołębiowski.

Acting in accordance with § 8 section 2 point 1 of the Company's Articles of Association, the Minister of State Treasury, on behalf of the State Treasury shareholders, dismissed Mr Janusz Zieliński from the PKN ORLEN Supervisory Board with effective date of 11 January 2012 and appointed to the Company's Supervisory Board Mr Cezary Banasiński with effective date of 12 January 2012.

On 31 January 2012 the agreement with Maury Sp. z o.o. (executed on 23 December 2010) which concerned maintaining mandatory crude oil reserves on the account of PKN ORLEN and under which a part of crude oil reserves was sold for approximately USD 300 million, expired. Consequently and in accordance with the applicable provisions of Polish law concerning the requirement to maintain mandatory reserves, PKN ORLEN purchased crude oil possessed by Maury Sp. z o.o. for approximately USD 374 million. The purchase price of crude oil was hedged with a future/forward contract. The hedging transaction, when settled, reduced the raw material purchase value by approximately USD 63 million.

**FEBRUARY**

Acting in accordance with the agreement from 2006, PKN ORLEN redeemed debt securities of the aggregate value of PLN 0.75 billion on 27 February 2012. On the same day, also under the above agreement, the debt securities of PLN 1,000 million were issued.

**MARCH**

On 6 March 2012, PKN ORLEN's Supervisory Board appointed Mr Piotr Chelmński to the position of the Management Board Member responsible for Petrochemistry, with effective date of 10 March 2012.

On 7 March 2012, Management Board Member responsible for Sales, Mrs Grażyna Piotrowska-Oliwa placed a resignation statement from her position of the Company's Management Board Member, with effective date of 18 March 2012.

On 14 March 2012, PKN ORLEN's Supervisory Board appointed Mr Marek Podstawa to the position of the Management Board Member responsible for Sales, with effective date as of 19 March 2012.

On 28 March 2012, Mr Marek Karabula and Mr Piotr Wielowieyski placed resignation statements from their positions of PKN ORLEN Supervisory Board Member, with effective date of 28 March 2012.

On 28 March 2012, as part of the process of changing the formula for maintaining mandatory reserves of crude oil by PKN ORLEN, a sales agreement was signed with Ashby Sp. z o. o. regarding part of the reserves and an agreement commissioning the gathering and keeping of crude oil mandatory reserves. Acting in accordance with the sales agreement, PKN ORLEN sold to the company Ashby Sp. z o. o. crude oil of the value of approximately USD 403 million (the price of raw material was set on the basis of market quotations). In accordance with the agreement for creating and maintaining crude oil mandatory reserves, Ashby Sp. z o. o. will be rendering services of maintaining crude oil mandatory reserves on the account of PKN ORLEN, while PKN ORLEN will guarantee the storing of the reserves at the same location. The agreement was executed for one year with an option of extension for a subsequent period.

**MAY**

On 30 May 2012, Ordinary General Meeting of PKN ORLEN appointed Mr Paweł Białek to the Company's Supervisory Board.

**NOVEMBER**

On 29 November 2012, the PKN ORLEN's Management Board sent to the Bank of New York Mellon a termination notice in respect of deposit agreement of 26 November 1999 (with further amendments) establishing the Company's general deposit receipts ("GDR") and a termination notice of deposit agreement of 10 April 2001 (with further amendments) establishing the Company’s American deposit receipts ("ADR"). The global deposit receipts agreement was terminated on 27 February 2013. The American deposit receipts agreement was terminated on 4 March 2013. On the same date trading in ADRs was stopped. PKN ORLEN sent to the U.K. Financial Services Authority and to the London Stock Exchange plc notices informing of excluding GDRs from listing on the official listing market and on withdrawal of GDRs from trading on the London Stock Exchange Main Market. The listing was ended on the termination date of the GDRs establishing agreement, i.e. on 27 February 2013. The decision on terminating the above agreements stems from the decreasing interest of investors in depositary receipts. The Company's Shares will be further listed at the Warsaw Stock Exchange.

On 29 November 2012, PKN ORLEN's Supervisory Board approved the document called "PKN ORLEN Strategy for 2013-2017", which defines directions of activities of the ORLEN Group, among others, in terms of financial and operational ratios, implementation of investment programs and payment of dividends to the shareholders.

**DECEMBER**

On 4 December 2012, PKN ORLEN's Management Board signed with the consortium of General Electric International Inc. companies acting through General Electric International S.A. ("General Electric"), branch in Poland and SNC-LAVAILIN POLSKA Sp. z o.o. a contract for the construction of a gas and steam power plant in Włocławek. According to the agreement a power plant of net capacity of 463 MW is to be constructed as a turn-key investment. The estimate net value of the agreement equals to approximately PLN 1,100 million. Concurrently with signing the above agreement the Company executed with General Electric a contract for servicing the gas and steam power plant in Włocławek. The service contract will remain in force for 12 years starting from the moment of plant launch and its estimate net value during the entire term will be approximately PLN 200 million.

On 28 December 2012, as part of the process of changing the formula for maintenance of mandatory reserves of crude oil by PKN ORLEN, an agreement was signed with Whirlwind sp z o.o. ("Whirlwind") for the sale of part of mandatory reserves and a contract for gathering and keeping mandatory crude oil reserves.

Acting in accordance with the sales agreement, PKN ORLEN sold to the company Whirlwind crude oil of approximate value of PLN 1,200 million translated at the exchange rate applicable on 28 December 2012 (representing USD 0.4 billion). The raw material price was set on the basis of market listings. Acting in accordance with the agreement for creating and maintaining crude oil mandatory reserves Whirlwind will render services of maintaining mandatory crude oil reserves on the account of PKN ORLEN, while PKN ORLEN will guarantee the storage of reserves at the same location. The agreement for creating and maintaining crude oil reserves was executed for the period of 13 months with PKN ORLEN's right to buy back the crude oil reserves at any time during the term of the agreement. Following the end of the agreement, Whirlwind will have an option to sell the reserves to PKN ORLEN. The parties may also agree an extension option for subsequent periods.

Moreover, PKN ORLEN signed an agreement with Whirlwind, under which the Company granted to Whirlwind a short-term loan of PLN 0.3 billion bearing arm’s length interest rate. As at the day of publishing this report the loan was repaid in full.
The most important events in 2013 and until the publication of the Management Board.

**FEBRUARY**

On 21 February 2013 the Ministry of Environment issued a positive opinion on the request for **assignment of two concession blocks** of ExxonMobil Exploration and Production Poland (ExxonMobil) to ORLEN Upstream. The Company is already starting preparations for the commencement of exploration work in the new areas. The assignment concerns two concessioned areas Wodzynie-Luków and Wolomin of the total area of 2,190 sq km.

On 19 March 2013 the contract was executed between PKN ORLEN and consortium of companies ORLEN Projekt and Fissa Babcock Environment GmbH for **construction of Flue Gas Desulphurization ("FGD") in Heat and Power Plant of the Production Plant in Plock**. The estimated value of the contract is over PLN 410 million. As a result of implementation of new technological solutions, the SO₂ emission will decrease by 97%. Start up of the new installation is planned for the end of 2015.

On 28 March 2013 expired an agreement between PKN ORLEN and Ashby Sp. z o.o. (that has been concluded on 28 March 2012) regarding gathering and keeping of mandatory reserves of crude oil. Therefore, and in accordance with applicable regulations regarding the maintenance of mandatory reserves in Poland, PKN ORLEN acquired crude oil owned by Ashby Sp. z o.o. The value of the transaction was approximately USD 366 thousand. The price of raw material was determined based on market quotations. The transfer of funds by PKN ORLEN as well as the transfer of ownership of the raw material to PKN ORLEN has been made on 28 March 2013. The acquisition price of crude oil has been hedged with a forward contract. The settlement of the hedging transaction increased the value of the acquired raw material by USD 37,9 thousand. As a result PKN ORLEN recognized the purchase of crude oil of USD 403,9 thousand in the first quarter of 2013. Additionally, within the duration of the contract regarding gathering and maintenance of crude oil reserves, Ashby Sp. z o.o. incurred charges to PKN ORLEN for inventory maintenance guarantees.

**MARCH**

Key information concerning commercial agreements is provided in point 2.5 of this Management Board Report.

1.5 Awards and distinctions

**JANUARY**

PKN ORLEN was re-elected to an elite group of companies being members of **RESPECT Index** portfolio covering firms which are socially responsible. PKN ORLEN has been listed on the index since the moment of its creation, i.e. since 2009.

**FEBRUARY**

PKN ORLEN was for the third time awarded in the contest **"Environment-friendly Company"**, this time in the category “Enterprise”. The European Ecological Award is one of four categories of the National Ecological Contest “Environment-friendly” organized under honorary patronage of the President of Poland.

**MARCH**

PKN ORLEN was awarded for exceptional working conditions with certificate **Top Employers Polska 2012**. The survey was conducted by Corporate Research Foundation.

**APRIL**

PKN ORLEN fuel station - Meeting Point Stop Cafe in Gdańsk was selected a winner in the first edition of the contest **“Gasoline station of the Year 2012”**, organized by Brog Marketing. Concurrently, the station in Gdańsk was considered by the contest jury to be the best in Poland in the category “Brand Gasoline station of the fuel concern in the Premium segment”.

PKN ORLEN was awarded a prize in the VII edition of the “**Pillars of Polish Economy**” ranking. The winners were selected by the representatives of local governments who were assessing the involvement of companies in development of particular regions. PKN ORLEN was awarded a prize as the leader in the mazowieckie voivodship.

**MAY**

For the eleventh time in a row, PKN ORLEN was awarded the title of **Reliable Brand in the category “Gasoline station”** in the biggest European consumer survey organized by the monthly "Reader's Digest". The survey was conducted in 15 European countries with participation of more than 27 thousands of respondents.

**JUNE**

PKN ORLEN was awarded **“Silver CSR Leaf”** for meeting high standards in respect of Corporate Social Responsibility. PKN ORLEN was shortlisted amongst 18 firms classified in the “Polska” weekly’s ranking. “Silver CSR Leaf”, due to its high requirements, is a prestige distinction published for the first time together with the List 500.

In the V edition of the competition **“Golden Issuer's Website”** organized by the Polish Association of Stock Exchange Issuers PKN ORLEN was awarded a special prize for quality and manner of maintaining investors’ relationships with the use of modern methods of communications through the Internet.

**JULY**

PKN ORLEN was re-elected to belong to an elite group of **RESPECT Index** companies, which is the first in the Central and Eastern Europe stock exchange index of the companies which are socially responsible.

**SEPTEMBER**

PKN ORLEN was awarded **Service Quality Emblem 2012** in the category of fuel stations. The Company was considered to be one of **Top 100 Most Friendly Companies** in Poland.

PKN ORLEN was awarded the title of **Responsible Business Leader 2012** in the category of fuel and power sector in the contest organized by the Employers of Poland. The Company was awarded for its activities already for the second time in a row. The contest gives awards to the companies that, in its sector, are distinguished for special care in complying with responsible business standards and are willing to face challenges put forward by the dynamic economic development.

**OCTOBER**

PKN ORLEN was ranked first in the **Platts ranking** (250 Top Global Energy Company) in the category Refining & Marketing in the EMEA region (Europe, the Middle East and Africa- countries located in Europe, Middle East and Africa). The ranking outcome reflects the assessment of financial results of 250 firms in the refinery and power sector.

PKN ORLEN was awarded the prize for **The Best Annual Report 2011** in the category of enterprises. The contest was organized by the Polish Accounting and Tax Institute.

PKN ORLEN was honoured for multi-year participation in the **Responsible Care** programme. The event took place during the IX Ecological Forum of Chemical Branch.
PKN ORLEN was ranked second in the Polish nationwide competition “Improvement of Working Conditions” in the category “Technical and organizational solutions implied in practice”. The prize was awarded for the program “Report safety threats” that was launched by the Health and Safety Office of PKN ORLEN in 2011. The competition was organized by the Ministry of Labour and Social Policy, Ministry of Economy and Polish Federation of Engineering Associations.

PKN ORLEN was awarded by the Polish Ministry of National Education and “Głos Nauczycieli” social and cultural weekly with the title “Educational Initiative of the Year” for the specific educational programme “Chemistry Class”.

PKN ORLEN was for the second time awarded the title of “Reliable Employer” in the category of upstream industry. The ranking was aimed at distinguishing those firms that apply strategies in employment and social areas that are worth being followed.

PKN ORLEN was awarded a prestige award of “Patron of Polish Sports” in the survey organised by CANAL+ and the Polish Sports Chamber. The initiative aimed to honour the entities actively supporting the development of Polish sport and was conducted under the patronage of the Polish Olympic Committee.

PKN ORLEN was ranked first in “The most desired employers of 2012 in the opinion of experts and managers” ranking in the category of: power industry, fuels and gas. The survey was conducted by Antal International firm under the patronage of Business Centre Club.

PKN ORLEN for the sixth time became the winner of the Most Valuable Polish Brands Ranking. The list distinguished also Bliska brand that was ranked on the 15 place. The organizer of the contest, prepared on the basis of financial criteria and consumers’ opinion poll, was the daily “Rzeczpospolita”.

Website VERVA Street Racing was awarded the prize “Internet Users’ Webstar” in the competition Webstarfestival. That was a nationwide competition resolved by internet users, who promote the best websites operating in the Polish Internet.
2. PKN ORLEN ORGANISATION

2.1 Basis for preparation of the Management Board Report on the Operations of PKN ORLEN

The foregoing Management Board Report covers the reporting period from 1 January until 31 December 2012 and the comparable period from 1 January until 31 December 2011.

The Management Board Report was prepared in accordance with the principle of internal integrity of a document and compliance with the consolidated financial statements and current and periodical reporting.

The content of the Management Board Report is in line with § 92 section 3 and 4 of the Minister of Finance Regulation of 19 February 2009 on current and periodic information provided by issuers of securities and conditions for recognition as equivalent information required by the law of a non-Member state and contains the required elements specified for the issuers carrying out production, construction, commercial or services-related activity.

The provisions stipulated in Article 49 sections 2 and 3 and with Article 63d of the Accounting Act of 29 September 1994 shall also apply.

With respect to Regulations of the Warsaw Stock Exchange S.A. § 29 sections 1, 2, 3 and 5 are applicable.

2.2 Agreement with the entity authorized to conduct audit of financial statements

The entity authorized to conduct audit of financial statements of PKN ORLEN for 2012 was KPMG Audyt Sp. z o.o.

For further details on the agreement signed with the entity authorized to conduct audit of financial statements see note 38 to the Separate Financial Statements for the year 2012.

2.3 Capital and organisational relations in PKN ORLEN

PKN ORLEN with its registered office in Płock, at 7 Chemików St. is the Parent Company of the ORLEN Group.

PKN ORLEN run a broad range of activities, comprising:

− production activity – processing of crude oil and manufacturing of refinery, petrochemical and chemical products and semi finished products,
− commercial activity – detail and wholesale trade of fuels and other refinery and petrochemical products,
− services-related activity - storage of crude oil and fuels, road and rail transport, maintenance and overhaul services, laboratory, protection, medical, design, administrative, insurance and financial services,
− business activity related to the exploration and recognition of hydrocarbon resources,
− business activity comprising manufacturing, transfer, distribution and trade in electricity.

As at 31 December 2012, the Parent Company held, directly or indirectly, shares in 88 companies, of which in:

− 76 subsidiaries,
− 7 jointly controlled companies,
− 5 associated companies.

As compared to the end of 2011 the number of subsidiaries, jointly controlled companies, as well as associated companies of the ORLEN Group has decreased by 4.

The ORLEN Group strengthens its position in the companies operating in the area of the core business, coordinates their operations by segment management and carries out restructurings and consolidations of assets held. Simultaneously, the divestment processes aimed to further limit the number of companies and increase the management efficiency are conducted.
TABLE 1. Changes in respect of capital relations in 2012.

<table>
<thead>
<tr>
<th>SHARES OF THE COMPANY</th>
<th>TRANSACTION DATE</th>
<th>NUMBER OF SHARES ACQUIRED/DISPOSED OF</th>
<th>SHARE IN THE CAPITAL AFTER TRANSACTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>IKS SOLINO S.A.</td>
<td>31 January 2012</td>
<td>16 226</td>
<td>99.02%</td>
</tr>
<tr>
<td></td>
<td>3 September 2012</td>
<td>18 828</td>
<td>100.00%</td>
</tr>
<tr>
<td>ANWIL S.A.</td>
<td>9 March 2012</td>
<td>13 975</td>
<td>95.25%</td>
</tr>
<tr>
<td></td>
<td>6 June 2012</td>
<td>3 414</td>
<td>95.27%</td>
</tr>
<tr>
<td></td>
<td>14 September 2012</td>
<td>575 334</td>
<td>99.54%</td>
</tr>
<tr>
<td></td>
<td>17 October 2012</td>
<td>24 829</td>
<td>99.72%</td>
</tr>
<tr>
<td></td>
<td>31 October 2012</td>
<td>37 764</td>
<td>100.00%</td>
</tr>
<tr>
<td>Rafineria Nafty Jedlicze S.A.</td>
<td>9 March 2012</td>
<td>676 481</td>
<td>98.62%</td>
</tr>
<tr>
<td></td>
<td>23 August 2012</td>
<td>70 938</td>
<td>99.53%</td>
</tr>
<tr>
<td></td>
<td>17 September 2012</td>
<td>1 574</td>
<td>99.55%</td>
</tr>
<tr>
<td></td>
<td>4 October 2012</td>
<td>35 196</td>
<td>100.00%</td>
</tr>
<tr>
<td>ORLEN Projekt S.A.</td>
<td>1-3 October 2012</td>
<td>7 020</td>
<td>97.80%</td>
</tr>
<tr>
<td></td>
<td>10 October 2012</td>
<td>35</td>
<td>98.03%</td>
</tr>
<tr>
<td></td>
<td>16 October 2012</td>
<td>197</td>
<td>99.35%</td>
</tr>
<tr>
<td></td>
<td>20 November 2012</td>
<td>43</td>
<td>99.63%</td>
</tr>
<tr>
<td>Petrolot Sp. z o.o.</td>
<td>21 December 2012</td>
<td>49</td>
<td>100.00%</td>
</tr>
</tbody>
</table>

DISPOSAL OF SHARES BY PKN ORLEN:

| Śląskie Centrum Logistyki S.A. | 18 December 2012 | 10 | - |

Percentage of shares owned by the Parent Company in capital of the ORLEN Group companies and consolidation methods were presented in note 5 to the Consolidated Financial Statements for 2012.

2.4 The rules of PKN ORLEN organisation and management and changes throughout the year 2012

The undertaken activities aim to achieve the ambitious strategic goals, including the increased efficiency as well as production and commercial assets of PKN ORLEN and its market position through the effective segment management.

The segment management allows for consistent management of the operating activities of individual segments of PKN ORLEN, increasing their efficiency and the full use of the economies of scale and synergy. The adopted management model also ensures the uniform corporate standards and procedures and the optimisation of processes relating to the implemented investment programme as well as the supply, human resources management and PR and marketing-related activities.

The performance of the above activities is possible thanks to the full implementation of the so called ORLEN Group’s Constitution by PKN ORLEN in 27 ORLEN Groups’ companies, which includes the agreement for cooperation together with the regulations of the ORLEN Group.
Within the Parent Company in 2012 the following organizational scheme was applicable:

**SCHEME 1** Distribution of responsibilities of PKN ORLEN’s Management Board Members applicable at the end of 2012.

Major changes in PKN ORLEN organisation and management in 2012 were related to:

- creation of the General Office of Gas Trade in the CEO, President of the Management Board division on 24 July 2012, which is responsible for gas delivery to the production plant, implementation of gas projects as part of the adopted development strategy and strengthening PKN ORLEN position at the gas market,
- the change of the scope of responsibility of Audit Office, which powers were extended to include the possibility of carrying out audits in the ORLEN Group companies, which constitutes the element of the further integration process and audit service centralisation,
- creation of The ORLEN Group Sales Effectiveness and Development Office in the Sales Department on 4 September 2012, which implements the development initiatives in retail and wholesale trade and optimization projects in scope of fuels logistics infrastructure,
- change in the organization structure of the area of the Retail Sales Executive Director as at 1 October 2012, which consist determination of the new division of duties as regards sales realised on fuel stations, sales support and fuel sales development.

### 2.5 Specification of significant contracts until the publication date of the Management Board’s Report

Specification of significant contracts published in current announcements. A “significant contract”, within the meaning of the Minister of Finance Regulation, should be understood as a contract or sum of contracts, whose total value for the period of 12 months exceeds 10% of PKN ORLEN’s equity.
On 24 December 2012 the annual contract was executed between PKN ORLEN and Shell Energy Europe Limited, for the supply of natural gas for PKN ORLEN from 1 January 2013 until 1 January 2014. The estimated net value of the contract amounts to approximately PLN 8,298 million.

On 15 October 2012 the annual contract was executed between PKN ORLEN and Lukoil Polska Sp. z o.o. for the supply of diesel oil from 1 January 2012 until 31 December 2012. The estimated net contract value amounts to PLN 6,645 million.

On 3 January 2012 the annual contract was executed between PKN ORLEN and BP Europa S.E. for the sale by PKN ORLEN of gasoline and diesel oil from 1 January 2012 until 31 December 2012. The estimated net contract value amounts to PLN 6,645 million.

The total value of the contracts executed between PKN ORLEN and Lukoil ORLEN’s subsidiaries on one side and companies being members of the BP group from 10 June 2011 until 3 January 2012 amounts to approximately PLN 8,298 million.

On 5 January 2012 the annual contract was executed between PKN ORLEN and Lukoil Polska Sp. z o.o. for the sale by PKN ORLEN of

CONTRACTS FOR THE SALE OF PRODUCTS

- On 3 January 2012 the annual contract was executed between PKN ORLEN and BP Europa S.E. for the sale by PKN ORLEN of gasoline and diesel oil from 1 January 2012 until 31 December 2012. The estimated net contract value amounts to PLN 6,645 million.

- The total value of the contracts executed between PKN ORLEN and PKN ORLEN’s subsidiaries on one side and companies being members of the BP group from 10 June 2011 until 3 January 2012 amounts to approximately PLN 8,298 million.

- On 5 January 2012 the annual contract was executed between PKN ORLEN and Lukoil Polska Sp. z o.o. for the sale by PKN ORLEN of

millions at the average NBP exchange rate for USD/PLN as at 21 December 2012).

The estimated total value of the contracts executed between PKN ORLEN and Mercuria Energy within the last 12 months amounts to approximately USD 634 million (that is approximately PLN 2,104 million at the average NBP exchange rates for USD/PLN as at the execution dates of individual contracts).

- On 1 January 2013 the contract was executed with Rosneft Oil Company, for the supply of 6.0 million tonnes of REBCO crude oil annually by the “Druzhba” pipeline to PKN ORLEN. The contract is in force and effect from 1 February 2013 until 31 January 2016. In the cases described in the Contract, crude oil may be supplied by sea to Gdansk. The expected value of supplies within the term of the Contract amounts to approx. USD 15,000 million (that is approximately PLN 46,000 million at the average NBP exchange rate for USD/PLN as at 31 January 2013).

- On 1 February 2013 PKN ORLEN executed a long-term contract for crude oil supply with the Russian oil and gas company, Rosneft Oil Company. The contract is in force and effect from 1 February 2013 until 31 January 2016 and provides for the supply of nearly 18 million tonnes of REBCO crude oil by “Druzhba” pipeline and for the possibility of crude oil being alternatively supplied by sea to Gdansk.

TO THE BENEFIT OF ORLEN LITUVA:

- On 25 January 2012 the spot contract was executed between PKN ORLEN and Shell International Trading and Shipping Company Limited, for supply of crude oil to AB ORLEN Lietuva. The estimated net value of the contract amounts to approximately USD 80 million (that is approximately PLN 267 million at the average NBP exchange value for USD/PLN as at 23 January 2012).

The estimated total value of the contracts executed between PKN ORLEN and STASCO from 2 September 2011 until 23 January 2012 amounts to approximately USD 634 million (that is approximately PLN 2,104 million at the average NBP exchange rates for USD/PLN as at the execution dates of individual contracts).

- On 31 January 2012 the spot contract was executed between PKN ORLEN and Gunvor S.A. for supply of crude oil to AB ORLEN Lietuva. The estimated net value of the contract amounts to approximately USD 80 million (that is approximately PLN 257 million at the average NBP exchange rate for USD/PLN as at 31 January 2012).

The estimated total value of the contracts executed between PKN ORLEN and Gunvor from 22 March 2011 until 31 January 2012 amounts to approximately USD 730 million (that is approximately PLN 2,249 million at the average NBP exchange rates for USD/PLN as at the execution dates of individual contracts).

- On 21 June 2012 the spot contract was executed between PKN ORLEN and Glencore Energy UK Ltd, for the supply of crude oil to AB ORLEN Lietuva. The estimated net value of the contract amounts to approximately USD 70 million (that is approximately PLN 236 million at the average NBP exchange rate for USD/PLN as at 21 June 2012).

The estimated total value of the contracts executed between PKN ORLEN and Glencore from 23 November 2011 until 21 June 2012 amounts to approximately USD 725 million (that is approximately PLN 2,346 million at the average NBP exchange rates for USD/PLN as at the execution dates of individual contracts).

- On 28 June 2012 the spot contract was executed between PKN ORLEN and TOTSA Total Oil Trading S.A., for the supply of crude oil to AB ORLEN Lietuva. The estimated net value of the contract amounts to approximately USD 70 million (that is approximately PLN 240 million at the average NBP exchange rate for USD/PLN as at 28 June 2012).

The estimated total value of the contracts executed between PKN ORLEN and PKN ORLEN’s subsidiaries on one side and companies being members of the Total Group from 27 October 2011 until 29 June 2012 amounts to approximately PLN 2,784 million.

- On 3 October 2012 the spot contract was executed between PKN ORLEN and Glencore Energy UK Ltd. for the supply of crude oil to AB ORLEN Lietuva. The estimated net value of the contract amounts to approximately USD 80 million (that is approximately PLN 256 million at the average NBP exchange rate for USD/PLN as at 3 October 2012).

The estimated total value of the contracts executed between PKN ORLEN and Glencore from 22 June 2012 until 3 October 2012 amounts to approximately USD 684 million (that is approximately PLN 2,234 million at the average NBP exchange rates for USD/PLN as at the execution dates of individual contracts).

- On 19 November 2012 the spot contract was executed between PKN ORLEN and Vitol S.A., for the supply of crude oil to AB ORLEN Lietuva. The estimated net value of the contract amounts to approximately USD 78 million (that is approximately PLN 252 million at the average NBP exchange rate for USD/PLN as at 19 November 2012).

The estimated total value of the contracts executed between PKN ORLEN and Vitol from 1 September 2012 until 19 November 2012 amounts to approximately USD 726 million (that is approximately PLN 2,333 million at the average NBP exchange rates for USD/PLN as at the execution dates of individual contracts).

- On 22 November 2012 the spot contract was executed between PKN ORLEN and Lukoil International Trading And Supply Company for the supply of crude oil to AB ORLEN Lietuva. The estimated net value of the contract amounts to approximately USD 78 million (that is approximately PLN 250 million at the average NBP exchange rate for USD/PLN as at 22 November 2012).

The estimated total value of the contracts executed between PKN ORLEN and Lukoil ORLEN’s subsidiaries on one side and companies being members of the Lukol group from 4 February 2012 until 23 November 2012 amounts to approximately PLN 2,464 million.

- On 17 December 2012 the spot contract was executed between PKN ORLEN and Glencore Energy UK Ltd. for the supply of crude oil to AB ORLEN Lietuva. The estimated net value of the contract amounts to approximately USD 78 million (that is approximately PLN 243 million at the average NBP exchange rates for USD/PLN as at the execution dates of individual contracts).

The estimated total value of the contracts executed between PKN ORLEN and Glencore from 4 October 2012 until 17 December 2012 amounts to approximately USD 796 million (that is approximately PLN 2,525 million at the average NBP exchange rates for USD/PLN as at the execution dates of individual contracts).
2.6 Significant proceedings in front of court, body appropriate for arbitration proceedings or in front of public administration bodies

2.6.1 Proceedings in which PKN ORLEN act as a defendant

Proceedings with the total value exceeding 10% of the equity

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

On 21 October 2010 the Court of Arbitration in Prague overruled the entire claim of Agrofert Holding a.s. against PKN ORLEN regarding the payment of PLN 3,172,709 thousand translated using exchange rate as at 31 December 2012 (CZK 19,464,473 thousand) with interest and obliged Agrofert Holding a.s. to cover the cost of proceedings born by PKN ORLEN. The claim regarded the payment of a compensation for losses related among others to unfair competition and illegal violation of reputation of Agrofert Holding a.s.

The Court of Arbitration ruling dated 21 October 2010 ended the last of four arbitration proceedings initiated by Agrofert Holding a.s. On 3 October 2011 PKN ORLEN received from the court in Prague (Czech Republic) claim which overruled the sentence of arbitration court of the above mentioned case.

On 16 January 2012 PKN ORLEN submitted a response to Agrofert’s claim. In its response PKN ORLEN appealed to dismiss all Agrofert’s claim and adjudge it with proceeding costs refund.

On 10 January 2013 there was the hearing in front of the court in Prague. During the hearing the rules of the proceeding have been arranged.

In the opinion of PKN ORLEN the decision included in judgment of the arbitration court dated 21 October 2010 is correct and there is no ground for its reverse.

Other significant proceedings with the total value not exceeding 10% of the equity

- Anti-trust proceedings

Anti-trust proceeding was held due to suspicion that in the years 1996 – 2007, PKN ORLEN, Petrol Station Kogut Sp.j. and MAGPOL B. Kulakowski i Wspólnicy Sp.j. were using practice limiting competition on the domestic market of wholesale of petrol and diesel oil by setting retail selling prices of petrol and diesel oil. On 16 July 2010 the President of the Office of Competition and Consumer Protection issued a decision, in which PKN ORLEN and Petrol Station Kogut Sp.j. were found guilty of participating till 16 July 2007 in anti-competition actions. The President of OCCP has imposed a fine on PKN ORLEN of PLN 52,700 thousand. On 2 August 2010 PKN ORLEN appealed from the decision of the President of the OCCP dated 16 July 2010 to the Court of Competition and Consumer Protection. In the decision dated 25 September
2012 the Court included partially the Company’s appeal from the decision imposing a fine and decreased the amount of the fine to PLN 26,368 thousand. PKN ORLEN appealed from the sentence, demanding to revoke the decision in the matter of taking part in anti-competition actions, possibly by reducing the fine. The case is being considered by the Warsaw Court of Appeal.

-- Power transfer fee in settlements with ENERGA – OPERATOR S.A. (legal successor of Zakład Energetyczny Płock S.A.)

As at the date of preparation of these separate financial statements PKN ORLEN participates in two court proceedings concerning the settlement of system fee with ENERGA - OPERATOR S.A. The subject of the court proceedings is regulated by the Regulation of the Minister of Economy dated 14 December 2000 relating to detailed methods of determination and computation of tariffs and electricity settlement regulations. According to the paragraph 36 of the above regulation, the method of settlement of system fee, constituting an element of a power transfer fee, was changed. According to the paragraph 37 of the above regulation, a different method of system fee calculation was introduced.

Court proceedings in which PKN ORLEN acts as a defendant:

The subject of the court proceedings concerns settlement of the contentious system fee for the period from 5 July 2001 to 30 June 2002. The obligation to settle power transfer fee results from the electricity sale agreement between ENERGA – OPERATOR S.A. and PKN ORLEN which was signed without determining contentious issues concerning system fee. The case was regarded as a civil case so contentious system fee should be judged by an appropriate court.

In 2003 ENERGA – OPERATOR S.A. called on PKN ORLEN to compromise agreement and then filed a law suit against PKN ORLEN. In 2004 the Court issued a decision obliging PKN ORLEN to pay a liability connected with the so-called system fee to ENERGA – OPERATOR S.A. of PLN 46,232 thousand. In its objection to the precept PKN ORLEN filed for entire dismissal of the suit.

On 25 June 2008 the District Court pronounced its verdict and dismissed the suit of ENERGA – OPERATOR S.A. entirely as well as sentenced the reimbursement of court proceeding costs of PLN 31 thousand in favor of PKN ORLEN. In September 2008 ENERGA – OPERATOR S.A. appealed against the above sentence.

On 10 September 2009 after examination of ENERGA - OPERATOR S.A. appeal, the Court of Appeals in Warsaw announced a change in the sentence of the District Court in Warsaw dated 25 June 2008. Payment of PLN 46,232 thousand increased by interest and refund of proceedings’ costs was adjudged to the benefit of ENERGA - OPERATOR S.A. On 30 September 2009 PKN ORLEN made the payment. On 4 February 2010 the Company submitted an annulment. The annulment was accepted for recognition by the Supreme Court. On 28 January 2011 the Supreme Court after conducting annulment proceeding overruled the previous verdict and decided to revoke the claim to reexamination by the Court of Appeal. In March 2011 ENERGA – OPERATOR S.A. repaid part of the claimed amount of PLN 30,163 thousand. On 4 August 2011, the Court of Appeals in Warsaw revoked the first instance authority sentence and submitted the case to reexamination by the District Court in Warsaw. On 28 November 2011 ENERGA – OPERATOR S.A. paid to PKN ORLEN the amount of PLN 45,716 thousand, as a partial return of the original amount paid by PKN ORLEN due to the sentence of Court of Appeals in Warsaw dated 10 September 2009. The hearings were conducted on 30 April 2012 and 19 November 2012. The District Court decided that an expert has to give an opinion regarding the case. Once the opinion is issued, the new hearing date will be announced.

Court proceedings in which PKN ORLEN acts as an outside intervener:

In 2004 the District Court in Warsaw summoned PKN ORLEN as a co-defendant in a court case PSE – Operator S.A. (legal successor of Polska Grupa Energetyczna S.A., former Polskie Sieci Elektroenergetyczne) against ENERGA – OPERATOR S.A.

In March 2008 the District Court in Warsaw pronounced its verdict according to which ENERGA – OPERATOR S.A. is to pay PSE the amount of PLN 62,514 thousand with interest and the amount of PLN 143 thousand as a refund of proceedings costs. ENERGA - OPERATOR S.A. appealed against the above verdict. Based on the legal opinion of an independent expert PKN ORLEN did not appeal. In its sentence dated 19 March 2009 the Court of Appeals declined the appeal of ENERGA-OPERATOR S.A. against the verdict of the first instance Court that sentenced the specified amount. The defendant submitted an annulment which on 5 February 2010 was accepted for recognition by the Supreme Court.

In its sentence dated 26 March 2010 the Supreme Court repealed the sentence and revoked it to reexamination by the Court of Appeals in Warsaw.

On 21 September 2011 the Court of Appeals pronounced its verdict, according to which claims of PSE – Operator S.A. were overruled, the plaintiff was requested to refund proceedings costs to the defendant and return PLN 122,000 thousand to ENERGA - OPERATOR S.A.

The Companies PSE Operator S.A. and ENERGA - OPERATOR S.A. submitted cassations to Supreme Court. On 11 January 2013 the Supreme Court issued a sentence, in which revokes the appeal of ENERGA OPERATOR S.A., partially agrees to the appeal of PSE Operator, revokes the previous sentence and passes the case back to the Appeal Court for reexamination, which should include the statement of the cassation costs.
2.6.2 Court proceedings in which Companies of the Capital Group act as plaintiff

Arbitration proceedings against Yukos International UK B.V.

On 15 July 2009 PKN ORLEN submitted in the Court of Arbitration by the International Chamber of Commerce in London the request for arbitration proceedings against Yukos International UK B.V., seated in the Netherlands, in connection with purchase transaction of AB ORLEN Lietuva (previously AB Mazeikiu Nafta) shares. Claims of PKN ORLEN concern inconsistency of Yukos International’s statements with the actual state of AB ORLEN Lietuva at the closing date of the purchase of AB ORLEN Lietuva shares by PKN ORLEN. Demands of PKN ORLEN concern reimbursement of the amount of approximately PLN 774,900 thousand at exchange rate as at 31 December 2012 (representing USD 250,000 thousand) deposited in the escrow account as a part of the payment for AB ORLEN Lietuva shares in order to secure the potential claims of PKN ORLEN towards Yukos International.

On 14 September 2009 Yukos International submitted a response to PKN ORLEN’s request for arbitration proceedings. In its response Yukos International appealed to dismiss all PKN ORLEN’s claims and adjudge it with proceeding costs refund.

On the first seating of the arbitration court in London, PKN ORLEN and Yukos International agreed i.a. proceedings schedule and extent of competence of the Arbitration Court. On 3 May 2010, according to the schedule, PKN ORLEN issued a law suit in which it demands from Yukos International a reimbursement of approximately PLN 774,900 thousand at exchange rate as at 31 December 2012 (representing USD 250,000 thousand) with interest and costs of proceedings. On 31 December 2010 Yukos International submitted a response to the law suit, in which PKN ORLEN’s claim was considered as unjustified and appealed for dismissal of all claims and for refund of proceeding costs. On 11 July 2011 PKN ORLEN pleaded the surrebutter in which replied to Yukos International arguments. Between 28 November and 8 December 2011 an evidentiary seating in front of the Court of Arbitration was held in London, during which representatives of PKN ORLEN and Yukos International summed up the opinions of the parties, witnesses have been heared and experts have been appointed by the parties. At the closing of the seating the Court of Arbitration obliged the parties to submit final pleadings and proceeding costs refund in March and April 2012. On 29 February 2012 PKN ORLEN submitted final pleading. Yukos International submitted as well the pleading. On 30 March 2012 PKN ORLEN and Yukos International submitted the response to the above-mentioned pleadings. On 13 and 27 April 2012 the parties submitted motions for the proceeding cost refund. After the submission of above mentioned pleadings, PKN ORLEN is expecting for the final decision of the Court of Arbitration.

Arbitration proceedings against Basell Europe Holding B.V.

On 20 December 2012 PKN ORLEN S.A. sent an arbitration call to Basell Europe Holding B.V. regarding ad hoc proceeding relating to Joint Venture Agreement signed in 2002 between PKN ORLEN S.A. and Basell Europe Holding B.V. PKN ORLEN seeks compensation in its own favour or, depending on the court's decision, in favour of Basell ORLEN Polyolefins Sp. z o.o. of PLN 112,110 thousand (representing approximately EUR 27,423 thousand) plus interest. The compensation regards the price of goods manufactured by Basell ORLEN Polyolefins sp. z o.o. which are sold to Basell Sales & Marketing Company B.V. (entity related to Basell Europe Holdings B.V. in the meaning of Joint Venture Agreement) with the purpose of re-sell. The arbitration proceeding will take place in London Court of ad hoc Arbitration, acting based on Regulations of United Nation Commission on International Trade Law (UNCITRAL). The process of selecting members of the Court of Arbitration is in progress.

2.7 Significant transactions concluded on other than arms-length terms

There were no significant transactions in PKN ORLEN concluded with related parties on other than arm's length terms in 2012.

2.8 Employment, policy and personnel programs implemented within PKN ORLEN

As at the end of 2012 in PKN ORLEN the total employment amounted to 4,445 people, in comparison to 2011 the employment structure did not change.

TABLE 2 Employment structure in PKN ORLEN in professional groups divided by education, gender and type of work.

<table>
<thead>
<tr>
<th>EMPLOYMENT STRUCTURE IN PROFESSIONAL GROUPS</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>- by education</td>
<td></td>
<td></td>
</tr>
<tr>
<td>University</td>
<td>53.2%</td>
<td>52.0%</td>
</tr>
<tr>
<td>Secondary</td>
<td>39.3%</td>
<td>40.1%</td>
</tr>
<tr>
<td>Vocational</td>
<td>6.5%</td>
<td>6.9%</td>
</tr>
<tr>
<td>Primary</td>
<td>1.0%</td>
<td>1.0%</td>
</tr>
</tbody>
</table>
- by gender

<table>
<thead>
<tr>
<th>Gender</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Women</td>
<td>18.9%</td>
<td>19.3%</td>
</tr>
<tr>
<td>Men</td>
<td>81.1%</td>
<td>80.7%</td>
</tr>
</tbody>
</table>

- by type of work

<table>
<thead>
<tr>
<th>Type</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Blue collars</td>
<td>45.0%</td>
<td>45.0%</td>
</tr>
<tr>
<td>White collars</td>
<td>55.0%</td>
<td>55.0%</td>
</tr>
</tbody>
</table>

In the employment structure of PKN ORLEN in 2012, just as in 2011, the majority were represented white collar workers. There were no changes in employment structure by education among total employed persons in 2012 and the biggest group represented employees with university degree. In 2012 the main group represented men, totaling 81.1% of the total employed.

Implemented HR programs

Recruitment policy

The recruitment policy of PKN ORLEN was focused on acquiring high-class specialists, whose knowledge and competences, together with experience of current employees, will allow to ensure continuity and highest level of business processes carried out by PKN ORLEN.

The Adaptation Programme was continued, thanks to which newly hired employees become familiar with the Company’s activity and organisational culture. Apart from the inaugural meeting and participation in workshops together with experts and specialists from various business areas, As part of performed activities newly hired employees participate also in e-learning training, outlining the history as well as organisational and employees-related issues. In 2012 the Adaptation Programme was extended by a part outlining the core values and standards of conduct and a visit to gasoline station.

Personnel policy („HR”)

In 2012, the Policy for management of potential of the ORLEN Group’s employees was adopted for the years 2013-2017. The policy includes the rules and best practice in the areas such as: recruitment and adaptation, abilities assessment, trainings and development, remunerating and management of the employees’ mobility.

The policy is a set of general solutions, based on the best market practices, putting in order the personnel management within the Parent Company and ORLEN Group’s companies. The determined strategic directions include:

− shaping the organisational culture based on values,
− creation of a modern, concern-like organisation, supporting the managers,
− implementation of best practices, standards and personnel management tools, and
− constant increase in efficiency and quality of personnel processes.

HR functions development

As part of personnel and payroll processes centralisation project, the creation of the Transaction Centre was continued within the structure of ORLEN Księgowość Sp. z o.o. Until the end of 2012, the payroll and personnel processes from 30 subsidiaries was migrated. Processes migration will allow the implementation of the uniform IT and organisational standards.

Moreover, the works relating to the development of the HR Business Partners function were continued. The solutions developed in 2012 significantly improved the efficiency of the implemented personnel processes and facilitated the current support for managers in respect of employees management. The HR Business Partner function was expanded to include the ORLEN Group companies in order to ensure consistency with solutions implemented in PKN ORLEN.

Development and trainings

The development and training activities focused, as in the previous year, on strengthening the employees’ abilities in the area of securing the achievement of business goals and shaping of the desired organisational culture. An important event was a series of trainings for the management, carried out as a result of implementation of the new Company’s values. These workshops aimed to present the role of all employees in shaping the company’s organisational culture and implementing the ethical standards in everyday work. Central development programmes for the management and production processes masters were expanded to include the “management through values” module.

In 2012, the key development programmes were continued, including the project for Talents and development workshops for the managers. As part of all training and development activities, more than 7 thousand employees were trained, including also the employees of the ORLEN Group companies.
Student and internship programs

PKN ORLEN takes care of the professional development of not only its employees but also young persons, graduates of higher education institutions and secondary schools, giving them the opportunity to obtain first professional experience thanks to participation in traineeship and internship programmes. Consequently, following the year 2002, PKN ORLEN, in cooperation with Job Centres all over the country, implements the Internship Programs, as part of which students participate in several months’ paid internships in various company areas. In 2012, internships focused primarily on production, but interns also gained experience in finance and support areas. In 2012, more than 350 persons participated in total in traineeships and internships in PKN ORLEN. Upon the completion of internships, chosen interns commenced to work for PKN ORLEN. In 2012, PKN ORLEN once again participated in the all-Poland competition “Grasz o staż” (“Win an internship at”) and funded paid traineeships for 5 competition winners.

Apart from traineeship or internship programs, the following educational and informative activities were targeted at pupils and students in 2012:
- open day in the Recruitment Team “Question about recruiting” aimed to create the culture of openness and access to information, support the local job market and support in respect of education, thanks to which pupils, students and graduates are given the opportunity to obtain wider information concerning the application methods and required documents as well as to expand their knowledge on recruitment stages, feedback and existing opportunities (recruitments, internships and traineeships)
- “Knowledge Day with ORLEN” – a series of meetings in higher education institutions aimed to provide information on activities and innovativeness of PKN ORLEN. During such meetings, experts from PKN ORLEN discussed issues relating to production of refinery and petrochemical products and the students were given the possibility to confront their theoretic knowledge with the best market practices.

Social dialogue and benefits

The rules of social dialogue applicable in PKN ORLEN are based on the internal regulations and on commonly applicable provisions of law. PKN ORLEN provides its employees with social support in the form of various benefits and allowances, e.g. granting additional funds for holiday or stay in health resorts, rehabilitation, child care, recreation and sport activities, and offering cultural and educational activities, non reimbursable allowances, returnable housing loans, and Christmas gifts or vouchers for employees’ children.

Awards and certificates

Personnel policy and practices were surveyed by independent organisations. Basic benefits, additional benefits, working conditions, trainings and development, professional career development and the company's organisational culture management were analysed. The surveys and assessments resulted in the following distinctions:
- “Top Employers 2012” certificate – awarded by the (Corporate Research Foundation),
- 1 place in “The most desired employers of 2012 in the opinion of experts and managers” ranking in the category of: power industry, fuels and gas – III edition of Antal International survey,
- the title of the “Reliable Employer in the category – upstream industry” awarded by the Chapter of the III edition of the Reliable Employer Competition.

2.9 Remunerations of management and supervisory bodies

TABLE 3 Remuneration paid to the Company’s Management Board Members fulfilling their function in 2012 and in previous years (in PLN thousand).

<table>
<thead>
<tr>
<th>ITEM</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Remuneration of Members of the Company’s Management Board, including:</td>
<td>6,454k</td>
<td>6,498k</td>
</tr>
<tr>
<td>Dariusz Krawiec</td>
<td>1,666k</td>
<td>1,524k</td>
</tr>
<tr>
<td>Sławomir Jędrzejczyk</td>
<td>1,404k</td>
<td>1,404k</td>
</tr>
<tr>
<td>Piotr Chełmiński</td>
<td>951k</td>
<td>-</td>
</tr>
<tr>
<td>Wojciech Kotlarek</td>
<td>-</td>
<td>549k</td>
</tr>
<tr>
<td>Krystian Pater</td>
<td>1,104k</td>
<td>1,015k</td>
</tr>
<tr>
<td>Grażyna Piotrowska-Oliwa</td>
<td>240k</td>
<td>555k</td>
</tr>
<tr>
<td>Marek Podstawa</td>
<td>871k</td>
<td>-</td>
</tr>
<tr>
<td>Marek Serafin</td>
<td>-</td>
<td>1,381k</td>
</tr>
<tr>
<td>Piotr Wielowieyski</td>
<td>218k</td>
<td>70k</td>
</tr>
<tr>
<td><strong>- bonuses for prior year</strong></td>
<td><strong>4,186k</strong></td>
<td><strong>5,454k</strong></td>
</tr>
<tr>
<td>Dariusz Krawiec</td>
<td>1,440k</td>
<td>1,440k</td>
</tr>
</tbody>
</table>
Sławomir Jędrzejczyk  1 320  1 320
Wojciech Kotlarek  -  756
Krystian Pater  910  798
Grażyna Piotrowska-Oliwa  516  -
Marek Serafin  -  1 140

Remuneration of Members of the Company’s Management Board holding functions in prior years, including:

Wojciech Kotlarek  292  -
Marek Serafin  570  -

Ogółem:  11 502  11 952

1) for the period from 10 March 2012
2) for the period of performing the function from 1 January until 29 June 2011 and non-competition clause
3) for the period of performing the function from 30 June 2011 until 18 March 2012
4) for the period from 19 March 2012
5) for the period until 8 December 2011
6) delegated for temporary performance of the activities of a Management Board Member from 9 December 2011 until 9 December 2012
7) remuneration paid due to non-competition clause

As at 31 December 2012 the remuneration due to severance pay of the former Management Board Member Mr Marek Serafin of PLN 570 thousand remains unpaid. As at 31 December 2011 remuneration due to severance pay and non-competition clause of the former Management Board Member Mr Marek Serafin to be paid in 2012 amounted to PLN 1,140 thousand.

**TABLE 4.** Bonuses potentially due to the Company’s Management Board Members for a given year to be paid in the next year (PLN thousands).

<table>
<thead>
<tr>
<th>ITEM</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dariusz Krawiec</td>
<td>1 440</td>
<td>1 440</td>
</tr>
<tr>
<td>Sławomir Jędrzejczyk</td>
<td>1 320</td>
<td>1 320</td>
</tr>
<tr>
<td>Piotr Chełmiński</td>
<td>918</td>
<td>-</td>
</tr>
<tr>
<td>Wojciech Kotlarek</td>
<td>-</td>
<td>374</td>
</tr>
<tr>
<td>Krystian Pater</td>
<td>1 020</td>
<td>910</td>
</tr>
<tr>
<td>Marek Podstawa</td>
<td>801</td>
<td>-</td>
</tr>
<tr>
<td>Grażyna Piotrowska-Oliwa</td>
<td>219</td>
<td>516</td>
</tr>
<tr>
<td>Marek Serafin</td>
<td>-</td>
<td>900</td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td>5 718</td>
<td>5 460</td>
</tr>
</tbody>
</table>

The amount of bonuses was estimated assuming full accomplishment of the bonus goals by the Management Board Members.

**TABLE 5.** Remuneration of the key executive personnel of PKN ORLEN (PLN thousands).

<table>
<thead>
<tr>
<th>ITEM</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Remuneration and other benefits of members of key executive personnel</td>
<td>31 023</td>
<td>32 762</td>
</tr>
</tbody>
</table>

The rules for awarding bonuses to the key management (including the Management Board Members)

In 2012 key executive personnel was participating in the annual MBO Bonus System (management by objectives). The regulations applicable to PKN ORLEN Management Board and directors reporting directly to the Management Board of PKN ORLEN and other key positions have certain common features. The persons subject to the above mentioned systems are remunerated for the accomplishment of specific goals set at the beginning of the bonus period by the Supervisory Board for the Management Board Members and, by the Management Boards for the key executive personnel members. The bonus systems are structured in such way, so as to promote the cooperation between individual employees in view to achieve the best possible results for PKN ORLEN. The goals so-said are qualitative or quantitative and are accounted for following the end of the year for which they were set, on the rules adopted in the applicable Bonus System Regulations.
Moreover, bonus regulation gives the possibility to distinguish employees, who significantly contribute to results generated by PKN ORLEN.

Since January 2012 there has been an amendment to the Bonus Regulations to Directors that are directly subordinated to the Management Board of PKN ORLEN. The purpose of the amendment was to further increase the flexibility and incentive nature of the system.

**Remuneration to the Company’s Management and Supervisory Board Members for holding functions in the Management or Supervisory Boards of subsidiaries, companies under joint control or associated companies (PLN thousand)**

Members of PKN ORLEN Management Board who in 2012 and 2011 held functions on Management and Supervisory Boards of the subsidiaries, companies under joint control and associated companies belonging to the ORLEN Group did not collect any remuneration in this respect, except for Unipetrol a.s., where the remuneration due for holding the function were transferred to the ORLEN’s Foundation Dar Serca (Gift of the Heart). As at 31 December 2012, three PKN ORLEN Management Board Members sat on the Supervisory Board and one on the Management Boards in Unipetrol a.s.

**TABLE 6. Remuneration of the Members of the Supervisory Board of PKN ORLEN (PLN thousands).**

<table>
<thead>
<tr>
<th>Supervisory Board Members</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cezary Banasiński 1)</td>
<td>145</td>
<td>-</td>
</tr>
<tr>
<td>Paweł Białek 2)</td>
<td>88</td>
<td>-</td>
</tr>
<tr>
<td>Grzegorz Borowiec</td>
<td>149</td>
<td>143</td>
</tr>
<tr>
<td>Artur Gabor</td>
<td>150</td>
<td>143</td>
</tr>
<tr>
<td>Michał Gołębiowski 3)</td>
<td>145</td>
<td>-</td>
</tr>
<tr>
<td>Marek Karabuła 4)</td>
<td>36</td>
<td>143</td>
</tr>
<tr>
<td>Krzysztof Kolach 5)</td>
<td>4</td>
<td>143</td>
</tr>
<tr>
<td>Maciej Małaczyński</td>
<td>191</td>
<td>184</td>
</tr>
<tr>
<td>Leszek Pawłowicz</td>
<td>153</td>
<td>146</td>
</tr>
<tr>
<td>Angelina Sarota</td>
<td>149</td>
<td>143</td>
</tr>
<tr>
<td>Piotr Wielowieyski 6)</td>
<td>8</td>
<td>133</td>
</tr>
<tr>
<td>Janusz Zieliński 7)</td>
<td>4</td>
<td>144</td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td><strong>1 222</strong></td>
<td><strong>1 322</strong></td>
</tr>
</tbody>
</table>

1) for the period of performing the function from 12 January 2012
2) for the period of performing the function from 30 May 2012
3) for the period of performing the function from 12 January 2012
4) for the period of performing the function until 28 March 2012
5) for the period of performing the function until 12 January 2012
6) for the period of performing the function from 1 January 2011 until 8 December 2011 and for the period from 10 March 2012 until 28 March 2012, from 9 December 2011 until 9 March 2012 delegated for temporary performance of the activities of a Management Board Member
7) for the period of performing the function until 11 January 2012

**Non-competition agreements and agreements on termination of contract due to removal from the position held executed with the management personnel**

According to agreements with PKN ORLEN, Member of the Management Board are obliged to obey a non-competition clause for 6 or 12 months, starting from the date of termination or expiration of the contract. In the period Members of the Management Board are entitled to receive remuneration in amount of six or twelve basic monthly remuneration, paid in equal monthly installments. Furthermore, contracts include remuneration payments in case of dissolution of the contract because of dismissal from the position held. Remuneration amounts then to six or twelve basic monthly remuneration.

The description of the remuneration policy of the Management Board and principles of its determination are presented in point 7.9 of the foregoing Management Board Report.
3. **PKN ORLEN ACTIVITIES**

3.1 **PKN ORLEN activities in the refinery segment**

3.1.1 **Market trends, PKN ORLEN’s position and competitors**

The refinery industry faces a number of challenges affecting its strategic perspectives. In Europe it is expected that the demand for fuels will continue to decrease. The key factors affecting such situation include the projected pursuit after the reduction of the European economy emissivity, gradual replacement of heating oil with natural gas and increase in energy effectiveness of both industry and households. Another important trend affecting the industry economics is the structural change of the demand structure. The year 2012 was another one when the gasolines oversupply in Central Europe market deepened at the same time when the diesel oil became deficit. It is forecasted that until 2020 the demand for diesel oil will grow, since there is no real alternative to this fuel as the basic fuel in transport. The reduced demand for gasolines is due to both the smaller internal demand and smaller export (mainly to the USA).

The pillars of development of the refinery segment, in light of the strategy adopted for the years 2013-2017, include further improvement of effectiveness by way of increased oil processing and fuels yield, reducing the energy consumption of processes and strengthening the assets value through the optimum investment expenditure and implementation of high-profitability projects.

The biggest ORLEN Group’s refinery and petrochemical complex is located in Plock and is considered to be one of the most modern integrated manufacturing plants in the Central and Eastern Europe. In 2012 in the Plock refinery, a crude oil processing volume attained the level of 15.2 million tonnes. The domestic fuel producers in total cover over 90% of the demand for fuel in Poland. Remaining portion of the market is balanced with import.

The main source of raw material supply is the northern line of “Druhzba” pipeline.

Trends in fuel consumption on the Polish market are presented in point 4.1.5 of the foregoing Management Board Report.

The biggest competitors of the ORLEN Group in the region include the following refineries:

- The Lotos Group, which is located in Gdansk at the Baltic Sea coast, the second Polish refinery in terms of size. The Gdansk Refinery’s processing capacity is 10.5 million tonnes of crude oil per year.
- The Mitteldeutschland Refinery in Leuna/Spergau, owned by the Total Group and located in the south-east of Germany approximately 150 km from the Polish-German border. The Mitteldeutschland Refinery’s processing capacity is 11.0 million tonnes per year.
- PCK Refinery in Schwedt, located to the north-east from Berlin, approx. 20 km from the Polish-German border. The PCK main shareholders include international oil concerns (Shell, BP, Eni, Total and Rosneft). The refinery processing capacity amounts to approx. 10.5 million tonnes of crude oil per year.
- Slovnaft is a refinery, distribution and petrochemical Group holding a dominant position in the Slovak Republic. It is located in the vicinity of Bratislava, approx. 350 km to the south from the Polish border. The Slovnaft Refinery’s crude oil processing capacity amounts to approx. 6.0 million tonnes per year.
- The Mozyr Refinery is the biggest refinery in Belarus showing the crude oil processing capacity of 15.7 million tonnes of crude oil per year.

Its developed logistics infrastructure provides the ORLEN Group with a significant competitive advantage. In its pursuit of maximum storage efficiency and liquidity of transmissions of raw materials and products, the ORLEN Group uses fuel terminals, land and sea loading and storage centres, raw material and product pipelines network and railway and road transport.

On the Polish market PKN ORLEN uses 570 km of pipelines owned by Przedsiębiorstwo Eksploatacji Rurociągów Naftowych “Przyjaźń” and its own transportation infrastructure Plock Ostrow - Wielkopolski – Wrocław with a length of 379 km.

For operational purposes of receipt, storage, dispatch and loading of fuels in 2012 ORLEN Group used in aggregate 25 facilities in Poland (own fuel terminals and third parties centres). Total storage capacity within own infrastructure and based on concluded agreements amounted to approximately 7 million m³ at the end of 2012.
3.1.2 Research and technological development

In 2012, the ORLEN Group carried out a large amount of research and development work relating to the development of new products technology, improvement of the products quality, perfection of the production technology and reduction of negative environmental impact. The work was carried out by the ORLEN Group itself but also in cooperation with research institutions and centres, schools of higher education and units conducting research and development activities.

In 2012, 69 new contracts were executed and 16 contracts were annexed in PKN ORLEN in respect of cooperation with research institutions and centres of higher education. The most important studies relating to research and development activities were connected with the analysis of the environmental impact of technological furnaces of PKN ORLEN’s installation in Plock in respect of air protection, taking into consideration the optimisation of types, proportions and quality of fuels used. Other projects included expert’s opinions on the possibility of use of non-operated HON II and III installations as well as unification of the process of balancing the turnover with the ethanol in the bonded warehouses. Moreover, the assessment of compliance of electric power determination in combination with the heat energy production in the Heat and Power Plant was carried out in light of requirements set forth in Directive 2004/8/EU, together with the assessment of operation of vacuum production systems on tubular-tower distillation system (TTD) II, III, IV and VI installations, in respect of optimisation of vacuum fractions yield and stability of vacuum columns operation. In 2012, the upgrade of Alkylation Hydrofluoric Acid installation was completed, which impacted the reduction of hydrofluoric acid levels in the installation, which in turn resulted in improved work safety and reduced operating costs.

PKN ORLEN satisfies the requirements of the REACH Program (Registration, Evaluation and Authorisation of Chemicals) as according to resolution (UE) 1907/2006 of European Parliament and European Union Council, which is designated to replace selected chemical substances with their safer substitutes. As a part of a program, producers of chemical substances are obliged to register chemicals used in the production process and to present the information on their characteristics. As at 31 December 2012, the base of the European Chemicals Agency contained 79 substances, for which PKN ORLEN submitted the registry documents.

3.1.3 Basic products and merchandise

In 2012, the deterioration of the majority of macroeconomic indicators and the situation on the fuel market was observed in Poland, as compared to 2011. The GDP dynamics was lower than expected. Moreover, according to the information of Agencja Rynku Energii S.A., the gasolines consumption dropped by (-) 5.2% (y/y) and the long-standing upward trend in respect of diesel oil consumption broke down and the diesel oil sale dropped by (-) 8.8% (y/y). The drop in consumption was due to the deteriorating economic situation in construction and transport industry and the takeover of part of volume by the companies operating in the so called “shadow economy”. The fuels import in the traditional and official distribution channels also diminished significantly.

The above factors influenced significantly the decrease of sales of medium distillates by (-) 9.7% (y/y) i.e. diesel oil, light heating oil and Jet A-1 fuel. Significant increase in sales of LPG, with accompanied by slight sales decrease in gasoline contributed to the improvement of light distillates sales by 1.0% (y/y). Prosperity on LPG market was an effect of search by the customers for cheaper substitutes of fuels in situation of...
increasing retail prices of liquid fuels. High sales level of heavy fractions resulted from technical problems with vacuum pillar on TTD III installation.

**TABLE 7.** Assortment structure of PKN ORLEN sales (in thousands of PLN / thousands of tonnes).

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
<th>CHANGE %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>VALUE</td>
<td>VOLUME</td>
<td>VALUE</td>
</tr>
<tr>
<td><strong>SALES</strong></td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td><strong>Refining Segment</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Light distillates 1)</td>
<td>5 219 877</td>
<td>1 530</td>
<td>4 541 065</td>
</tr>
<tr>
<td>Medium distillates 2)</td>
<td>15 061 612</td>
<td>4 388</td>
<td>15 075 001</td>
</tr>
<tr>
<td>Heavy fractions 3)</td>
<td>2 933 286</td>
<td>1 464</td>
<td>2 178 099</td>
</tr>
<tr>
<td>Other 4)</td>
<td>38 164 680</td>
<td>1 394</td>
<td>33 029 561</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>61 379 455</td>
<td>8 776</td>
<td>54 823 726</td>
</tr>
</tbody>
</table>

1) Gasolines, LPG. 
2) Diesel oil, light heating oil, Jet A-1 
3) Heavy heating oil 
4) Other – value – covers sales of crude oil amounting to PLN 34,700,132 thousand in 2012 and PLN 29,900,918 thousands in 2011 and revenues from sales of mandatory reserves for total amount of PLN 2,433,988 thousand. Other - volume- contains mainly distillates, vacuum residue, raffinates.

**3.1.4 Sources of supply**

In 2012 three contracts to supply oil to the Plock refinery (executed with Mercuria Energy Trading S.A. and Souz Petroleum S.A.) were in force. Each contract provides the possibility to re-negotiate prices annually; in case of no agreement on this matter, the contract may be terminated. The contracts are fixed-term contracts which ensures safety and continuity of raw material supply to the refinery plant and contain supply guarantee clauses based on financial guarantees. In February 2013, PKN ORLEN concluded another long-term contract with a Russian oil and gas company, Rosneft Oil Company. The contract is in force until 31 January 2016 and provides for the supply of nearly 18 million tonnes of REBCO crude oil through “Druzhba” pipeline as well as the possibility of the alternative supply by sea to Gdansk. Contract with Rosneft Oil Company and the applicable contracts with Mercuria Energy Trading and Souz Petroleum ensure PKN ORLEN almost 80% of crude oil supplies under long-term contracts.
Under the contracts signed in 2012, raw material was mainly supplied to the Plock refinery by companies operating on the Russian crude oil market and traders operating on the international crude oil market. Consequently, the REBCO crude oil, which PKN ORLEN acquired in 2012, was supplied to Plock mostly from Russia and to a small extent from Norway. Additionally, PKN ORLEN supplies crude oil to three ORLEN Group’s refineries located in Litvinov and Kralupy in the Czech Republic and in Mazeikiu in Lithuania.

In 2012, the share of Mercuria Energy Trading S.A. and Souz Petroleum S.A. in crude oil supplies exceeded 10% of PKN ORLEN revenue for each company individually and amounted in total to 38.0% of the overall sum of supplies.

### 3.2 PKN ORLEN operations in the retail segment

#### 3.2.1 Market trends, PKN ORLEN’s position and market environment

The year 2012 was another one when further consolidation of retail sale was observed. Companies, whose market shares were low and who lacked other refinery assets increasing the effectiveness of conducted operations and balancing the impact of low fuel margins, withdrew from the market.

In 2012, retail chains operators continued to optimise sale processes. Results of fuel and non-fuel operations were maximised through adjustment to changes in infrastructure, partnership with FMCG store chains and implementation of new store formats complying with the consumers’ expectations. Moreover, operators launched new assets onto the market, including self-service fuel stations and stations for heavy goods vehicle.

The retail market in the Central and Eastern Europe, similarly to the wholesale market, is strongly determined by the consumption level materially affected by the observed economic slowdown, increase in fuel prices as a result of high crude oil prices and increase of the so called “shadow economy” causing the imbalance.

The structure of fuel stations chains has also changed recently. In Central and Eastern Europe, approximately 24.5 thousand fuel stations are currently operating on the markets of the ORLEN Group’s business operations. Their number has not changed for several years, however, the number of independent stations, which commence to cooperate with large international chains, is decreasing. Moreover, the stable growth of the share of hypermarket fuel station sale (approximately 530 stations within the area of the ORLEN Group’s operations) is to be witnessed in Central and Eastern Europe, what exerts additional pressure on traditional operators’ activities. It is also expected that the market shares of the so called “non-branded players” will continue to diminish due to the enacted regulations.

In 2012, the retail chain was expanded by further 11 facilities and comprised 1.767 fuel stations as at the end of 2012. During the year, the brand of 41 fuel stations was changed, for 4 stations the business model was also changed from DOFO to CODO and 35 fuel stations ceased to be used.

The majority of stations (1.077) are premium stations operating under the ORLEN brand. Another 489 facilities are the economical stations operating under the BLISKA brand. The remaining 201 stations operated in the so called simplified format and will be included into one of the above groups during the future development and investment activities or removed from the chain. Franchise stations represent approximately 25% of the chain.

Loyalty programs and effective non-fuel sale management contributed to the increase in the share in the Polish market of the fuels retail sale by 2 p.p. to the level exceeding 34%. The major market participants include also the international companies such as BP, Shell and Statoil and the Lotos Group.

In 2012, a lot of attention was given to the activities dedicated to the standards of service at fuel stations. They were granted the consumers’ award “2012 Service Quality” ORLEN – Leader in the category of fuel stations”. ORLEN Meeting Point Stop fuel station in Gdansk won the competition of the Gasoline Station of the Year 2012 organised by Brog Marketing. Consistent implementation of the retail chain development strategy allowed to increase PKN ORLEN’s share among 7 largest fuel companies in Poland (associated in POPIHN) up to the level of nearly 50%.

#### 3.2.2 Core products, merchandise and services

The fuels sales volume in 2012, despite the intensified activities undertaken by competitors and the decreasing fuels consumption, was achieved on the level similar to the one from the previous year and amounted to 4.516 thousand tonnes. The increased station effectiveness was visible – average monthly sale at own stations exceeded the level of 3.7 million litres and was higher by approximately 2% as compared with 2011. Expanding the possibilities of using fleet cards in paying for highways as well as the fleet website functionality development had a substantial impact on reaching new groups of business customers.

Sales revenues of non-fuel goods and services increased by 2% (y/y). The average non-fuel sale per one PKN ORLEN own station increased by approximately 4% (y/y), with the decline of such sale at other chain stations of the largest fuel companies on the Polish market associated in POPIHN by approximately (-) 3% (y/y). The year 2012 witnessed further development of catering services in PKN ORLEN chain, which also started to appear at franchise stations. The number of Stop Cafe and Stop Cafe Bistro points amounted to 546 and 267 respectively as at the end of 2012, which means the increase (y/y) by 115 and 45 locations. The basic food offer was also implemented on approximately 150 BLISKA stations.
TABLE 8. Assortment structure of PKN ORLEN sales (in PLN thousands / thousands of tonnes) .

<table>
<thead>
<tr>
<th>SALES</th>
<th>2012</th>
<th>2011</th>
<th>CHANGE %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>VALUE</td>
<td>VOLUME</td>
<td>VALUE</td>
</tr>
<tr>
<td>Retail Segment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Light distillates</td>
<td>6 322 365</td>
<td>1 593</td>
<td>5 686 876</td>
</tr>
<tr>
<td>Medium distillates</td>
<td>11 405 717</td>
<td>2 923</td>
<td>10 023 752</td>
</tr>
<tr>
<td>Other</td>
<td>2 019 712</td>
<td>0</td>
<td>1 985 363</td>
</tr>
<tr>
<td>Total</td>
<td>19 747 794</td>
<td>4 516</td>
<td>17 695 991</td>
</tr>
</tbody>
</table>

1) Gasoline, LPG  
2) Diesel oil  
3) Other – value – comprise revenues from sale of non-fuel merchandises and services

DIAGRAM 3. Assortment structure of PKN ORLEN’s sales revenues in years 2012 – 2011.


3.2.3 Sources of supply

The majority of motor fuels sold on the Polish, Czech and Lithuanian markets are produced in the refining segment. The ORLEN Group also purchases, for reselling purposes, primarily imported ready-made fuels from other domestic sellers and foreign companies.
3.3 PKN ORLEN’s operations in petrochemical segment

3.3.1 Market trends, PKN ORLEN’s position and competitors

Market trends in the petrochemical industry are global. Until the year 2020, it is expected that the demand for petrochemical products will continue to grow, especially in Asia. Also, the trend involving the construction of new petrochemical plants in the Middle East countries is visible, based primarily on the use of natural gas (specifically ethane) as a raw material for production. This is connected with the competitive costs of natural gas being a by-product of the crude oil extraction.

The year 2012 was the period when the growing speculation on raw materials markets and economic slowdown resulted in the increased fluctuation of petrochemical margins. Globalisation of markets including in particular polymers, benzene and PTA causes that the only limitation for trading of above products are the transportation costs. Consequently, economic conditions for non-innovative manufacturers and whose margins are based primarily on the operations scale, deteriorated. This is also connected with the declining importance of commodity-type products – margins for mass petrochemical products in 2012 were lower in comparison with specialised products.

The key installation of PKN ORLEN’s petrochemical segment is the Olefins installation of the maximum annual production capacities of approximately 700 thousand tonnes of ethylene and 380 thousand tonnes of propylene. Monomers produced by PKN ORLEN constitute the input for the polymers installations in Basell ORLEN Polyolefins Sp. z o.o. and the polyvinyl chloride installation in the ANWIL Group. Other products are placed on both Polish market and exported (Czech Republic, Denmark, Germany and Lithuania).

Full integration of the refining and petrochemical installations in PKN ORLEN as well as the pipeline infrastructure connecting PKN ORLEN and the ANWIL Group and BOP are the significant element of the competitive advantage in this segment.

In 2011, the PX/PTA Complex was started up, being one of the most modern plants of such type in Europe.

3.3.2 Research and technological development

The most important studies on research and development activities in PKN ORLEN were connected with the review and standardisation of hydrocarbons emission determination methodology for production units of the Production Plant and PTA in Wloclawek. In 2012, the survey of compliance of exploitation properties of the Petrygo Q car coolants with the requirements for products applying for the ITS certificate was also completed.

3.3.3 Core products, merchandises and services

In 2012, the sales volume of petrochemical segment of the ORLEN Group, despite the turnaround of the petrochemical section of the production plant in Plock, which was performed in the III quarter of 2012, increased by 0.9% as compared to 2011. The above result was achieved primarily thanks to higher sale of the terephthalic acid (PTA), which in 2012 amounted to 484 thousand tonnes and increased by
44.0% (y/y) thanks to the functioning of the PX/PTA Complex installation during the entire year and further intensification of sales on the Turkish and Russian markets as well as entering the Middle East markets.

Lower sales volume of monomers and aromas in 2012 in comparison to 2011 was a result of the planned periodical turnaround of the petrochemical installations in the III quarter of 2012.

**TABLE 9.** Assortment structure of PKN ORLEN's sales (PLN thousand/thousands of tonnes).

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
<th>CHANGE %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>VALUE</td>
<td>VOLUME</td>
<td>VALUE</td>
</tr>
<tr>
<td>Petrochemical Segment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Monomers 1)</td>
<td>3 363 172</td>
<td>781</td>
<td>3 268 378</td>
</tr>
<tr>
<td>Aromas 2)</td>
<td>693 845</td>
<td>177</td>
<td>654 244</td>
</tr>
<tr>
<td>PTA</td>
<td>1 875 273</td>
<td>484</td>
<td>1 237 102</td>
</tr>
<tr>
<td>Other 3)</td>
<td>1 207 485</td>
<td>405</td>
<td>1 294 408</td>
</tr>
<tr>
<td>Total</td>
<td>7 139 775</td>
<td>1 847</td>
<td>6 454 132</td>
</tr>
</tbody>
</table>

1) Ethylene, propylene.
2) Benzene, toluene, para-xylene, ortho-xylene.
3) Acetone, butadiene, phenol, glycols, ethylene oxide, others.

**DIAGRAM 5.** Assortment structure of PKN ORLEN’s revenues from sales in years 2012 – 2011.

**DIAGRAM 6.** Assortment structure of PKN ORLEN’s volume sales in years 2012 – 2011.
3.3.4 Sources of supply

Strong integration of the refining and petrochemical segments in PKN ORLEN provides a competitive advantage in respect of raw materials supply. The gasoline for pyrolysis, transferred from the refining segment, constitutes the main production input for the petrochemical segment for olefins installations. Paraxylene, produced on petrochemical installations in PKN ORLEN constitutes the basic input for terephthalic acid production.

3.4 New areas of PKN ORLEN’s operations

3.4.1 Power industry

Along with the relatively quick development of the Polish economy, the demand for electric power is increasing. At present, the per capita power consumption in Poland is lower than in the European Union by more than 50% on average. The forecasts of the power consumption in Poland point to the significant increase of electric power demand, what means the need to expand of installed capacities, as compared to their current level.

It is estimated that the increasing profitability may turn out to be one of the most important advantages of this segment thanks to the growing demand and power prices. The additional advantages include the possibilities of obtaining of origin certificates for the high-efficiency cogeneration and support of renewable energy sources by the “green certificates” mechanism.

The PKN ORLEN Group is currently the major producer of electricity and heating power, which is used largely for its own production purposes. It is also the largest gas recipient in Poland and the active participant in the natural gas market liberalisation.

The Heat and Power Plant (“HPP”) of PKN ORLEN in Plock is the largest professional productive unit in Poland, of the electric capacity of 345 MWe and heat capacity of 1970 MWt, which is used for supplying power to production installations. Heat capacities secure the needs of a complex of installations in the Production Plant and are used for the external recipients purposes. The Heat and Power Plant achieves high efficiency indices at the level of approximately 86% and may use various types of fuel for power and heat production: heating oil, refinery gas and natural gas.

In 2012, the implementation of the Power and Ecology Investments Program was continued, which aim is to comply with the rigorous industrial emission standards to be in force following 1 January 2016. As part of the Programme, the construction of the new Boiler number 8 was completed in the HPP in Plock, which complies with the most stringent standards in respect of sulphur dioxide, nitric oxides and dusts emission and which operation, due to very high power efficiency, contributes to the improvement of the efficiency of the heat and power plant in respect of heating power production. The process of selecting the contractor for the waste gases denitrifying installation was completed. Work aimed to select the contractor for waste gases desulphurisation installation was finalised on 19 March 2013, consortium ORLEN Projekt and Fisia Babcock Environment GmbH had been chose as a contractor.

The Heat and Power Plant ("HPP") of PKN ORLEN in Plock is the largest professional productive unit in Poland, of the electric capacity of 345 MWe and heat capacity of 1970 MWt, which is used for supplying power to production installations. Heat capacities secure the needs of a complex of installations in the Production Plant and are used for the external recipients purposes. The Heat and Power Plant achieves high efficiency indices at the level of approximately 86% and may use various types of fuel for power and heat production: heating oil, refinery gas and natural gas.

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The main element of the power strategy of the ORLEN Group for years 2013-2017 constitutes currently the construction of the gas and steam power plant in Wloclawek. The project involves the construction of the unit with the capacity of 463 MWe. The largest advantages of such type of units are higher efficiency and operation flexibility in comparison with the conventional electric power production systems based on coal fuel. Technologies applied in CCGT (Combined Cycle Gas Turbine) units emit also lower amounts of harmful substances, such as nitrogen oxides, sulphur dioxide and greenhouse gases.

On 4 December 2012, the contract for the power plant construction was executed with General Electric and SNC Lavalin consortium and the long-term service contract was executed with General Electric. Moreover, in 2012 the intent letter was executed with Wloclawek authorities in respect of possible heat power supplies for the city. The planned start-up of the unit is to take place at the end of 2015.

In 2012, the concept work at the new power unit in Plock was completed. The conditions for connection to the nearby 400 kV station were provided and the possibility of powering the unit with fuel was assured upon. In December 2012 the positive environmental decision was issued, which is the key permit in the power plant construction project implementation. In 2013, it is planned to organise a tender in order to select the unit supplier and to carry out additional analytical work to specify such investment’s economic efficiency.

In accordance with the adopted power strategy, the ORLEN Group considers also the investments in the renewable energy sources as the addition to the conventional power production. As part of such project, the possibilities of investment in the sea wind farms are analysed. In 2012, the first permit for the construction of the so called “artificial islands” was obtained, which will allow for implementation of the project with the capacity of up to 1200 MWe. The obtained permit will allow to carry out a number of surveys necessary to assess the investment possibilities, including the windiness measurements, geological and geotechnical surveys as well the environmental research. The time horizon forecasted for the research conduct and interpretation of its results is about 4 years. The sea wind farms may play in the future the key role in power supply and compliance with the European Union climate policy requirements.

3.4.2 Upstream

Poland may be one of ten countries with the possibly largest shale gas deposits in the world. Polish shale gas is located from the coast, between Slupsk and Gdansk, in the direction of Warsaw, as far as Lublin and Zamosc are located.
The potential of Polish shale gas in noticed by foreign investors. Until the end of 2012, 115 concessions for exploration in unconventional deposits were issues. The area covered by unconventional deposits exploration covers approximately 30% of the Poland area, i.e. approximately 90,000 km².

PKN ORLEN, through its subsidiary ORLEN Upstream Sp. z o.o, remains one of the leaders of unconventional gas deposits exploration in Poland. After the positive decision issued by the Ministry of the Environment in February 2013, concerning the assignment of two other concession owned previously by ExxonMobil Exploration and Production Poland, the ORLEN Group holds 10 exploration concessions covering the total area of approximately 9 thousand square km. The areas covered by exploration represent almost 10% of all areas, where unconventional gas is explored in Poland.

Shale gas exploration and extraction in Poland is still in its initial development phase. Until the end of 2012, 39 exploratory drillings were performed. The key to conduct research and commence to extract shale gas commercially is the increase in the number of drillings and researches.

Unconventional projects
As part of the Lublin Shale project focused on unconventional deposits, drilling work was continued to be carried out in 2012. Core samples were collected from 2 drillings performed at the turn of 2011 and 2012, which were subject to thorough analyses. Their results allowed to decide on performance of horizontal drillings.

In 2012, the first vertical exploratory drilling was made under the Garwolin concession. Rock core samples were collected from the drilling, which are currently analysed.

Also, the first horizontal drilling was performed under Wierzbica license, the drilling sites for three new drillings were prepared and the second horizontal drilling was commenced under Lubartów license. Moreover, preparations to carry out fracturing and trials on horizontal drillings performed on the area of Wierzbica and Lubartów licenses were conducted. Apart from the performance of drilling work, ORLEN Upstream plans to obtain the additional seismic data on Garwolin, Lubartow and Wierzbica blocks.
As a part of Hrubieszów Shale and Mid-Poland Unconventionals projects, in 2012 work relating to collection and analyses of the archive data regarding 2D and borehole seismic data was carried out, also, the geological database was continued to be created.

Conventional projects

In 2012, as part of the project implemented on the Polish Lowland area near Sierakow in cooperation with PGNiG S.A., the preparatory work for conducting of second exploration drilling was carried out.

In 2012, the Karbon Project implemented in the Lublin Region entered another exploration phase – the drilling phase, which is to result in verification of presence of hydrocarbons accumulation as well as assessment of potential crude oil and natural gas deposits in conventional deposits in Lubelski basin. In the previous period the most promising drilling destinations on Lublin and Garwolin units were also verified. The initial location of the first exploration drilling was determined. In the half of 2013, ORLEN Upstream plans to perform a exploration drilling and acquire new 2D seismic data under Belszycie concession, which will be later subject to processing and interpretation.

In 2012, exploring in the Latvian zone of the Baltic Sea shelf was also performed, in cooperation with Kuwait Energy Company (KEC) – the Kambr Project. The project is implemented through the holding company, ORLEN International Exploration and Production Company BV (OIEPCo). The work focused on determination of the drilling location and preparation of the drilling work. Geotechnical surveys of the sea bottom were carried out and the process of selection of the drilling services provider was completed. The drilling will be performed with the use of the half-submersible platform, which is to start to operate in the mid of 2013.

3.5 Description of basic risks and threats of conducted operations

3.5.1 Credit risk

Within its trading activity the Company sells products and services with deferred payment term, which may result in the risk that customers will not pay for the Company’s receivables from sales of products and services. In order to minimize credit risk and working capital the Company manages the risk by credit limit policies governing granting of credit limits to customers and establishment of pledges of appropriate types. Each deferred payment term customer is individually assessed with regard to credit risk. A portion of trade receivables is insured within an organized trade credit insurance program. Trade receivables are monitored by finance departments on a regular basis. In the event of occurrence of overdue receivables, sale is withheld and debt recovery procedures implemented as described by the obliging procedures. The established payment term of receivables connected with the ordinary course of sales amounts to 14 - 30 days. As at 31 December 2012 and 31 December 2011 the carrying amount of loans granted amounted to PLN 1,532,617 thousand and PLN 682,886 thousand, respectively.

Based on the analysis of receivables the customers were divided into two groups:
- I group – customers with good or very goods history of cooperation in the current year;
- II group – other customers.

The concentration of risk connected with trade receivables is limited due to large number of customers with trade credit dispersed in various sectors of the domestic and foreign economy.

Credit risk associated with cash and bank deposits is assessed by the Company as low. All entities in which the Company’s free cash are deposited, are operating in financial sector. They include domestic banks and branches of foreign banks which have the highest short-term credit credibility (96% of deposited cash) or good credibility (4% of deposited cash).

Credit risk associated with assets resulting from the positive valuation of derivative instruments is assessed as low, due to the fact that all transactions are concluded with banks having high credit rating. One of the factors significant for bank choice is rating on the level not lower than A.

Credit risk associated with granted intercompany borrowings is assessed by the Company as low, due to the fact that agreements are concluded with companies having secure both financial and operating position. The Company does not identify any threat in settling the obligation resulting from borrowings agreements.

The measure of credit risk is the maximum exposure to credit risk for each class of financial instruments. Maximum credit risk exposure in relation to particular financial assets by category is equal to their carrying amount. In order to reduce the risk, as at 31 December 2012 and 31 December 2011 the Company received from its customers securities such as: bank and insurance guarantees amounting to PLN 849,052 thousand and PLN 799,690 thousand, respectively. Additionally, the Company receives from its customers securities such as blockade of cash on bank accounts, mortgages and bills of exchange.

The Company is exposed to credit risk related to guarantees issued for the business partners. The maximum level of exposure due to guarantees issued is the maximum amount, which the Company would be obliged to pay in case of guarantee payment demand by the business partner. The value of the guarantees and sureties related to third party liabilities issued in its day-to-day operations as at 31 December
2012 and 31 December 2011 amounted to PLN 108,352 thousand and PLN 102,114 thousand, respectively. Guarantees and sureties concerned mainly performance guarantees.

Based on the forecasts as at the end of the reporting period, the Company recognised the likelihood of payment of such amounts can be described as low.

Detailed information regarding credit risk are presented in note 31.6.1 of the Separate Financial Statements for 2012.

3.5.2 Liquidity risk

The Company is exposed to liquidity risk resulting from the relation between current assets and short-term liabilities. As at 31 December 2012 and as at 31 December 2011 current assets to short-term liabilities ratio (current ratio) amounted to 1.8 and 1.5, respectively.

In 2007 the Company entered into Bond issuance program. Bond issues enable the Company to go out beyond traditional bank market and to gain cash from other financial institutions, companies or natural persons. Bond Issuance Program is also used to manage liquidity within the domestic and foreign entities of the ORLEN Group. During 2012 and 2011 bond issues were made only on the domestic market.

In order to optimize financial expenses the Company uses cash pool facility. As at 31 December 2012 the domestic cash pool facility (in PLN) comprised 23 entities belonging to the ORLEN Group, while cross border cash pool facility denominated in EUR, USD and PLN held in foreign bank comprised PKN ORLEN and foreign entities belonging to the ORLEN Group (ORLEN Finance, ORLEN Lietuva, ORLEN Deutschland, Unipetrol a.s. together with Unipetrol Group entities).

As at 31 December 2012 and 31 December 2011 the maximum possible indebtedness due to loans amounted to PLN 14,776,329 thousand and PLN 16,089,813 thousand, respectively. As at 31 December 2012 and 31 December 2011 PLN 8,495,754 thousand and PLN 5,697,530 thousand respectively remained unused.

Detailed information regarding liquidity risk are presented in note 31.6.2 of the Separate Financial Statements for 2012.

3.5.3 Market risk

PKN ORLEN manages market risks resulting from the above mentioned factors using market risk management policy. The applied policy describes methods of management of each of the exposures by defining process of exposure measurement, hedge parameters, as well as time horizon of hedging and heading instruments. Market risk management is realized by designated organization units under supervision of the Financial Risk Committee of PKN ORLEN, the Management Board of PKN ORLEN.

The objective of market risk management is to reduce the unfavorable effects of changes in market risk factors on the cash flow and financial results in the short and medium term. Market risk management is conducted using hedging strategies based on derivative instruments. Derivatives are used solely to reduce the risk of changes in fair value and risk of changes in cash flows. PKN ORLEN applies only those instruments which can be measured internally, using standard valuation models for given instrument. As far as market valuation of the instruments is concerned, the Company relies on information obtained from market leading banks, brokers and information services. Transactions are concluded only with reliable partners, authorized to participate in transactions through the application of appropriate procedures and signing the relevant documentation.

The major market risks arising for PKN ORLEN are as follows:

- **currency risk**

The Company is exposed to currency risk resulting from current receivables and short-term liabilities, cash and cash equivalents, investment expenditures as well as liabilities from loans and bonds issued denominated in foreign currencies as well as from future planned cash flows from sales and purchases of refining and petrochemical products and merchandise. Currency risk exposure is hedged by forward or swap instruments.

For USD/PLN exchange rate there is partially a natural hedge, as revenues from sale of products denominated in USD are offset by costs of crude oil purchases denominated in the same currency. In case of EUR/PLN exchange rate, revenues from sales of petrochemical products are denominated in this currency. For this group natural hedge exists to the limited extent (for example interest on loans denominated in EUR, part of investment purchases).

Detailed information regarding currency risk are presented in note 31.6.3.1 of the Separate Financial Statements for 2012.

- **interest rate risk**

The ORLEN Group is exposed to risk of volatility of cash flows due to interest rates resulting from borrowings, interest-bearing loans and debt securities based on floating interest rates as well as derivative transactions hedging risk of cash flows.
Detailed information regarding interest rate risk are presented in note 31.6.3.2 of the Separate Financial Statements for 2012.

- **operations and unforeseen accident risk**

PKN ORLEN is exposed to operations and unforeseen accident losses. As a part of risk management, in order to minimize any adverse effects of such risks, PKN ORLEN adopted professional and tailored to individual needs insurance programs. For that purpose, captive entity was formed – ORLEN Insurance Ltd. based in Malta. Captive operations are based on the Parent Company best knowledge about its operations, assets and potential risks areas, which exceed the range of information hold by insurance companies. Additionally, PKN ORLEN based on its knowledge can impact and control risks areas through prevention measures.

Insurance coverage under ORLEN Insurance Ltd. polices is reinsured by the biggest international insurance and reinsurance companies under the program led by AIG Europe and Allianz, and where the biggest world insurance companies such as AIG, Allianz, HDI, Munich Re, ACE and polish companies PZU and TUiR Warta are involved. Program itself provides coverage for all risks losses, including machinery breakdown together with insuring the loss of gross margin, not only in ORLEN Group entities but also within their major suppliers and customers.

In addition to comprehensive assets insurance, PKN ORLEN holds other insurances to ensure minimizing the adverse impact of damages i.e. third party insurance or property insurance in transport.

- **risk of raw materials and refining products prices**

The Company's operating activities include the following risks:
- changes in prices of crude oil used for processing,
- changes relating to the obligation of maintaining mandatory crude oil and fuels inventories,
- changes in the amount of Brent/Ural differential (differences in quotations of such types of crude oils),
- changes in the sale prices of refining and petrochemical products, which are contingent upon crude oil and products quotations on the world markets.

As at 31 December 2012 there were financial instruments hedging the risk of changes in commodity prices relating to the hedge of cash flows resulting from sale/purchase settlements of crude oil and diesel.

For detailed information on the raw materials and oil products’ prices risk see note 31.6.3.3 to the Separate Financial Statements for 2012.

- **risk related to the raw materials supply**

Raw materials are mostly supplied within the ORLEN Group via a pipeline system, by land and sea transport. The risk related to the supply of raw materials arises due to the necessity to timely provide raw materials for production purposes.

Factors which significantly affect the supply of raw materials for the ORLEN Group companies are mostly related to current political situation in the states exporting crude oil, efficiency of pipeline system and railways as well as weather conditions, which are important for sea transport.

PKN ORLEN takes measures to ensure stable raw materials supply, mainly through diversification of sources and adoption of the production installations to process various types of raw materials. Additionally, the ORLEN Group implements a number of conventional and unconventional exploration projects in order to obtain their own sources of gas and crude oil.

- **risk of changes in legislation**

The risk arising out of changes in legislation concerns mainly the following areas of PKN ORLEN's operations:
- provisions of law on biofuels,
- quantity limits of granted CO₂ emissions rights,
- provisions of law on colour energy certificates,
- gathering and keeping of mandatory reserves.

**Biofuels**

Biofuels-related issues are regulated by the following provisions:
- the Biocomponents and Liquid Biofuels Act of 25 August 2006, regulating the rules for placing biocomponents and liquid biofuels on the market and determination and achievement of the National Index Target (NIT),
- the Fuels Quality Monitoring and Controlling Act of 25 August 2006, specifying the reduction factor of the NIT level for the years 2012 and 2013 in the amount of 0.85,
- Regulation of the Council of Ministers of 15 June 2007 on the National Index Targets for the years 2008 – 2013 – specifying the level of the National Index Target (“NIT”) for particular years.
Since 2008 the obligation to satisfy the National Indicative Target (NIT) has been imposed on the fuel producers, which determines the minimum share of biocomponents and other renewable fuels calculated at the heating value in the general quantity of liquid fuels and biofuels used up in transport during the calendar year.

**TABLE 10. NIT value 2008-2012.**

<table>
<thead>
<tr>
<th>ITEM</th>
<th>M.U.</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>NIT value</td>
<td>%</td>
<td>3.45</td>
<td>4.60</td>
<td>5.75</td>
<td>6.20</td>
<td>6.65</td>
</tr>
</tbody>
</table>

Currently works upon Directive 2009/30/EU and 2009/28/EU (ILUC - Indirect Land Use Change) are carrying out, directives determine realization of the half of the set 10 % share of renewable fuels used in transport in 2020.

In line with above Directives ILUC, changes in bio-components and biofuels legislation are anticipated, which determine an implementation of provisions on sustainability criteria (certification system/traceability of raw material used for production of bio-components) and the next generation biofuels double counted for settlement the NIT. Additionally, the act of monitoring and controlling fuel quality is anticipated to change as a result of implementation of new obligation of monitoring and reduction of greenhouse gas emission (GHG) from fuel and energy used in transportation (implementation of National Reduction Target). Amendment of Council of Ministers Ordinance regarding the NIT for 2014–2019 is also expected.

**CO₂ emission rights**

Issues related to the CO₂ emission rights are regulated in the following legal acts:

- Environmental Protection Law dated 27 April 2001 which regulates the conditions for the protection of natural resources, introduction of substances or energy to the environment, costs of environmental use,
- Act dated 28 April 2011 on the system of trading greenhouse gas emission rights which sets, among other things, the rules of volume distributions, conditions for granting and using the emission rights, sanctions for activities being carried out without the required number of emission rights.

Under the applicable legal regulations arising out of the Kyoto Protocol to the United Nations Framework Convention on Climate Change adopted by the European Union, upon the decision of the Council of Ministers, the ORLEN Group entities received rights which determine the maximum CO₂ emission volume.

Each year PKN ORLEN verifies the number of such rights and determines the way of systematic balancing of the discovered deficits/surpluses as intra-group or futures and spot transactions depending on the situation.

In the future it is expected that the pool of free-of-charge CO₂ emission rights will be reduced as early as at the initial stage of the 3rd settlement period for the years 2013-2020. Additionally, the electric energy producers will not be given a pool of free-of-charge emission rights.

Consequently, the PKN ORLEN’s business is subject to a risk of partial deficits with regard to the CO₂ emission rights and the costs of their purchase from the market.

In 2012 the Group concluded hedging transactions to secure the purchase price of the rights to be redeemed in the future to settle the CO₂ emission. Valuations of such transactions are not included in the consolidated financial statements.

**Colour energy certificates**

Issues related to the colourful energy certificates are regulated in:

- Energy Law dated 10 April 1997 and Minister of Economy Regulation on electricity produced from renewable energy sources and electricity produced in the process of high-performance cogeneration.

Colour certificates support electric energy producers of renewable sources and high efficiency cogeneration. The number of awarded colour certificates depends on size of energy production and the structure of used fuel.

At the moment, an act is being developed with a view to introduce the so-called energy triple pack: energy law, gas law and renewable energy sources act, which is designed to extend the support for the production of electricity in cogeneration systems (yellow, violet and red certificates) until 2021 and the support for the electricity produced from new (launched in 2013) cogeneration sources (orange certificates) until 2030.

As a result, PKN ORLEN is subjected to risks related to the legal regulations on the number of certificates granted and changes in certificate prices, as well as a risk of increased costs of replacement fees.

**Mandatory reserves**

The system designed to maintain mandatory reserves in Poland is regulated by:

- Act dated 16 February 2007 regulating the reserves of crude oil, refining products and natural gas and how to proceed in case of risk to the fuel safety of the state and disruptions on the oil market.
The Act imposes an obligation on all the companies operating on the fuel market to keep crude oil or fuel reserves (excluding LPG). In 2012 the reserve volume was set at a level of at least 76 days of the average daily production or imported volume, as realised by the producer or trader in the previous year.

The existing regulations may change as a result of works on the draft act which will adjust legal provisions to the requirements set in the EU Directive 2009/119/EC. The present draft provides, among other things, for a new methodology to calculate intervention reserve levels to be introduced and consequently, for a change in the requirements set for the companies, an introduction of the so-called “reserve fee” and regulations on the state supervision over the accessibility of the mandatory reserves.

According to the Lithuanian law, the level of mandatory reserves for 2012 was 90 days; the producers and fuel importers were supposed to provide for 60 days, whereas the 30-day reserves were ensured by the state. The mandatory fuel and crude oil reserves, according to the Czech Republic legislature, are kept by a government agency established for this purpose.

- risk of changes in fuels consumption and import trends

A change in the fuels consumption and import trends can substantially affect the volume of sales and the level of prices of products of PKN ORLEN that are possible to be achieved and consequently, PKN ORLEN financial standing. The changes in diesel oil and gasoline consumption on PKN ORLEN market are presented in point 4.1.5.

Based on the data of ARE, the total fuel import to Poland in 2012 decreased, as compared to 2011, by (-) 1,136 thousand tonnes (y/y) (i.e. (-) 46.7%) to the level of 1,299 thousand tonnes. Diesel oil import decreased by almost (-) 55% (y/y) and achieved the level of 862 thousand tonnes, that is 66% of total fuel import. The greatest observed diesel oil import was from Germany (54%), Slovakia (27%) and Lithuania (13%). It is estimated that in 2012 about 437 thousand tonnes of gasoline was imported to Poland, i.e. nearly by (-) 17.5% less than in 2011. The greatest amount of gasoline came from Germany (57%) and Slovakia (38%).

When operating on the fuel trade market, PKN ORLEN is subject to the risk related to the – so called – “shadow economy” activity, which mostly involves introducing cheaper fuel to the market without the due tax.

High fuel prices resulted in a big number of companies emerging on the market to sell fuels at understated prices. This brings the market out of balance and, consequently, adversely affects the revenues and the competitive position of PKN ORLEN. The fuel sector estimates that about a million tonnes of fuel i.e. 7% of the fuel market, may be sold in the shadow economy.

3.6 Environmental protection

The year 2012 was another year in which integrated environmental protection measures were continued. This involved the continuous monitoring and the minimisation of impact of production and storage and distribution processes on the natural environment. The eco-awareness of the employees and educational and organisational activities carried out with the participation of a large number of employees also play a significant role in the environmental protection measures.

PKN ORLEN regularly analysed changes in the legal requirements set for environmental protection to ensure full compliance of internal organisation regulations with the law generally applicable in Poland. Any changes in the integrated permits were made within the deadlines set.

PKN ORLEN thoroughly analysed the provisions of the EU Commission Regulation on monitoring and reporting greenhouse emission under Directive 2003/87/EC in terms of requirements and obligations to be fulfilled by installations covered by the EU ETS (European Union Emissions Trading System). Consequently, applications were drawn up and filed for greenhouse emission permits to be issued for installations in the Plock Plant.

In order to ensure the compliance of fuel stations operations in terms of water and wastewater management, steps were taken to obtain water law permits.

A detailed sewage and groundwater monitoring was introduced for all storing and distribution facilities. The process of re-cultivation of the soil and water environment in the production areas of PKN ORLEN which were found to be contaminated with oil products was continued based on the scope of works agreed upon with the Regional Environmental Protection Offices.

The year 2012 was another year in which the “Responsible Care” programme was conducted. Having obtained a certificate for the Framework Responsible Care Management System in 2011, PKN ORLEN assessed to what extent individual elements of the system were introduced and implemented. The eco-awareness of the employees is constantly growing, attitudes stimulating larger involvement in the environmental measures are promoted, e.g. through the organisation of the 6th edition of an ecological photography competition “Catch a Hare” which promoted the beauty of the surrounding nature.

The year 2012 was the twentieth, jubilee year of implementation of the Responsible Care Programme in Poland. PKN ORLEN received an award for its long-term involvement in and successful cooperation on the implementation of the Programme concepts during the 8th Ecology Forum of the Chemical Sector in Torun.

Measures taken in 2012 were also distinguished with the European Ecology Award that was granted to PKN ORLEN by a jury of the Ecology competition “Nature friendly”. PKN ORLEN was found to be an environmentally friendly Company of the “New EU” that takes active steps to change the condition of and protect the natural environment.
3.7 Occupational safety and health

The main objective of the occupational safety and health (“OSH”) in PKN ORLEN is to ensure proper working conditions and regular identification and elimination of the risks. All the PKN ORLEN’s organizational units are covered by this system.

In 2012 the Occupational Safety and Health system of PKN ORLEN was substantially changed. Major changes involved proper working conditions and the identification and elimination of threats. The new system solutions were implemented and the current ones were verified.

In 2012 special attention was paid to the safety management policy and the development of the occupational safety culture at the operational level. The result of the measures taken to improve the occupational safety is a drop in the number of accidents in 2012 by (-) 33.3% as compared to 2011.

**DIAGRAM 7.** The number of accidents in PKN ORLEN in 2009-2012.

The accident rate - TRR (Total Recordable Rate) reached the best result in the history of PKN ORLEN 1.1 as compared to rate of 1.7 in 2011. The methodology of calculating the ratio is presented in the Glossary of selected technical definitions at the end of foregoing Management Board Report.
4. PRESENT AND FORECASTED FINANCE POSITION OF PKN ORLEN

4.1 Basic economic and financial values and factors and non-typical events exerting significant influence on the achieved financial result

4.1.1 Separate statement of profit or loss and other comprehensive income

**TABLE 11** Separate statement of comprehensive income.

<table>
<thead>
<tr>
<th>ITEM (PLN thousand)</th>
<th>2012</th>
<th>2011</th>
<th>CHANGE</th>
<th>CHANGE %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales revenues</td>
<td>88,348,971</td>
<td>79,037,121</td>
<td>9,311,850</td>
<td>11.8%</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>-83,753,762</td>
<td>-73,327,619</td>
<td>-10,426,143</td>
<td>14.2%</td>
</tr>
<tr>
<td>Gross profit on sales</td>
<td>4,595,209</td>
<td>5,709,502</td>
<td>-1,114,293</td>
<td>-19.5%</td>
</tr>
<tr>
<td>Distribution expenses</td>
<td>-2,065,565</td>
<td>-1,947,915</td>
<td>-117,650</td>
<td>6.0%</td>
</tr>
<tr>
<td>General and administrative expenses</td>
<td>-754,926</td>
<td>-671,186</td>
<td>-83,740</td>
<td>12.5%</td>
</tr>
<tr>
<td>Other operating revenues</td>
<td>372,879</td>
<td>435,158</td>
<td>-62,279</td>
<td>-14.3%</td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>-337,514</td>
<td>-351,621</td>
<td>14,107</td>
<td>-0.4%</td>
</tr>
<tr>
<td>Profit from operations</td>
<td>1,810,083</td>
<td>3,173,938</td>
<td>-1,363,855</td>
<td>-43.0%</td>
</tr>
<tr>
<td>Financial revenues</td>
<td>1,639,570</td>
<td>2,999,717</td>
<td>-1,360,147</td>
<td>-45.3%</td>
</tr>
<tr>
<td>Financial expenses</td>
<td>-785,690</td>
<td>-3,777,208</td>
<td>2,991,518</td>
<td>-79.2%</td>
</tr>
<tr>
<td>Financial revenues and expenses</td>
<td>853,880</td>
<td>-777,491</td>
<td>1,631,371</td>
<td>-</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>2,663,963</td>
<td>2,396,447</td>
<td>267,516</td>
<td>11.2%</td>
</tr>
<tr>
<td>Income tax expense</td>
<td>-536,165</td>
<td>-1,010,281</td>
<td>474,116</td>
<td>-46.9%</td>
</tr>
<tr>
<td>Net profit</td>
<td>2,127,798</td>
<td>1,386,166</td>
<td>741,632</td>
<td>53.5%</td>
</tr>
</tbody>
</table>

Sales revenues

In 2012, PKN ORLEN generated an increase sales revenues by PLN 9,311,850 thousand (by 11.8%) (y/y) up to the level of PLN 88,348,971 thousand.

The growth of sales revenues in 2012 is mainly a result of increase of the revenues from sales of refining segment by PLN 6,555,729 thousand (12.0%) (y/y) mainly as a result of higher quotations for main products and the increase in the average PLN/foreign currency exchange rate, at a lower volume sales. As compared to 2011, the average annual quotations for gasoline in PLN increased by 15.6% (y/y), diesel oil by 12.4% (y/y), light heating oil by 12.2% (y/y) and Jet A-1 fuel by 11.2% (y/y).

The revenues generated by the retail segment increased by PLN 2,051,803 thousand (11.6%) (y/y), mainly as a result of higher fuels prices due to the increasing quotations for crude oil and, consequently, of fuels, as well as higher revenues from the sale of non-fuel merchandises and service accompanied by similar level of sales volume (y/y).

Increase of revenues in the petrochemical segment by PLN 685,643 thousand (10.6%) (y/y) is due to the higher volume sales by 1.0% (r/r), mainly as an effect of the sales of terephthalic acid (PTA) during the whole year (launch of sales on May 2011). Sales revenues were positively affected by the higher quotations for the segment core products in PLN, i.e. ethylene by 10.2% (y/y), propylene by 1.3% (y/y), benzene by 20.1% (y/y), toluene by 23.3% (y/y) and paraxylene by 3.4% (y/y).

Additionally, increased sales revenues, were enhanced by the execution of two transactions concerning the sale of part of the mandatory reserves with Ashby Sp. z o. o. and Whirlwind Sp. z o.o. for the total amount of PLN 2,433,998 thousand and sale of crude oil to the ORLEN Group refinery amounting to PLN 34,700,132 thousand, in comparison to PLN 29,900,918 thousand in 2011 in the framework of providing supply within ORLEN Group subsidiaries.

Detailed information relating to the geographic distribution of sales revenues is also presented in note 5.2.3 to the Separate Financial Statements for 2012.

Operating result

PKN ORLEN measures inventories in accordance with the International Financial Reporting Standards at the weighted average production cost or acquisition price. Such valuation method causes delayed recognition of effects of the increase or decrease in the crude oil purchase price with respect to the prices obtained from the sales of finished goods. A growing tendency of crude oil prices positively affects the operating results and a falling tendency – negatively.

The negative effect of the increasing crude oil PLN prices, partially compensated by appreciation of PLN against foreign currencies, on the valuation of the PKN ORLEN’s inventories in 2012 was not significant and amounted to PLN (−) 81,477 thousand. A compared in 2011 increasing crude oil prices and observed depreciation of PLN against foreign currencies had a positive effect on inventories valuation as well as operating result and amounted to PLN 2,105,842 thousand. As a result of net effect of inventories valuation resulted in the decrease of operating result of PKN ORLEN in 2012 by PLN (−) 2,187,320 thousand (y/y)

Despite negative effect of inventories valuation and unstable macroeconomic environment relating to declining fuel consumption, PKN ORLEN generated PLN 1,810,083 thousand of operating profit, in comparison of PLN 3,173,938 thousand in prior year.

A positive effect of changing macroeconomic factors, specifically visible in the refining segment, improved the operating results of PKN ORLEN in 2012 by approximately PLN 1,002,000 thousand (y/y).

Higher sales volume in the petrochemical segments increased PKN ORLEN’s operating results by approximately PLN 418,000 thousand (y/y).

Positive effect of the processing of crude oil with low sulphur content aimed at limiting the effects of turnarounds and repurchase of the I tranche of mandatory crude oil reserves amounted to approximately PLN 507,000 thousand in 2011 (y/y). Positive effect of the II tranche of mandatory crude oil reserves in January 2012 equalled to approximately PLN 240,000 thousand (y/y). As a result, the net effect of the above one-off events on the results generated in 2012 was negative and amounted to PLN (−) 267,000 thousand (y/y).

The negative effect of other elements amounting to PLN (−) 329,535 thousand (y/y) comprised mainly of legislative changes in taxation of bio-components, higher costs of depreciation and amortization as well as a change of other operating activities balance results from a lack of positive effects in 2011 including mainly reimbursement of the penalty paid from ENERGA-OPERATOR S.A. in the amount of PLN 75,879 thousand.

Refining segment

TABLE 12. Basic financial figures for refining segment.

<table>
<thead>
<tr>
<th>REFINING SEGMENT (PLN thousand)</th>
<th>2012</th>
<th>2011</th>
<th>CHANGE</th>
<th>CHANGE %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Segment revenues</td>
<td>85,197,430</td>
<td>76,198,395</td>
<td>8,999,035</td>
<td>11.8%</td>
</tr>
<tr>
<td>Sales to external customers</td>
<td>61,379,455</td>
<td>54,823,726</td>
<td>6,555,729</td>
<td>12.0%</td>
</tr>
</tbody>
</table>
In 2012 the operating profit of the refining segment generated by PKN ORLEN amounted to PLN 1,092,639 thousand in comparison to 2,453,725 thousand gained in 2011.

The negative effect of decreasing crude oil PLN prices on the inventories valuation in 2012 was higher by PLN (-) 2,086,003 thousand (y/y).

The total impact of changing macroeconomic environment including mainly improvement of model refining margins and a change of PLN/foreign currency exchange rate as well as sales volume exerted a positive impact on the enhancement of operating result of the segment by PLN 1,279,000 thousand (y/y).

The positive impact of processing of crude oil with low sulphur content aimed at limiting the effects of turnaround and repurchase of I tranche of mandatory reserves of crude oil in 2011 amounted to approximately PLN 507,000 thousand (y/y). The positive effect of repurchase of the II tranche of mandatory reserves in January 2012 was equal to approximately PLN 240,000 thousand (y/y). As a result, the net effect of the above one-off events on the results generated in 2012 was negative and amounted to PLN (-) 267,000 thousand (y/y).

The negative effect of the other positions was equal to PLN (-) 287,083 thousand (y/y) and included mainly the influence of legislative changes in respect of tax regulations concerning bio-components in fuels as a result of removing tax credits since 1 May 2011 and in the remaining part the net effect of factors related with commercial and operating segment.

In 2012 in comparison to 2011, witnessed a reduction in the segment's capital expenditures ("CAPEX") by PLN (-) 179,528 thousand (y/y) to the level of PLN 335,965 thousand.

Major investment tasks implemented in 2012 included: construction of boiler K8 in the Power and Heat Plant, modernization and intensification of HF Alkylation plant, construction of catalytic denitrifying and dedusting installation in the Power and Heat Plant and legalisation of product containers.

**Retail segment**

**TABLE 13** Basic financial figures for retail segment.

<table>
<thead>
<tr>
<th>RETAIL SEGMENT (PLN thousand)</th>
<th>2012</th>
<th>2011</th>
<th>CHANGE (2-3)</th>
<th>CHANGE % 5=(2-3)/3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Segment revenues</td>
<td>19,747,794</td>
<td>17,695,991</td>
<td>2,051,803</td>
<td>11.6%</td>
</tr>
<tr>
<td>Sales to external customers</td>
<td>19,747,794</td>
<td>17,695,991</td>
<td>2,051,803</td>
<td>11.6%</td>
</tr>
<tr>
<td>Transactions with other segments</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>-</td>
</tr>
<tr>
<td>Segment expenses</td>
<td>-19,208,760</td>
<td>-17,328,409</td>
<td>-1,880,351</td>
<td>10.9%</td>
</tr>
<tr>
<td>Other operating revenues/expenses, net</td>
<td>-73,218</td>
<td>-115,694</td>
<td>42,476</td>
<td>-36.7%</td>
</tr>
<tr>
<td>Profit from operations</td>
<td>465,816</td>
<td>251,888</td>
<td>213,928</td>
<td>84.9%</td>
</tr>
<tr>
<td>Profit from operations plus depreciation and amortisation (EBITDA)</td>
<td>678,659</td>
<td>438,878</td>
<td>239,781</td>
<td>54.6%</td>
</tr>
<tr>
<td>Capital expenditures on non-current non-financial assets and intangible assets (CAPEX)</td>
<td>367,404</td>
<td>228,303</td>
<td>139,101</td>
<td>60.9%</td>
</tr>
</tbody>
</table>

In 2012, the retail segment's operating profit of the PKN ORLEN amounted to PLN 465,816 thousand in comparison with the amount of PLN 251,888 thousand in 2011.

The gradual reconstruction of fuel margins with a neutral sales volume (y/y) enhanced of the segment's operating result by PLN 241,000 thousand (y/y).
Higher realised margins of sales of non-fuel merchandise and services contributed to the increase in segment’s result by PLN 16,000 thousand (y/y).

The overall impact of the remaining factors of PLN (-) 43,072 thousand (y/y) represents mainly the net effect of higher costs of fuel stations’ operations at the positive effect of the changed balance on the other operating activity in relation to the lack of plant property and equipment impairment allowances in 2011 in the segment.

In comparison with the year 2011, the year 2012 witnessed higher amounts of capital expenditures (“CAPEX”) in the segment by PLN 139,101 thousand (y/y) to the level of PLN 367,404 thousand. In 2012, in PKN ORLEN opened 6 fuel CODO stations and 40 DOFO stations. Additionally, 39 fuel CODO stations and 2 DOFO stations, changed the brand. 9 CODO stations and 26 DOFO stations were closed. Also the business model was changed from DOFO to CODO at 4 stations.

Petrochemical segment

<table>
<thead>
<tr>
<th>TABLE 14</th>
<th>Basic financial figures for petrochemical segment.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SEGMENT PETROCHEMIA</strong></td>
<td><strong>2012</strong></td>
</tr>
<tr>
<td>Segment revenues</td>
<td>10,447,510</td>
</tr>
<tr>
<td>Sales to external customers</td>
<td>7,139,775</td>
</tr>
<tr>
<td>Transactions with other segments</td>
<td>3,307,735</td>
</tr>
<tr>
<td>Segment expenses</td>
<td>-9,604,010</td>
</tr>
<tr>
<td>Other operating revenues/expenses, net</td>
<td>15,829</td>
</tr>
<tr>
<td>Profit from operations</td>
<td>859,329</td>
</tr>
<tr>
<td>Profit from operations plus depreciation and amortisation (EBITDA)</td>
<td>1,202,283</td>
</tr>
<tr>
<td>Capital expenditures on non-current non-financial assets and intangible assets (CAPEX)</td>
<td>187,075</td>
</tr>
</tbody>
</table>

In 2012 the operating profit generated by the segment amounted to PLN 859,329 thousand in comparison with PLN 965,332 thousand generated in 2011.

Impact of the change of the petrochemical products’ prices on the valuation of inventories reduced the segment’s operating profit generated in 2012 by PLN (-) 101,317 thousand (y/y).

Impact of macroeconomic environment on segments’ results was neutral and resulted mainly from coverage of negative influence of lower model margins by positive effect of foreign exchange rates.

The growth of sales volume of the segment, mainly due to the sales of terephthalic acid that was conducted during the whole year contributed to the improvement of operating result by PLN 113,000 thousand (y/y).

Negative impact of other positions amounted to PLN (-) 94,320 thousand and included higher (y/y) depreciation and amortization costs in accordance with launching of PX/PTA Complex as well as in remaining part the influence of changing commercial terms relating to sale of products.

In 2012, as compared to the year 2011, the capital expenditures (“CAPEX”) in the segment were increased by PLN 2,461 thousand (y/y) to the level of PLN 187,075 thousand.

The largest investment tasks implemented in 2012 included overhaul of the Olefins Expedition Division installation, pneumatics and automation at the Phenol Division, tasks related to the improvement of safety of operations of the Ethylene Oxide II installation and replacement of condensers on the Pyrolytic Gasses Separation Installation.
Corporate functions

TABLE 15 Basic financial figures for corporate functions..

<table>
<thead>
<tr>
<th>CORPORATE FUNCTIONS (PLN thousand)</th>
<th>2012</th>
<th>2011</th>
<th>CHANGE</th>
<th>CHANGE %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Segment revenues</td>
<td>153 817</td>
<td>125 407</td>
<td>28 410</td>
<td>22.7%</td>
</tr>
<tr>
<td>Sales to external customers</td>
<td>81 947</td>
<td>63 272</td>
<td>18 675</td>
<td>29.5%</td>
</tr>
<tr>
<td>Transactions with other segments</td>
<td>71 870</td>
<td>62 135</td>
<td>9 735</td>
<td>15.7%</td>
</tr>
<tr>
<td>Segment expenses</td>
<td>-757 150</td>
<td>-690 290</td>
<td>-66 860</td>
<td>9.7%</td>
</tr>
<tr>
<td>Other operating revenues/expenses, net</td>
<td>-4 368</td>
<td>67 876</td>
<td>-72 244</td>
<td>-</td>
</tr>
<tr>
<td>Loss from operations</td>
<td>-607 701</td>
<td>-497 007</td>
<td>-110 694</td>
<td>22.3%</td>
</tr>
<tr>
<td>Loss from operations plus depreciation and amortisation (EBITDA)</td>
<td>-530 187</td>
<td>-429 149</td>
<td>-101 038</td>
<td>23.5%</td>
</tr>
<tr>
<td>Capital expenditures on non-current non-financial assets and intangible assets (CAPEX)</td>
<td>85 743</td>
<td>82 323</td>
<td>3 420</td>
<td>4.2%</td>
</tr>
</tbody>
</table>

Higher (y/y) net costs of corporate functions in 2012 are mainly due to the lack of positive effects of the other operating activity in 2011 amounting to PLN (-) 72,244 thousand (y/y) and including reimbursement of the penalty paid to ENERGA-OPERATOR S.A. by PKN ORLEN as a result of overruling by the Supreme Court an unfavourable sentence for PKN ORLEN.

Capital expenditures ("CAPEX") relating mainly to IT and energy projects including documentation costs and gaining permits for energy projects carried out within the Polish sea areas amounted to PLN 85,743 thousand in 2012.

Financial expenses and net result

In 2012, the financial revenues amounted to PLN 853,880 thousand and mainly included: net effect of positive exchange differences on loans and other foreign currency items of PLN 1,248,718 thousand, dividends received of PLN 173,085 and net interest amounting to PLN (-) 191,450 thousand as well as a recognition of impairment allowances on AB ORLEN Lietuva shares of PLN (-) 416,044 thousand.

Taking tax charges into account, net profit of PKN ORLEN for 2012 amounted to PLN 2,127,798 thousand and was higher by PLN 741,632 thousand in comparison to prior year.

4.1.2 Statement of financial position

TABLE 16 Separate statement of financial position – assets

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>ASSETS</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4=(2-3)</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>12 087 781</td>
<td>12 190 347</td>
<td>-102 566</td>
<td>-0.8%</td>
</tr>
<tr>
<td>Investment property</td>
<td>603 416</td>
<td>362 791</td>
<td>240 625</td>
<td>66.3%</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>91 319</td>
<td>89 692</td>
<td>1 627</td>
<td>1.8%</td>
</tr>
<tr>
<td>Perpetual usufruct of land</td>
<td>9 003 021</td>
<td>9 051 706</td>
<td>-48 685</td>
<td>-0.5%</td>
</tr>
<tr>
<td>Investments accounted for under equity method</td>
<td>40 634</td>
<td>40 328</td>
<td>306</td>
<td>0.8%</td>
</tr>
<tr>
<td>Financial assets available for sale</td>
<td>0</td>
<td>11 280</td>
<td>-11 280</td>
<td>-</td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>647 963</td>
<td>683 127</td>
<td>-35 164</td>
<td>-5.1%</td>
</tr>
<tr>
<td>Total non-current assets</td>
<td>22 474 134</td>
<td>22 429 271</td>
<td>44 863</td>
<td>0.2%</td>
</tr>
<tr>
<td>Inventories</td>
<td>10 375 471</td>
<td>11 549 043</td>
<td>-1 173 572</td>
<td>-10.2%</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>6 395 513</td>
<td>7 271 441</td>
<td>-875 928</td>
<td>-12.0%</td>
</tr>
<tr>
<td>Other short-term financial assets</td>
<td>1 081 549</td>
<td>320 480</td>
<td>761 069</td>
<td>237.5%</td>
</tr>
<tr>
<td>Income tax receivable</td>
<td>56 489</td>
<td>1 142</td>
<td>55 347</td>
<td>4846.5%</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>972 179</td>
<td>4 291 187</td>
<td>-3 319 008</td>
<td>-77.3%</td>
</tr>
</tbody>
</table>
As at 31 December 2012 the statement on financial position totalled to PLN 41,406,969 thousand and decreased by PLN (-) 4,462,114 thousand ((- )9.7%) (y/y) in comparison to value of total assets recorded as at 31 December 2011.

The value of non-current assets increased in comparison with the situation recorded as at 31 December 2011 by PLN 44,863 thousand (by 0.2%) (y/y) and amounted to PLN 22,474,134 thousand, mainly due to:
- net increase of property, plant and equipment and intangible assets by PLN 138,059 thousands, mainly due to capital expenditures of PLN 963,819 thousand and increase in value of rights (CO₂, ERU, colour energy) by PLN 256,909 thousand, including depreciation and amortization of PLN (-) 1,054,742 thousand,
- decrease in value of shares in subsidiaries by PLN (-) 48,685 thousand as a result of impairment allowances recognition on AB ORLEN Lietuva shares of PLN (-) 416,044 thousand, additional payments to subsidiaries' equity (upstream and power industry companies) in the amount of PLN 195,795 thousand and remaining amount of PLN 171,564 thousand relating to among others purchase of minority stake of ANWIL S.A., ORLEN Projekt S.A., Rafinerii Nafty Jedlicze S.A, IKS Solino S.A. and purchase of shares in Petrolot Sp. z o.o.
- decrease of other long-term assets by PLN (-) 35,164 thousand, mainly as an effect of reduction of value of the loan granted to ORLEN Lietuva by PLN (-) 62,990 thousand and increase of cash flow hedges by PLN 27,990 thousand.

As at 31 December 2012 value of current assets reduced by PLN ( -) 4,506,977 thousand (by (-) 19.2%) (y/y) and reached the level of PLN 18,932,835 thousand, mainly due to:
- reduction by PLN (-) 3,319,008 thousand (by (-) 77.3%) of the cash and cash equivalents balance as compared to the situation recorded as at the end of 2011,
- decrease by (-) 1,173,572 thousand (by (-) 10.2%) of the valuation value, as a result of the sales transaction concerning part of mandatory crude oil reserves to the company Whirlwind Sp. z o.o. executed due to the change of the form of maintaining mandatory crude oil reserves as described in point 1.4 of foregoing Management Board Report.

**TABLE 17.** Separate statement of financial position – equity and liabilities.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>SHAREHOLDERS' EQUITY AND LIABILITIES</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share capital</td>
<td>1 057 635</td>
<td>1 057 635</td>
<td>0</td>
<td>0.0%</td>
</tr>
<tr>
<td>Share premium</td>
<td>1 227 253</td>
<td>1 227 253</td>
<td>0</td>
<td>0.0%</td>
</tr>
<tr>
<td>Hedging reserve</td>
<td>-69 133</td>
<td>-14 617</td>
<td>-54 516</td>
<td>373.0%</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>20 704 251</td>
<td>18 576 453</td>
<td>2 127 798</td>
<td>11.5%</td>
</tr>
<tr>
<td><strong>Total equity</strong></td>
<td><strong>22 920 006</strong></td>
<td><strong>20 846 724</strong></td>
<td><strong>2 073 282</strong></td>
<td><strong>9.9%</strong></td>
</tr>
<tr>
<td>Interest-bearing loans and borrowings</td>
<td>6 968 525</td>
<td>9 346 203</td>
<td>-2 377 678</td>
<td>-25.4%</td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>239 872</td>
<td>0</td>
<td>239 872</td>
<td>-</td>
</tr>
<tr>
<td>Provisions</td>
<td>360 307</td>
<td>327 747</td>
<td>32 560</td>
<td>9.9%</td>
</tr>
<tr>
<td>Other long-term liabilities</td>
<td>133 627</td>
<td>170 434</td>
<td>-36 807</td>
<td>-21.6%</td>
</tr>
<tr>
<td><strong>Total long-term liabilities</strong></td>
<td><strong>7 702 331</strong></td>
<td><strong>9 844 384</strong></td>
<td><strong>-2 142 053</strong></td>
<td><strong>-21.8%</strong></td>
</tr>
<tr>
<td>Trade and other liabilities</td>
<td>8 585 606</td>
<td>10 998 036</td>
<td>-2 412 430</td>
<td>-21.9%</td>
</tr>
<tr>
<td>Interest-bearing loans and borrowings</td>
<td>1 303 497</td>
<td>2 320 861</td>
<td>-1 017 364</td>
<td>-43.8%</td>
</tr>
<tr>
<td>Income tax liability</td>
<td>0</td>
<td>613 182</td>
<td>-613 182</td>
<td>-</td>
</tr>
<tr>
<td>Provisions</td>
<td>400 794</td>
<td>442 181</td>
<td>-41 387</td>
<td>-9.4%</td>
</tr>
<tr>
<td>Deferred income</td>
<td>137 348</td>
<td>118 423</td>
<td>18 925</td>
<td>16.0%</td>
</tr>
<tr>
<td>Other financial liabilities</td>
<td>357 387</td>
<td>685 292</td>
<td>-327 905</td>
<td>-47.8%</td>
</tr>
<tr>
<td><strong>Total short-term liabilities</strong></td>
<td><strong>10 784 632</strong></td>
<td><strong>15 177 975</strong></td>
<td><strong>-4 393 343</strong></td>
<td><strong>-28.9%</strong></td>
</tr>
</tbody>
</table>
PKN ORLEN S.A.
MANAGEMENT BOARD REPORT ON THE OPERATIONS OF PKN ORLEN IN 2012
(Translation of a document originally issued in Polish)

<table>
<thead>
<tr>
<th>ITEM</th>
<th>2012</th>
<th>2011</th>
<th>CHANGE</th>
<th>CHANGE %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net profit</td>
<td>2 127 798</td>
<td>1 386 166</td>
<td>741 632</td>
<td>53.5%</td>
</tr>
<tr>
<td>Adjustments for:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>1 055 942</td>
<td>991 405</td>
<td>64 537</td>
<td>6.5%</td>
</tr>
<tr>
<td>Foreign exchange (gain)/loss</td>
<td>-820 640</td>
<td>1 063 096</td>
<td>-1 883 736</td>
<td>-</td>
</tr>
<tr>
<td>Interest, net</td>
<td>301 971</td>
<td>299 764</td>
<td>2 207</td>
<td>0.7%</td>
</tr>
<tr>
<td>Dividends</td>
<td>-173 085</td>
<td>-400 702</td>
<td>227 617</td>
<td>-56.8%</td>
</tr>
<tr>
<td>Loss/(Profit) on investing activities</td>
<td>452 560</td>
<td>-579 191</td>
<td>1 031 751</td>
<td>-</td>
</tr>
<tr>
<td>Change in receivables</td>
<td>919 581</td>
<td>-1 358 678</td>
<td>2 278 259</td>
<td>-</td>
</tr>
<tr>
<td>Change in inventories</td>
<td>1 183 711</td>
<td>-4 083 934</td>
<td>5 267 645</td>
<td>-</td>
</tr>
<tr>
<td>Change in liabilities</td>
<td>-2 423 015</td>
<td>1 160 070</td>
<td>-3 583 085</td>
<td>-</td>
</tr>
<tr>
<td>Change in provisions</td>
<td>225 766</td>
<td>248 509</td>
<td>-22 743</td>
<td>-9.2%</td>
</tr>
<tr>
<td>Income tax expense</td>
<td>536 165</td>
<td>1 010 281</td>
<td>-474 116</td>
<td>-46.9%</td>
</tr>
<tr>
<td>Income tax (paid)</td>
<td>-940 753</td>
<td>-1 010 281</td>
<td>69 528</td>
<td>7.8%</td>
</tr>
<tr>
<td>Other adjustments</td>
<td>-380 697</td>
<td>-353 265</td>
<td>-27 432</td>
<td>7.8%</td>
</tr>
<tr>
<td><strong>Net cash provided by / (used in) operating activities</strong></td>
<td>2 065 304</td>
<td>-793 335</td>
<td>2 858 639</td>
<td>-</td>
</tr>
</tbody>
</table>

**Cash flows - investing activities**

<table>
<thead>
<tr>
<th>ITEM</th>
<th>2012</th>
<th>2011</th>
<th>CHANGE</th>
<th>CHANGE %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition of property, plant and equipment and intangible assets</td>
<td>-1 398 978</td>
<td>-1 249 218</td>
<td>-149 760</td>
<td>12.0%</td>
</tr>
<tr>
<td>Disposal of property, plant and equipment and intangible assets</td>
<td>20 342</td>
<td>254 970</td>
<td>-234 628</td>
<td>-92.0%</td>
</tr>
<tr>
<td>Disposal of shares</td>
<td>116</td>
<td>3 672 247</td>
<td>-3 672 131</td>
<td>-100.0%</td>
</tr>
<tr>
<td>Acquisition of shares</td>
<td>-169 551</td>
<td>-111 094</td>
<td>-58 457</td>
<td>52.6%</td>
</tr>
<tr>
<td>Interest received</td>
<td>36 411</td>
<td>28 417</td>
<td>7 994</td>
<td>28.1%</td>
</tr>
<tr>
<td>Dividends received</td>
<td>172 249</td>
<td>403 602</td>
<td>-231 353</td>
<td>-57.3%</td>
</tr>
<tr>
<td>Outflows from additional repayable payments to subsidiaries’ equity</td>
<td>-195 795</td>
<td>-135 334</td>
<td>-60 461</td>
<td>44.7%</td>
</tr>
<tr>
<td>Proceeds from additional repayable payments to subsidiaries’ equity</td>
<td>7 641</td>
<td>19 080</td>
<td>-11 439</td>
<td>-60.0%</td>
</tr>
<tr>
<td>Outflows from long-term loans granted</td>
<td>0</td>
<td>-561 380</td>
<td>561 380</td>
<td>-</td>
</tr>
</tbody>
</table>

**Total liabilities**

| 18 486 963 | 25 022 359 | -6 535 396 | -26.1% |

**Total shareholders’ equity and liabilities**

| 41 406 969 | 45 869 083 | -4 462 114 | -9.7% |

**Equity** as at 31 December 2012 amounted to PLN 22,920,006 thousand and was higher by PLN 2,073,282 thousand (by 9.9%) (y/y) in comparison with its amount recorded as at the end of the prior year, mainly due to:

− net profit generated in 2012 of PLN 2,127,798 thousand,
− reduction by PLN (-) 54,516 thousand (y/y) in the equity as a result of hedge accounting.

**Net indebtedness** of PKN ORLEN as at 31 December 2012 amounted to PLN 7,299,843 thousand and was lower by PLN (-) 76,043 thousand as compared to that recorded as at the end of 2011. The reduction in net indebtedness in this period due to positive net exchange differences resulting from the revaluation of loans in foreign currencies amounted to PLN (-) 877,000 thousand with the concurrent overall growth of the net repayment of the loans, valuation of indebtedness and reduction of cash balance in the overall amount PLN 801,000 thousand.

4.1.3 Statement of cash flows

TABLE 18 Separate statement of cash flows..
(Outflows)/ Proceeds from short-term loans granted -917 696 314 249 -1 231 945 -
Outflows from cash pool facility -10 204 -81 046 70 842 -87.4%
Other -3 359 -63 815 60 456 -94.7%

Net cash provided by / (used in) investing activities -2 458 824 2 490 678 -4 949 502 -

Cash flows - financing activities
Provisions from loans and borrowings received 3 906 620 13 773 529 -9 866 909 -71.6%
Debt securities issued 10 140 925 5 550 239 4 590 686 82.7%
Repayments of loans and borrowings -6 993 929 -12 713 195 5 719 266 -45.0%
Redemption of debt securities -9 574 388 -5 223 918 -4 350 470 83.3%
Interest paid -330 039 -66 944 396 983 -16.9%
Payment of liabilities under finance lease agreements -10 351 -6 647 3 704 55.7%
(Outflows)/Proceeds from cash pool facility -67 165 214 798 -281 963 -

Net cash provided by / (used in) financing activities -2 928 327 1 197 823 -4 126 150 -

Net (decrease)/increase in cash and cash equivalents -3 321 847 2 895 166 -6 217 013 -

Effect of exchange rate changes on cash and cash equivalents 2 839 -39 2 878 -

Cash, beginning of the period 4 291 187 1 396 060 2 895 127 207.4%

Cash and cash equivalents, end of the period 972 179 4 291 187 -3 319 008 -77.3%

In 2012, cash flows from operating activities amounted to PLN 2,065,304 thousand and were higher by PLN 2,858,639 thousand in comparison with 2011.
The main positions of the cash flows from operating activities are the net result after adjusting for depreciation and amortisation and foreign exchange differences of PLN 2,363,100 thousand as well as the increased need for the net working capital by PLN (-) 319,723 thousand.

The cash used in investing activities in 2012 amounted to PLN (-) 2,458,824 thousand and included mainly net expenses for the acquisition of property, plant and equipment and intangible assets of PLN (-) 1,378,636 thousand. Other net expenses in 2012 related mainly to the change in the borrowings balance and the acquisition of shares totalling to PLN (-) 1,087,247 thousand.
The (outflows)/proceeds from borrowings granted includes the short-term borrowing granted to Whirlwind of PLN (-) 271,791 thousand in connection with the sale to that company of another tranche of mandatory crude oil reserves. For additional information concerning the sale of mandatory crude oil reserves to Whirlwind Sp. z o.o. see note 13 to the Separate Financial Statements for 2012.
The position of acquisition of shares includes the acquisition for PLN (-) 54,231 thousand of 49.00% shares in Petrolot Sp. z o.o. (including PLN (-) 52,000 thousand for settlement of the borrowing), purchase for PLN (-) 27,174 thousand of 48.63% shares in ORLEN Projekt S.A and expenses in connection with the higher capital engagement mainly in companies: ANWIL S.A., Rafineria Nafty Jedlicze S.A., IKS Solino S.A. as a result of the purchase of minority stake of the overall value of PLN (-) 87,609 thousand.

In 2012, the cash used in financing activities amounted to PLN (-) 2,928,327 thousand and comprised mainly net expenses for the repayment of loans and borrowings and repurchase of debt securities in the overall amount of PLN (-) 2,520,772 thousand adjusted by expenses relating to the costs of debt service amounting to PLN (-) 330,039 thousand.

Consequently, the cash balance was reduced by PLN (-) 3,321,847 thousand as compared to the amount recorded as at the end of the prior year. As at 31 December 2012 it was PLN 972,179 thousand.

4.1.4 Differences between financial results disclosed in annual report and previously published forecasts of financial results for the year

PKN ORLEN did not publish forecasts of financial results for 2012.

PKN ORLEN operating results for 2012 did not change in comparison to results published on 23 January 2013 in consolidated quarterly report for the IV quarter of 2012.
4.1.5 Macroeconomic factors affecting the financial results and sensitivity analysis

Changing macroeconomic environment has significant influence on PKN ORLEN operations. Economic situation on the labor market and macroeconomic trends have significant impact on level of fuel and petrochemical products’ consumption and in consequence on size and prices of their sales.

The Gross domestic product (GDP) as a basic indicator reflecting economic situation in Poland which is determined by consumption, capital expenditures and export allows to assess the stage of the economy. Changes in GPD index are correlated with changes in unemployment rate.

*Based on EUROSTAT data
**Based on GUS data

Changes in interest rates affect the value of financial gains realised on bank deposits, loans granted, as well as costs of servicing debts resulting from variable interest rate loans.
Changes in exchange rates have material impact on PKN ORLEN’s financial results. The level of revenues generated by the PKN ORLEN largely derives from the value of PLN in relation to other currencies. Fixing of prices of refining and petrochemical products is based on quotations carried out on commodity markets. The costs of crude oil, raw materials and debt servicing incurred by the PKN ORLEN are also denominated in foreign currencies.

Consumption tendencies are closely related to macroeconomic factors. The overall market situation affects both individual consumers and investors, who condition their consumption decisions on the current market situation, primarily on the forecast market situation. The world economic crisis did not spare fuel markets, which reduced the sales mainly due to the decreased transportation demand.

The basic raw material used in the production by PKN ORLEN is crude oil. International crude oil prices in the past used to be subject to significant fluctuations caused by changes in global demand and supply for this raw material and due to political factors. The financial situation and operating activity of PKN ORLEN are mainly dependent on changes of the crude oil prices on global markets and on the possibility of reflecting those changes in the prices of refining and petrochemical products produced by PKN ORLEN. Level of the Brent/Ural differential has also a significant impact on the operating results of PKN ORLEN in accordance with 93% share of sulphated crude oil in processing structure.
PKN ORLEN operating results significantly depend on realization of refining and petrochemical margins. In turn, the margins depend on changes in finished products prices on global markets and prices of crude oil.

Quotations of refining products for the purpose of the above crack spreads originate from the Platts information service that publishes data on the basis of daily quotation of products on the London Stock Exchange. Quotations of petrochemical products originate from the ICIS information service that publishes data on the basis of weekly quotations of products on the London Stock Exchange.

PKN ORLEN basing on the product sale structure and available global quotations has developed its own definitions of model refining and petrochemical crack spreads, which, in an aggregated manner reflect the influence of macroeconomic factors on operating results generated by the refining and petrochemical segments taking into account the nature of the conducted business activity.

PKN ORLEN carries out an analysis of the impact of key macroeconomic indices on operational gains realized. Methodology of estimating the impact of changes in main macroeconomic factors on PKN ORLEN financial results is presented below.

Estimates of impact on the model refining margin and differential Brent/Ural are performed using full processing capacity of crude oil of PKN ORLEN amounting to 16.3 million tonnes (around 120 million barrels) per year.

Estimates of impact on the model olefin margin are performed assuming the sale of monomers and aromas in PKN ORLEN of approximately 950 thousand tonnes per year.

Estimates of impact on retail margin are performed assuming the sale of motor fuels in PKN ORLEN of approximately 6 billion liters per year.
Sensitivity analysis of the change in the crucial macroeconomic parameters – impact on the operating result.

Impact of the model refining margin change/differential Brent/Ural [USD million]

Impact of the model petrochemical margin change [EUR million]

Impact of the detail margin change [PLN million]

The impact of the change in the above mentioned parameters has been estimated with the assumption of the lack of dependence between them and between other parameters forming PKN ORLEN’s results. The changes of macroeconomic factors can have additional effect on many other elements such as optimisation of the structure of products, sales directions or the capacity utilisation, which can have an additional impact on the presented operating results.

4.2 Financial resources management

4.2.1 General management rules

PKN ORLEN uses a range of instruments for effective management of financial resources.

The Parent Company takes advantage of a cash pooling (“cash pool”) system to optimise financing costs and effectively manage the current financial liquidity within the ORLEN Group.

In 2012, the following cash pooling systems were in operation:

- PLN cash-pooling system, which, as at 31 December 2012, included 23 members of the ORLEN Group,
- International cash pooling system for EUR, USD and PLN held for PKN ORLEN and foreign companies of the ORLEN Group (ORLEN Finance AB, AB ORLEN Lietuva, ORLEN Deutschland GmbH, Unipetrol a.s. together with the companies of the Unipetrol Group).

Another instrument used to effectively manage the finance involves sale of part of mandatory crude oil reserves and factoring services concerning the receivables of key clients of PKN ORLEN.

As part of liquidity management, the Parent Company may issue bonds up to the agreed limits and to acquire bonds issued by the ORLEN Group companies.

PKN ORLEN invests its free funds in bank deposits and in treasury bonds in the form of buy-sell-back transactions. Decisions concerning bank deposits are founded on the maximum return on investment and on current assessment of the financial standing of the banks related to the bank having a short-term rating assessment for deposits in domestic currency on the investment level. Investing funds in treasury bonds in the form of buy-sell-back transactions is one of the elements of managing PKN ORLEN’s exposure to banks’ credit risk.

4.2.2 Loans, borrowings and debt securities

As part of optimising financing sources PKN ORLEN uses services of banks proving high reliability and strong equity as well as remarkable market position. Such approach allows to limit banking costs with providing concurrent guarantee of high standard of services provided.

<table>
<thead>
<tr>
<th>ITEM (PLN thousand)</th>
<th>2012</th>
<th>2011</th>
<th>CHANGE</th>
<th>CHANGE %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4=(2-3)</td>
</tr>
<tr>
<td>Bank loans</td>
<td>6 165 252</td>
<td>9 823 323</td>
<td>-3 658 071</td>
<td>-37.2%</td>
</tr>
<tr>
<td>Borrowings</td>
<td>185 721</td>
<td>501 026</td>
<td>-315 305</td>
<td>-62.9%</td>
</tr>
<tr>
<td>Debt securities</td>
<td>1 921 049</td>
<td>1 342 715</td>
<td>578 334</td>
<td>43.1%</td>
</tr>
<tr>
<td>Financial indebtedness</td>
<td>8 272 022</td>
<td>11 667 064</td>
<td>-3 395 042</td>
<td>-29.1%</td>
</tr>
<tr>
<td>By maturity:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The most significant loans operating in 2012 in PKN ORLEN include the following loan agreements:

- long-term syndicate loan for the amount of EUR 2,625,000 thousand signed by PKN ORLEN in April 2011. The loan is in the form of a multi-currency revolving credit line extended by the syndicate of fourteen banks. The loan term is 5 years with two extension options, each by 1 year. In 2012 PKN ORLEN took advantage of the first extension option and set the final loan repayment date for four syndicate members in the amount of EUR 600,000 thousand at 28 April 2017. PKN ORLEN may allocate the funds obtained for general corporate and financial purposes of the ORLEN Group companies. The loan may be used in EUR, USD, CZK and PLN,

- 2 bilateral loan agreements allocated to fund the investments signed by PKN ORLEN with the European Investment Bank (EIB) in 2007 and the European Bank for Reconstruction and Development (EBRD) in 2011. The amount of EUR 210,000 thousand was granted by EIB for investments in the development of fuel stations network and environmental protection. Available currencies are: EUR, USD, GBP and PLN and the 9-year maturity period with the option of the 3-year grace period. The amount of EUR 250,000 thousand was granted by EBRD for investments in the development and modernisation of the Power and Heat Plant in Plock and for general corporate purposes. The loan terms is 7 years. The loan amount will be reduced down to EUR 167,000 thousand on the fifth anniversary of signing the loan and down to EUR 83,000 thousand on the sixth anniversary. Available currencies of the loan are: EUR, USD and PLN,

- 6 bilateral agreements of short-term overdraft in PKN ORLEN’s current account in the total amount of PLN 1,501,000 thousand for financing current activities.

As regards the loan agreements in force, the Parent Company is obliged to maintain selected financial indicators within brackets agreed in the loan agreements. In order to assess borrower’s credit worthiness, lending banks apply indicators (“covenants”) determined on the basis of the consolidated financial data for ORLEN Group. The reduction of the net financial debt improved the financial safety and the range of financial ratios assessed by the lending banks. The financial indicators attained in 2012 determined in loans agreements confirm the full ability to perform payment obligations resulting from loan agreements and other agreements with banks and financial institutions.

As at 31 December 2012, under executed loan agreements, the amount of PLN 8,495,754 thousand was available to PKN ORLEN, of which PLN 7,502,322 thousand under long-term loan agreements or overdraft agreements and PLN 933,433 thousand under international cash pooling system.

For further information concerning the debt structure of PKN ORLEN see note 19 to the Separate Financial Statements for 2012.

### 4.2.3 Issue of securities and application of the proceeds from the issue

PKN ORLEN continues to use the bond issue scheme, which is in operation in accordance with an agreement executed with a consortium of Polish banks in November 2006 with a debt limit up to PLN 2,000,000 thousand. Funds obtained from the issue are allocated to financing ongoing operations. In 2012, as part of the bond issue scheme, PKN ORLEN issued short-term bonds in PLN. The purchasers are the members of the ORLEN Group: ANWIL, Inowrocławskie Kopalnie Soli SOLINO, ORLEN Księgowość, ORLEN KolTrans, ORLEN Paliwa, ORLEN Transport, ORLEN Upstream, Ship-Service. Each time bonds profitability is determined on arm’s length conditions.

In February 2012, PKN ORLEN, acting as part of the aforementioned bond issue scheme, issued 7-year coupon bonds under a non-public offering for PLN 1,000,000 thousand. The new issue is compliant with the strategy for diversification of financing sources, extending average debt maturity date and debt refinancing implemented by PKN ORLEN. Since 27 June 2012, the 7-year bonds of PKN ORLEN have been quoted on an organised Catalyst market of the Warsaw Security Stock Exchange. The proceeds obtained from the issues are used by PKN ORLEN to finance the ongoing operations.

For further information on the issue of debt securities see note 19.3 to the Separate Financial Statements for 2012.

### 4.2.4 Borrowings granted

At the end of 2012, in PKN ORLEN the following agreements of borrowings granted to entities within and outside the ORLEN Group were in force:

- long-term borrowing concluded on 7 June 2011 with subsidiary, ORLEN Lietuva A.B., for the amount of USD 200,000 thousand with final maturity day on 6 June 2014. The borrowing balance to be repaid, as at 31 December 2012, amounted to USD 200,000 thousand plus accrued interest.

- borrowings granted within the ORLEN Group related to the international cash pool system totaling to USD 206,711 thousand.
short-term borrowing granted on 28 December 2012 in Whirlwind Sp. z o.o. (company outside ORLEN Group) of PLN 271,791 thousand to pay VAT assessed in connection with the sales transaction by PKN ORLEN of crude oil reserves. In accordance with the borrowing agreement, it was supposed to be repaid at the latest on 30 June 2013. The borrowing balance to be repaid as at 31 December 2012 amounted to PLN 271,791 thousand plus accrued interest. On the day of publication hereof the loan is repaid in whole.

Borrowings granted to ORLEN Group companies are eliminated during standard consolidation procedures.

4.2.5 Sureties, guarantees and other contingent liabilities

As at 31 December 2012 PKN ORLEN possessed off-balance liabilities arising out of the issued guarantees and sureties for the overall amount of PLN 3,413,055 thousand, in comparison with PLN 3,193,037 thousand as at the end of 2011. In 2012 the amount includes:

− sureties and guarantees issued to subsidiaries to the benefit of third parties in the amount of PLN 2,088,979 thousand,
− securities for excise and excise duty on products and goods undergoing the procedure of suspended excise collection in the amount of PLN 1,215,724 thousand.
− sureties and guarantees concerning liabilities towards third parties issued in the course of normal business operations mainly relate to: guarantees and performance bonds, customs guarantees, tender guarantees, payment guarantees in the amount of PLN 108,352 thousand.

The aggregate value of contingent liabilities as at 31 December 2012 decreased as compared to that recorded as at 31 December 2011 by PLN (-) 27,568 thousand relating to the OCCP of anti-trust proceedings concerning competition-limiting practices on the domestic market of wholesale of gasolines and diesel oil as well as disputable issues handled in court which amounted to PLN 210 thousand.

For further information on contingent liabilities see note 34 to the Separate Financial Statements for 2012.

4.2.6 Working capital management

Given the nature of its activity, PKN ORLEN is exposed to the risk of commodity markets fluctuations. Any changes in market tendencies may exert material effect on the level of generated cash flows. In order to mitigate the impact of negative expositions resulting from the varying market environment, PKN ORLEN implements a number of initiatives in the area of working capital.

The most significant of them include agreements for the sale as well as gathering and maintaining mandatory crude oil reserves. In 2012 two other agreements of that type were executed. Under the foregoing agreements PKN ORLEN sells part of the mandatory crude oil reserves and concurrently enters into an agreement that outsources the obligation to maintain the reserves on the account of PKN ORLEN. After the term of the agreement lapses PKN ORLEN may buy back the crude oil in order to perform the statutory obligation to maintain the mandatory reserves.

Another instrument used to optimise the working capital involves factoring agreements. PKN ORLEN uses factoring services without recourse offered by the banks that consist in the discount sale of short-term trade receivables due to the Company from three largest clients prior to their maturity and the bank taking over insolvency risk.

Flexibility of selection of financing sources is also important for the working capital management. Available credit lines and bond issue schemes mitigate fluctuations in the working capital caused by the effect of varying macroeconomic environment and its influence on the level of operating cash flows and, therefore, liquidity of PKN ORLEN.

4.2.7 Financial instruments

As at 31 December 2012, the financial assets amounted to PLN 8,606,536 thousand, which means a decrease by PLN (-) 3,484,419 thousand in comparison with the end of 2011. The main items of financial assets were trade receivables amounting to PLN 5,854,815 thousand, loans granted in the amount of PLN 1,532,617 thousand as well as cash and cash equivalents amounting to PLN 972,179 thousand.

As at 31 December 2012, the financial liabilities amounted to PLN 15,679,056 thousand, which means a decrease by PLN (-) 5,987,747 thousand in comparison with the end of 2011. The main items of financial liabilities were loans and borrowings amounting to PLN 6,350,973 thousand, trade liabilities amounting to PLN 6,287,621 thousand and debt securities amounting to PLN 1,921,049 thousand.

PKN ORLEN uses financial instruments to minimize negative effects of risks, to which it is exposed as a result of its business activity, i.e. credit risk, liquidity risk and market risks (including currency risk, interest rate risk, risk of goods price changing, risk of changing prices of CO2 emission rights). PKN ORLEN analyses how the changes of such factors as exchange rates, interest rates and crude oil and main products prices affect the attained financial results.

For additional information on financial instruments see note 31 to the Separate Financial Statements for 2012.
4.2.8 Selected financial ratios

**TABLE 20.** List of financial ratios.

<table>
<thead>
<tr>
<th>ITEM</th>
<th>M.U</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current liquidity</td>
<td>x</td>
<td>1.8</td>
<td>1.5</td>
</tr>
<tr>
<td>Quick liquidity</td>
<td>x</td>
<td>0.8</td>
<td>0.8</td>
</tr>
<tr>
<td>Net working capital (PLN million)</td>
<td></td>
<td>9 943</td>
<td>9 729</td>
</tr>
<tr>
<td>Receivables turnover (days)</td>
<td></td>
<td>26</td>
<td>28</td>
</tr>
<tr>
<td>Liabilities turnover (days)</td>
<td></td>
<td>32</td>
<td>40</td>
</tr>
<tr>
<td>Inventory turnover (days)</td>
<td></td>
<td>45</td>
<td>44</td>
</tr>
<tr>
<td>Assets turnover</td>
<td>x</td>
<td>2.0</td>
<td>1.8</td>
</tr>
<tr>
<td>Financial leverage (%</td>
<td>%</td>
<td>33.5%</td>
<td>37.3%</td>
</tr>
<tr>
<td>Net debt/(operating profit + depreciation + dividend from Polkomtel S.A. in 2011)</td>
<td>x</td>
<td>2.5</td>
<td>1.7</td>
</tr>
</tbody>
</table>

The methodology of calculating ratios in the report are presented in the Financial Glossary at the end of the foregoing Management Board Report.

4.3 Assessment of the possibility of investment plans implementation

The investment program as described in the updated strategy for 2013-2017 assumes the implementation of investment projects having key significance for further development and competition of PKN ORLEN mainly in the area of upstream and power industry.

The investment programs also includes the completion of projects already under construction, among others the SCR/EF (flue gas denitrifying and dedusting) installation and IOS (flue gas desulphurisation) installation in the Power and Heat Plant of PKN ORLEN as well as a numerous development projects in the retail segment to be implemented on the Polish market.

The aforementioned projects are secured in terms of finance with the priority of operations of PKN ORLEN. Thanks to effective performance of strategic goals in the latest years, solid foundations were created for further development of the Company. The activities aimed at reducing financial debt to PLN 7,299,843 thousand, reduction of the leverage ratio to 33.5%, secure level of the covenants provided for in loan agreements as well as established operating cash flows will allow to implement the investment program planned for the years 2013-2017. The level of selected financial ratios is presented in point 4.2.8 of the foregoing Management Board Report.

Policy of running investment project, depending on actual PKN ORLEN situation and its market environment plays key role in implementing strategic plans taking into account financial security.

4.4 Perspectives for development in the nearest financial year

In the nearest financial year PKN ORLEN assumes to continue its activities improving efficiency and tailored to strengthen its position on the markets, on which it is already present.

The financial and operational situation of PKN ORLEN in the nearest year, similarly like in the previous years, might be subject to different factors, both external and internal, including mainly:

- **Macroeconomic environment:**
  - considerable fluctuations of crude oil prices affecting the ORLEN Group’s cost of raw material,
  - fluctuations of the model refining margin with differential, including the possibility of its reduction in comparison with very high levels recorded specifically in the 3rd quarter of 2012, which influences the results generated by the refining segment,
  - fluctuations of the model petrochemical margin, including the possibility of its further growth due to continuation of the long-term tendency related to the cyclical nature of activity of that segment of PKN ORLEN, will affect the results of the petrochemical segment,
fluctuations of PLN in respect of foreign currencies rates, including further strengthening of PLN in the case of stabilisation on the international markets and positive economic results of Poland in comparison with other states in the region, affecting the level of debt service costs, costs of raw materials in foreign currencies and amount of effected prices and margins.

**Consumption tendencies and competition:**
- fluctuations in fuel consumption, including the possible continuation of dropping tendency due to the economic slowdown and increased unemployment as well as decrease in the real income of people, but also the impact of “shadow economy” influencing the possibility of the product placement on the market,
- economic fluctuations in the area of core petrochemical products: monomers and polymers, including possible improvement if the long-term cycle observed in the prior years in this area will persist,
- the increase in competition is witnessed as a result of market pressure on the achieved margins and size of placed volume.

**Changes in legislation:**
- increased National Index Target up to the level of 7.1% in 2013 in comparison with 6.65% in 2012, with the retained option of the so-called “lowered target”,
- anticipated decrease in limits of gratuitous allocation of CO₂ emission rights,
- assumed further support for the production of eclectic energy in associable designs of high coefficiency (colour certificates),
- anticipated amendments to the provisions regulating mandatory reserves in medium term.

**Operating / investing activity**
- Refinery: assumed better availability of production capacities on the installations at PKN ORLEN,
- Petrochemistry: estimated better use of the production capacity on the petrochemical installations PX/PTA complex with a fixed production level of other petrochemical products after the end of the installations’ turnarounds in 2011 and 2012,
- Retail: assumed continued development of the retail sale chain on attractive locations including the construction of rest area for travellers (MOP) next to highways, programs dedicated to further increase in the average sales per station, non-fuel sales and optimisation of the costs of operation,
- Upstream: financing of the ORLEN Upstream activity – planned performance of subsequent drillings and analysis of obtained data under exploration concessions held by ORLEN Upstream,
- Power industry: continuation of construction of the power plant in Wloclawek and making decision on the project involving construction of another gas power plant in Plock and construction of the flue gas desulphurization installation in the Power and Heat Plant in Plock.

The planned scope of overhaul works scheduled for 2013 is smaller in comparison with the year 2012 and, therefore, this might have a favourable impact on the availability of the production installations and efficiency of the refining and petrochemical segments.

**Diagram 24. Schedule of turnarounds of the main installations in PKN ORLEN for the year 2013.**

<table>
<thead>
<tr>
<th></th>
<th>Q1 2013</th>
<th>Q2 2013</th>
<th>Q3 2013</th>
<th>Q4 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>FCC</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>H-Oil</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>HDS VI</td>
<td></td>
<td></td>
<td>HDS VI</td>
<td></td>
</tr>
<tr>
<td>HDS VII</td>
<td></td>
<td></td>
<td></td>
<td>HDS VII</td>
</tr>
<tr>
<td>HU/HR</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PX/PTA</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

TTD – Tubular-tower distillation
FCC – Fluid Catalytic Cracking
H-Oil – Vacuum Residue Hydrodesulfurization
HDS – Diesel Hydrotreating
H/U/HR – Hydrogen Unit/ Hydrogen Recovery
PX/PTA – Paraxylene and terephthalic acid production installation
5. ORLEN GROUP STRATEGY AND DEVELOPMENT PLANS

5.1 Summary of 2009-2013 strategy implementation

The ORLEN Group strategy for 2009-2013 assumed:
- increase in the efficiency and finalizing the investment activities,
- divestment of non-core assets and decrease in the indebtedness,
- development of the upstream segment and building of the power industry segment.

The achievement of the above strategic goals took place at the time of a deep financial crisis and an economic slow-down on the world markets, which contributed to the deterioration of the conditions for the refining and petrochemical businesses.

Large investment scheme which had been started in the previous years was successfully finalised, among others the Diesel Oils Hydrodesulphurisation installation and PX/PTA complex – one of the most modern installations of this type in Europe and the largest industrial investment project implemented in Poland at that time. As a result refining processes capacity increased accompanied by expansion of petrochemical segment range by terephthalic acid (PTA). A number of modernisation projects designed to improve the technical condition of the existing installations and to reduce energy consumption of the processes was conducted.

In 2011 one of the biggest merger and acquisition transaction in the region was the sale of Polkomtel shares. PKN ORLEN sold its package for PLN 3,672,000 thousand.

The realisation of the restrictive cost policy, improvement of the trading results and number of initiatives optimising the working capital (see also description in point 4.2.6 above) enabled the reduction of the net indebtedness of ORLEN Group by 46% in comparison to the end of 2008 to the level of PLN 6,761,662 thousand at the end of 2012. As a result a secure covenants level included in loan agreements was provided and the net financial leverage was decreased to 26.0%. Stabilising of the financial situation creates solid foundations for the further development of the ORLEN Group.

Intense activities were performed related to creation and development of new segments, including upstream and power industry segments. In the power industry segment a contract was signed to construct a steam and gas power plant in Wloclawek and a modernisation scheme was being implemented in the power plant in Plock. Drafting works were also carried out in connection with the construction of a new gas block unit in Plock and in the area of renewable energy sources ("RES").

In the upstream segment, the ORLEN Group became the leader in shale gas exploration in Poland. Till the end of 2012 5 drillings were performed within 3 concessions. Projects were continued to extract hydrocarbons from conventional sources - at the end of 2012 1 drilling was performed and further were in the preparation stage.

The motto for the ORLEN Group Strategy for 2008-2013 was “We gain position for further growth”. The successful realisation of the policy laid solid foundations for further development of the ORLEN Group which was outlined in the new strategy for 2013-2017 with the motto “Fuelling the future”.

5.2 ORLEN Group strategy for 2013-2017

On 30 November 2012 strategic directions of the ORLEN Group's development for 2013-2017, based on three pillars, were presented:
- Shareholders: stable financial foundations resulting from a reduced indebtedness and financial leverage, guaranteed refinancing and improved rating of the ORLEN Group’s condition expressed in rating agencies opinions create the potential for dividend payments in the following years. A new, transparent dividend policy assumes a sustainable increase in the dividend rate up to 5% as compared to the Company’s average capitalisation in the previous year, taken into consideration the implementation of strategic objectives in the field of financial safety and macroeconomic situation.

- Value growth: in the Refining, Petrochemical and Retail segments – so called downstream - focus on enhancing the efficiency and value maximisation and using the owned potential as the leverage to build value in the area of Power Industry and Upstream, strengthening the competitive advantages in reducing external risks. Improving the operating results and cash flows provided by operating activities will enable to allocate more funds for development, especially in the area of Power Industry and Upstream.

- Financial Foundations – the above strategic objectives will be performed with special attention to the financial safety, which is especially important in the unstable situation on the worldwide financial markets. It is planned to keep the safe level of financial leverage below 30% and the Net debt/(operating result + amortisation) covenant below 1.5. One of the strategic objectives is also to restore PKN ORLEN’s investment rating at the minimum BBB- level.

Over the next 10 years the ORLEN Group will become a concern with three strong pillars of activities: downstream, power industry and upstream.
With the assumption that forecasts included in the strategic plan for 2013-2017 will realise, the ORLEN Group will generate in that period cash flows from operating activities higher by more than 40% in comparison with 2008-2012.

As a result, it will be possible to implement both, the new dividend policy and allocation up to PLN 22.5 billion for investments, PLN 6.9 billion of which constitutes so called additional pool that will be activated dependent on the projects’ economics and current ORLEN Group situation.

Development expenditures within the total value of the planned investments will amount to PLN 15.1 billion, PLN 5.1 billion and PLN 4.2 billion of which will be allocated to upstream and power industry segment, respectively. The remaining amount of PLN 5.8 billion will be allocated to downstream segments (refinery, petrochemistry and wholesale).

Strategy implementation in particular ORLEN Group segments.

Refining segment

The core business of the ORLEN Group will still be the refining segment with the high-class integrated production assets which ensure a strong position on the competitive market, mostly through the constant improvement of efficiency.

In 2017 it is planned to increase the oil processing volume by 2.2 million of tonnes, increase the yield on fuels by 1 p.p. and to decrease by 4 units the energy consumption (Solomon index) in comparison to 2012.

As a result of the improved efficiency and with the neutral influence of the macroeconomic factors, average annual operating profit of the segment, increased by amortisation according to inventories valuation using LIFO method (EBITDA under to LIFO) in 2013-2017 is assumed to increase by PLN 0.7 billion in comparison to EBITDA acc. to LIFO from 2008-2012, excluding one-offs related mainly to impairment allowances of assets.

Planned capital expenditures for the segment for 2013-2017 amount to PLN 6.1 billion. Funds will be mostly used to optimise the refining business as a result of overhauls and mandatory expenditures. Development projects will selectively focus on high-yield projects only.

Petrochemical segment

PKN ORLEN’s position as the largest petrochemical producer in the region and a leader in the olefin and polyolefin production along with the forecast of increase in the demand for these products create a solid foundation of the further value growth. Plans for the petrochemical segment are to improve the performance rate of key installations, as well as enhance efficiency of the production and sale processes. In 2017 the assumed increase of throughput in olefin installation is 7 p.p., as well as increase in polymers sale and PTA together by 0.2 million tonnes in comparison to 2012.
Planned higher sales volume, wider range of products and positive macroeconomic environment will enable to increase the average annual ratio EBITDA acc. to LIFO in the strategic plan period by PLN 1.1 billion in comparison to EBITDA acc. to LIFO from 2008-2012, excluding one-offs related mainly to impairment allowances of assets.

With the key investment project - PTA in Wloclawek - being completed, the segment does not require significant development investments. Consequently, expenditures of this type will be lower than in 2008-2012, however, remain significant with the amount of up to PLN 4.7 billion. Expenditures will focus on projects that might increase the number of high-margin products offered.

Retail segment

The activity of the retail segment in the next years will be based on the strong and established market position. The ORLEN Group has the largest sales network in the Central Europe and the biggest group of loyal customers in Poland. The Vitay and Flota programs have over 2.5 million active participants.

New strategy assumes for 2017 increase of the ORLEN Group home market share by 3 p.p., improvement of the average sale per station by 0.6 million liters and increase of non-fuel margins by over 50% in comparison to 2012.

As a result, average EBITDA ratio of the segment will increase in 2013-2017 by PLN 0.4 billion in comparison to EBITDA from 2008-2012, excluding one-offs related mainly to impairment allowances of assets.

The capital expenditure will increase in 2013-2017 by PLN 0.2 billion in comparison to 2008-2012 and will amount to PLN 2.4 billion. The capital expenditure will be incurred to develop the network, including motorway locations, as well as intensification of non-fuel offer, and in great majority will have developmental character.

Power Industry

The ORLEN Group has experience gained in managing energy assets and on the natural gas market. In the production plant in Plock the biggest professional production block in Poland is localized, where various types of fuels: heating oil, refining gas and natural gas, are used to produce energy and heat. PKN ORLEN is the largest gas recipient in Poland and active participant in the liberalisation process of the natural gas market.

Given the energy market prospects, including the expected excess of demand over the supply, good locations held and possible synergies with other segments, it was decided to continue the development activities in this area.

Key development project being realised currently is construction of gas power plant in Wloclawek. In the strategy PLN 2.4 billion was planned for building gas power plant in Plock, modernisation of power plant in Unipetrol Group and projects related to renewable energy sources (RES), launch of which will depend on parameters of the above projects and current financial situation.

It is planned that positive cash flows in the power industry segment will be achieved as early as in 2016. In 2017 EBITDA for the segment will reach PLN 0.3 billion.

Upstream

The ORLEN Group plans to further develop the extraction activities. The main focus will be on politically secure regions, i.e. mostly Central Europe and possibly North America. Options to expand the activity in this respect will also be strategic partnerships and possible M&A transactions.

The ORLEN Group’s priority is the shale gas exploration under concessions held in Poland. The extraction may possibly be started as early as in 2016 and reach 161 million m³ per year in 2017. ORLEN Group also plans to extract crude oil, the own production volume may reach 1 million bbl per year in 2017.

It is planned that the development of the upstream segment will bring positive operating results even within the time covered of the present strategy – it is expected that in 2017 EBITDA acc. to LIFO will increase by an additional amount of PLN 0.4 billion.

The investments in the upstream segment will reach at least PLN 2.4 billion, which will be allocated to shale gas exploration and extraction. Further PLN 2.7 billion will be used to extend the production stage, obtain additional concessions and/or M&A options, depending on the final parameters of the projects and the financial situation.
6. SHAREHOLDERS AND SHARES

6.1 Shareholding structure of PKN ORLEN

The share capital of PKN ORLEN is divided into 427,709,061 ordinary bearer shares with a par value of PLN 1.25 each. The ownership rights of PKN ORLEN's shares are fully transferable.

Number of shares and shareholding structure in PKN ORLEN as at 31 December 2012 is presented in point 7.4 of the foregoing Management Board Report.

[Diagram 38: Shareholding structure in PKN ORLEN as at 31 December 2012]

The Management Board of PKN ORLEN has no information about the agreements influencing the future change of current shareholding and bondholding structure.

6.2 Number of shares in PKN ORLEN and other entities of the ORLEN Group held by the management and supervisory personnel in PKN ORLEN

Members of the Management Board of PKN ORLEN as at 31 December 2012 did not hold any shares of the Company. Mr Artur Gabor and Mr Grzegorz Borowiec from the Supervisory Board of PKN ORLEN held at the end of 2012 3,200 and 100 shares, respectively.

Management and supervisory personnel of PKN ORLEN as at 31 December 2012 did not hold any shares in other ORLEN Group's entities.

6.3 Employee stock option scheme monitoring system

In 2012 no employee stock option scheme was implemented in PKN ORLEN.

6.4 Share repurchase

In 2012 PKN ORLEN did not hold or repurchase any own shares.

6.5 Dividend policy

The improvement of PKN ORLEN's financial situation performed in the last years enabled to implement and publish within the ORLEN Group's Strategy for years 2013-2017 the updated dividend policy. The Strategy assumes the possibility to increase gradually the amounts of paid dividends up to 5% of average stock exchange capitalization of PKN ORLEN on the Warsaw Stock Exchange in the year proceeding the payment. This makes the dividend amount independent from temporary share price fluctuations. With this method being applied, the dividend will not be related to the net profit which fluctuates a lot in the refinery production sector and often includes non-cash items such as revaluation of inventories or loans. As a result, it does not fully reflect results generated by the Company.

6.6 Ratings

Good liquidity situation of PKN ORLEN at the end of 2012 is the result of continued activities aimed at reducing indebtedness and implementing a number of initiatives providing high flexibility, as far as the demand for working capital is concerned. Two transactions involving the sale of mandatory reserves of crude oil worth PLN 2,433,998 thousand were carried out to reduce the level of involved capital in 2012. Reduction of the indebtedness to PLN 7,299,843 thousand contributed to the further decrease of the net financial leverage to 33.5% at the end of 2012.

The effects of the optimisation activities, as well as regular contacts with agencies with a view to summarising the activities and achievements of the ORLEN Group at all operating levels improved the prospect of PKN ORLEN increasing its rating position from stable to positive and being better evaluated by the Fitch Agency BB+(positive outlook) and Moody’s Ba1 positive. Additionally, PKN ORLEN obtained a long-term loan...
rating from the Fitch Agency at the BBB+(pol) level (positive outlook), which is an assessment of creditworthiness with regard to the lowest loan risk rating in Poland. Rating agencies underline that PKN ORLEN’s international long-term rating may be increased up to the BBB-/Baa3 level within the next 12-24 months if the debt ratios are kept at the appropriate level.

6.7  PKN ORLEN share quotations

Shares of PKN ORLEN in 2012 were quoted on the Warsaw Stock Exchange and in the form of Global Depositary Receipts (“GDRs”) on the London Stock Exchange. On the London Stock Exchange the traded unit is 1 GDR, which represents 2 PKN ORLEN’s shares. GDRs are also traded in the United States on the OTC (Over The Counter) market in the form of American Deposit Receipts (ADRs). The depository for PKN ORLEN deposit receipts is The Bank of New York Mellon. In 2012 PKN ORLEN decided to finalise the program and terminate the deposit agreements establishing GDR and American Deposit Receipts (“ADR”) due to decreasing interest in these securities among the investors.

PKN ORLEN shares are quoted on the main market of the Warsaw Stock Exchange in the continuous quoting system and are comprised by WIG, WIG20, WIG-Poland and WIG-PLIWA – the industry index. Since 19 October 2009 PKN ORLEN maintains its position amongst the elite of companies engaged in social responsibility quoted in RESPECT Index.

In 2012, WIG20, the largest companies stock market index, lost its value by 20.4% (y/y), whereas WIG index increased its value by 26.2%. In the same period the price of PKN ORLEN’s shares increased by 46% (y/y). In the continuous quoting system, 286 million of shares changed their holders, i.e. 66.9% of number of shares issued.

**TABLE 21.** Key data regarding PKN ORLEN’s shares.

<table>
<thead>
<tr>
<th>KEY DATA</th>
<th>M.U.</th>
<th>2012</th>
<th>2011</th>
<th>CHANGE %</th>
</tr>
</thead>
<tbody>
<tr>
<td>ORLEN Group’s net profit</td>
<td>PLN thousand</td>
<td>2 169 990</td>
<td>2 015 003</td>
<td>7.7%</td>
</tr>
<tr>
<td>Highest share price</td>
<td>PLN</td>
<td>52.95</td>
<td>57.90</td>
<td>-8.5%</td>
</tr>
<tr>
<td>Lowest share price</td>
<td>PLN</td>
<td>32.02</td>
<td>32.30</td>
<td>-0.9%</td>
</tr>
<tr>
<td>Share price at year end</td>
<td>PLN</td>
<td>49.50</td>
<td>33.90</td>
<td>46.0%</td>
</tr>
<tr>
<td>Average price in the period</td>
<td>PLN</td>
<td>39.27</td>
<td>44.96</td>
<td>-12.7%</td>
</tr>
<tr>
<td>P/E ratio max</td>
<td></td>
<td>10.44</td>
<td>12.29</td>
<td>-15.1%</td>
</tr>
<tr>
<td>P/E ratio min</td>
<td></td>
<td>6.31</td>
<td>6.86</td>
<td>-8.0%</td>
</tr>
<tr>
<td>P/E ratio at year end</td>
<td></td>
<td>9.76</td>
<td>7.20</td>
<td>35.6%</td>
</tr>
<tr>
<td>Number of shares traded</td>
<td>no.</td>
<td>427 709 061</td>
<td>427 709 061</td>
<td>0.0%</td>
</tr>
<tr>
<td>Capitalization at year end</td>
<td>PLN thousand</td>
<td>21 171 599</td>
<td>14 499 337</td>
<td>46.0%</td>
</tr>
<tr>
<td>Average daily trading value</td>
<td>PLN thousand</td>
<td>45 263</td>
<td>56 942</td>
<td>-20.5%</td>
</tr>
<tr>
<td>Average daily trading volume</td>
<td>no.</td>
<td>1 148 614</td>
<td>1 284 292</td>
<td>-10.6%</td>
</tr>
</tbody>
</table>

Calculation of the above ratios based on the closing share prices.
**Diagram 27.** Quotations of PKN ORLEN and WIG20 on the Warsaw Stock Exchange.

*Diagram showing the quotations of PKN ORLEN and WIG20 on the Warsaw Stock Exchange.*

*) percentage change of PKN ORLEN and WIG20 quotations in respect to the quotations recorded on 31 December 2011.

**Diagram 28.** PKN ORLEN’s quotations 1999-2012.

*Diagram showing the quotations of PKN ORLEN from 1999 to 2012.*

Recommendations for PKN ORLEN shares are issued by the following brokerage offices - as at the date of authorization of the foregoing report:

<table>
<thead>
<tr>
<th>SEATED IN POLAND</th>
<th>SEATED OUTSIDE POLAND</th>
</tr>
</thead>
<tbody>
<tr>
<td>BDM</td>
<td>Bank of America Merrill Lynch</td>
</tr>
<tr>
<td>BZ WBK</td>
<td>Barclays</td>
</tr>
<tr>
<td>Citi</td>
<td>Concorde Securities</td>
</tr>
<tr>
<td>Credit Suisse</td>
<td>Deutsche Bank</td>
</tr>
<tr>
<td>DI BRE</td>
<td>Erste</td>
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<tr>
<td>Espirito Santo</td>
<td>Goldman Sachs</td>
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<tr>
<td>IDM</td>
<td>Morgan Stanley</td>
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<td>ING</td>
<td>Nomura</td>
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<td>Ipopema</td>
<td>Raiffeisen</td>
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<td>KBC</td>
<td>Societe Generale</td>
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<td>PKOBP</td>
<td>UBS</td>
</tr>
<tr>
<td>UniCredit</td>
<td>Wood</td>
</tr>
</tbody>
</table>

Current list of recommendations issued for the Company’s shares is available on the corporate website under: http://www.orlen.pl/EN/InvestorRelations/Recommendations/Pages/default.aspx
7. CORPORATE GOVERNANCE

7.1 A set of applied Corporate Governance rules

In 2012, PKN ORLEN complied with the "Best Practice for Companies Listed on the Stock Exchange" (further the "Best Practice for WSE Listed Companies") valid for the Warsaw Stock Exchange. The Code of Best Practice for WSE Listed Companies can be found on the website dedicated to the corporate governance at the Warsaw Stock Exchange: www.corp-gov.gpw.pl and on the corporate website: www.orlen.pl in the "Investor Relations" section dedicated to the Company's shareholders under "Shareholder services & tools" in the "WSE Best Practice" tab.

In 2012 PKN ORLEN applied all the mandatory corporate governance rules set out in Code of Best Practice for WSE Listed Companies.

Communication with the capital market

The Company undertakes a number of activities to improve communication with its environment. In order to reach a wide range of recipients it applies both traditional and modern tools of communication with the capital market representatives. It organizes direct internet transmissions with simultaneous translation into English from media conferences following each significant event in the Company’s life, such as quarterly results publication, announcement of strategies, as well as from the PKN ORLEN General Meeting. Video records from the conference are stored on the Company's website, thus, it is possible to view a selected past event.

Corporate website www.orlen.pl

PKN ORLEN has its corporate website, which is a reliable and useful source of information about the Company for the capital market representatives. Additionally, for shareholders, investors and stock market analysts, the Company's webpage provides investor relations section. The internet service contents are prepared in a transparent, fair and complete way so as to enable the investors and analysts to take decisions based on the information presented by the Company. The investor relations section is maintained both in Polish and in English.

The Investor relations section is divided into a few tabs, where all the current and periodical reports published by the Company can be found, as well as presentations prepared for significant events in the Company with audio and video recording of such events.

The Investor relations section contains a lot of modern tools and useful to investors and stock market analysts information on the Company. This section is continuously improved in line with the latest market standards.

One can find there, among others:

− interactive diagrams and tables fastly comparing the Company’s financial ratios in different time periods,
− interactive diagrams and tables showing PKN ORLEN's shares quotations with a calculator of the return on investment in the Company’s stock. These diagrams enable comparison of stock quotations with the main stock indexes which include the Company’s stock. To a diagram showing PKN ORLEN share quotations a diagram showing the quotation of one of the indexes: WIG, WIG 20 or WIG-PALIWA (WIG-FUELS) can be attached.
− financial statements, gathered in one place together with the presentations that describe them and that were prepared for the capital market representatives, the records of teleconferences with the stock market investors on the occasion of publication of the financial results and the worksheet with the data from the presentations that simplifies the data analysis,
− special form for contacts with the Company in respect of PKN ORLEN's General Meetings, in accordance with the rights of the Commercial Companies Code,
− possibility to subscribe to various types of PKN ORLEN's newsletters, including the most recent investor relations news. Section has also RSS feed, that enables all new information placed in it to reach recipients immediately, particularly in relation to stock reports and macroeconomic data.
− an option to sign up for reminders concerning the events from the event's Calendar. One can enter the selected dates to calendars in his mail programs as well as sign up for the events' reminders sent by e-mail or SMS. One can decide before which events he wants to receive reminders - it can be one or several of them as well as all events entered to the PKN ORLEN investor relations’ calendar, both in the current and in the next years.

For continuous improvements of Investor relations section on www.orlen.pl website and having regard to capital market representatives' information need in 2012:

− new tab "Bonds" was created in the „Shareholder services & tools” section. It presents basic information regarding long term PKN ORLEN's bonds issue which were newly listed on the Catalyst on 27 June 2012. This section also allows to download documents relating to bonds issue (information memorandum and information note) and enables to watch a broadcast of the bonds debut on Catalyst,
− a section containing a set of financial results materials was complemented with a link to the Company's press webcasts organized while publishing financial results,
On the website, in the investor relations section, there is also a tab concerning the corporate governance. One can find there the Company’s annual reports on complying with best practice rules and the “Code of Best Practice for WSE Listed Companies. There is also brief information on best practice applied by the Company, the rules for selecting an entity authorized to audit the financial statements as well as information about the participation of women and men in the Company’s Management Board and the Supervisory Board in the last two years.

The General Meeting tab in the Investor relations section contains the set of corporate documents and a guide for shareholders “How to participate in General Meeting of PKN ORLEN”, updated according to changes that occur in the commonly applicable provisions of law. The investor relation section provides also the information on the dates of general meetings, draft resolutions and the whole set of documents presented to the shareholders at general meetings. The Company ensures also communication with its shareholders via a special online contact form related to general meetings.

Moreover PKN ORLEN has the mobile version of its corporate website, adapted to browse the website on the mobile phones and other mobile devices. By entering the corporate website at www.orlen.pl via mobile or smartphone one is automatically redirected to the service m.orlen.pl dedicated to these devices. Users of the mobile devices can in an easy and fast way access to the key information concerning PKN ORLEN known from the original version of www.orlen.pl, i.e. stock market reports, stock quotations, financial results or press information. The mobile version m.orlen.pl enables also establishing a phone connection in a fast way with the Company via function “click to call”.

On the site m.orlen.pl Internet users have also an opportunity to check the wholesale fuel prices, review the list of current bids and search for the brand petrol stations in the selected locations. Via the mobile devices one can also listen to the business audiobook about the history of polish oil industry or reach for electronic publications. In the Press centre tab the audio files with the records from the press conferences are available, which do not overload the links and enable fast access to contents presented by PLN ORLEN.

Platform m.orlen.pl is available in Polish and English version.

Having shareholders, investors and stock market analysts who mainly use mobile devices in mind, the Company also launched in 2012 a mobile version of the Annual Report On-line service. Should be emphasized, it is a form of an internet service and not an application thus it does not require any software updates.

Direct contacts with capital market representatives

On a regular basis the Company actively participates in the meetings with investors and analysts both in Poland and abroad. Conferences, individual and group meetings, and teleconferences are organized with stakeholders on the capital market. The Company’s representatives regularly realize also the roadshows – series of meetings with investors at their work place, in-country and abroad. For the capital market representatives interested in the Company’s operations also the so-called site visits are organized, i.e. visits of shareholders or analysts in the production plant and other trade and production activity places which allow them to better acquaint with the Company specifics.

During the meetings the representatives of PKN ORLEN provide information about the Company, however, it is also an occasion to get feedback from the shareholders, investors or stock exchange analysts. Thanks to this feedback the Company, being aware of the information needs of its recipients, can develop and improve its relations with the capital market.

The Company is striving to broaden and diversify its investors base. Thus, it undertakes activities aimed at active promotion of its business activity amongst prospective shareholders, also in new financial centers worldwide.

With a view to develop the forms and quality of communication with the capital market, the Company published in 2012 on a quarterly basis the so-called “trading statement”, i.e. operational and financial estimates and expectations of operating profit (EBIT) trends, taking into account the impact of macroeconomic factors and significant one-offs on the operating profit (EBIT). Purpose of these reports was to provide capital market participants with information about the estimated ORLEN Group financial results in the period between end of the quarter and publication of the interim report for the period. In February 2013, the Company resigned from continuing publication of „trading statement”. Due to the fact that the Company has speeded up the publishing dates of financial statements, trading statement does no longer significantly play its role.

The important actions carried out for the broad group of investors by the Company in the last year included i.a.:

- organizing an open educational debate on the Warsaw Stock Exchange dedicated to building issuer creditability and alternative forms of financing in time of economic crisis,
- issue of corporate bonds amounting to PLN 1 billion in February 2012. These bonds were the highest in value among listed in 2012 on the Catalyst. In addition the issue was one of the highest bond issues in the history of the Polish market. 7-year maturity date was the longest among issues addressed to non-banking investors,
The care for communication with the capital market players was appreciated also in 2012 and reflected through the awards granted to the
Company in the area of investor relations:
- special award for keeping the investor relation section using modern methods of internet communications in the V edition of „Zlota
Strona Emitenta“ („Golden Website“) organized by the Polish Association of Listed Companies,
- award nomination for „Golden Website“ in polish listed companies belonging to WIG20 and mWIG40 category, in V edition of the
competition,
- In 2012 PKN ORLEN maintained its presence in IV and V edition of Respect Index project.
- PKN ORLEN was ranked among the top three best reporting of non-financial data by Polish Association of Listed Companies among
polish companies belonging to WIG20 and mWIG40 and the group of companies in the energy sector - ranking organized by
Association of Stock Exchange Issuers, GES and Accreo Taxand,
- „Best Annual Report 2011“ award, in the competition organized by the Institute of Accounting and Taxation,
- award nomination for „Best investor relations by a Polish Company 2012“ - IR Magazine.

The Company’s reaction to appearing public opinions and information injuring its reputation

In PKN ORLEN, there is an internal regulation in force, concerning the rules of taking actions which create the image of the Company and
contacts with the media representatives as well as passing the information, relevant for the PKN ORLEN’s image, to the Corporate
Communication Department’s Director. This regulation obliges to multistage verification of information concerning the company and its
representatives before it’s made public.

The above instruction regulates also the rules of reaction in a situation, when opinions and information expressed in public by third parti es may
harm the Company’s reputation. The person responsible for the coordination of this process is the Director of the Corporate Communication
Department. As such opinions and information appears, the Company verifies their reliability, evaluates the importance and then decides about
issuing a disclaimer or closing the case because of the PKN ORLEN’s interest or low impact of the occurred misstatements. In case information
as well as opinion presented by a third party has serious influence the Company prepares a disclaimer in order to clarify false information or
opinion.

Depending on the nature of the matter, the prepared disclaimer is sent to the institution which delivered the information, harmful for PKN
ORLEN, and/or is posted on the corporate website www.orlen.pl in the Press Centre tab or is distributed in form of press release.

Reporting on PKN ORLEN’s activity in the corporate social responsibility area

PKN ORLEN recognizes its role in the country’s economy. Size of the Company, awareness of operating in the energy sector as well as
traditions of responsible acting make a corporate citizenship model to be translated into specific projects, functioning, operating philosophy with
exceptional care.

Corporate social responsibility report (CSR) is an important part of the communication with stakeholders. The extension of the Company's
reporting by environmental and social areas allows to inform about conducted operations in fair and comprehensive way. Range of reported by
PKN ORLEN indicators was developed over the years, both inside the Company (internal workshops, opinions of people responsible for
reporting process) and as well as by opinions of other stakeholders.

In 2012 PKN ORLEN published the eight corporate social responsibility report and the fourth one prepared in accordance with the GRI (Global
Reporting Initiative) standard. The Report was prepared in accordance with GRI G3.1 Guidelines at B level.

All corporate social responsibility reports are disclosed on Company’s website:

7.2 Description of key features of PKN ORLEN’s internal audit and risk management systems related to the process of financial
reporting

The Company’s system of internal control and risk management in the process of financial statements preparation is implemented through:
- verification whether a uniform accounting policy is applied by the ORLEN Group companies as regards the recognition,
measurement and disclosures in accordance with the International Financial Reporting Standards (IFRS) as adopted by the
European Union,
- following accounting standards and monitoring compliance with them,
- following uniform separate and consolidated financial reporting standards and periodic verification whether these standards are
properly applied in the ORLEN Group companies,
- verification of the ORLEN Group companies’ financial reports compliance with the data placed into integrated IT system used to
prepare the ORLEN Group’s consolidated financial statements,
- a review, by an independent auditor, of the published financial statements for the 1st quarter, the half-year and the 3rd quarter of the
year and the audit of the annual financial statements of PKN ORLEN and the ORLEN Group,
Records of economic events in PKN ORLEN is conducted in an integrated system of financial - accounting, which configuration is compatible with the Company’s accounting policy.

This system is the leading system in the ORLEN Group. Thanks to a uniform IT platform used, the Parent Company has control over the recording of financial – accounting events within the ORLEN Group.

The system has an option enabling the control of access rights of different users in a way that ensures the control over their access to specific objects and transactions.

All actions performed in the system are recorded for individual transactions and users. In order to protect against unauthorized access, the entire system, along with the user data, is stored in a special directory structure of the operating system, which is secured with the appropriate access rights.

Security and availability of information contained in the financial-accounting system are controlled at all levels of the database, applications and presentations as well as at the level of operating system. System integration is ensured by the data entry control systems (validation, authorization, a list of values) and logs of changes. In case of system failure not completed transactions are withdrawn. Logs of changes give the possibility of path reviews.

Users do not have direct access to the operating system and database. Integrated menu of the system includes access paths to all transactions available in the system. Securing the access to individual transactions is based on the authorizations assigned to the user. Security systems are used at the hardware and software level of the system.

In order to ensure that unified accounting standards are applied, the ORLEN Group companies have to follow, for the purpose of preparing the consolidated financial statements, the accounting policy adopted by ORLEN Group. It is periodically updated to ensure that it complies with the applicable laws, specifically with the IFRS, the Accounting Act dated 29 September 1994 and the Ministry of Finance Regulation dated 19 February 2009 on current and periodic information provided by issuers of securities. The Corporate Accounting Office monitors whether this obligation is fulfilled and conducts comprehensive analytical procedures supplemented with control activities, as well as develops instructions and guidelines on identified issues that require detailed explanations to ensure proper and uniform financial reporting principles.

The consolidated financial statements are prepared based on the integrated IT system where consolidation process of entered data from reporting packages provided by the ORLEN Group companies is performed. The system is designed for financial management and reporting purposes. The system enables the unification of financial information. Results, budgeted and forecasted data, as well as statistics are gathered in one place, what ensures direct control and compatibility of the entered data.

The data is reviewed in terms of their cohesion, completeness and continuity, which is achieved thanks to controls implemented in the system, which check the compliance of data entered by the companies.

Designated users of the system supervise the safety management of the system and established stages of consolidation process management.

Granting access rights to individual users is strictly dependent on the security roles defined for (assigned to) them. Appropriate security classes have been set up for individual users in order to maintain control. Access to financial resources is limited by a system of permissions that are granted to authorized personnel only within the performance of their duties. These authorizations are subject to regular audits and verification.

Controlling of the access to applications is carried out at each stage of preparation of the financial statement. Starting from data entry and ending with the generating of the final information.

Financial information is stored in an IT system, so that they can be used to create transparent reports and forecasts, both for internal needs and external recipients, such as public bodies, financial analysts, shareholders and business partners.

The preparation of consolidated financial statements in a single integrated tool enables to shorten the processes of consolidation and reporting of financial information as well as to obtain high-quality substantive and usable financial information.

In order to reduce on a current basis the risks relating to the process of the financial statements preparation, they are quarterly verified by an auditor, i.e. more often than required under the applicable law. The financial statements for the 1st quarter, the half-year and the 3rd quarter of the year are reviewed by the auditor, whereas the annual financial statement is subjected to audit. The auditor presents the results of the reviews and audits to the Management Board and the Audit Committee of the Supervisory Board.

The Company has certain procedures to authorise the financial statements under which the periodical reports are submitted to the Management Board and, subsequently, forwarded to the Audit Committee of the Supervisory Board for their opinion. Once the opinion has been obtained from the Audit Committee and once the auditor has ended its review or audit, the financial statements are approved by the Management Board for publication and subsequently forwarded by the Investor Relations Office to the appropriate capital market institutions and public opinion. Before the publication, the financial statements are provided solely to persons involved in the preparation, verification and approval process.

The Company has an Audit and Corporate Risk Management Department which has to ensure an independent and objective evaluation of the risk management and internal audit systems, and analyze business processes. The Department operates basing on the annual audit plans approved by the Management Board and accepted by the Audit Committee of the Supervisory Board and the Supervisory Board. The Audit and Corporate Risk Management Department can also carry out random audits as ordered by the Company’s Supervisory Board or the Management Board.
Within the realised tasks and objectives, the Audit and Corporate Risk Management Department provides recommendations as to the implementation of solutions and standards designed to mitigate the risk of PKN ORLEN not meeting the targets set, to improve the effectiveness of the internal control system and to increase the efficiency of business processes. Additionally the Audit Department monitors the implementation of its own recommendations as well as those given by the auditor as to the Company’s financial statements.

Twice a year the Audit and Corporate Risk Management Department prepares a report for the Management Board and the Audit Committee of the Supervisory Board on the recommendations monitoring, which summarises the conclusions regarding the audit tasks performed, identified risks and information about the implementation status of the recommendations given.

7.3 Specification of Corporate Governance rules which PKN ORLEN does not apply and its explanation

In 2012 PKN ORLEN applied all compulsory Corporate Governance rules included in “Best Practice for WSE Listed Companies”.

7.4 PKN ORLEN’s shareholders with a significant stake

PKN ORLEN’s shares are listed on the main market of the Warsaw Stock Exchange in the continuous trading system and are included in the biggest company indexes WIG20 and WIG as well as the industry index WIG-PALIWA. Since 19 November 2009 PKN ORLEN shares are listed among the companies engaged in corporate social responsibility Respect Index.

Beginning from 1999 and for the entire 2012 year the shares of PKN ORLEN were also listed on the London Stock Exchange in the form of Global Depositary Receipts (GDRs). GDRs were removed from listing on the official market and delisted from Main London Stock Exchange Market on 27 February 2013. Depositary receipts were also traded in the United States on the OTC (Over The Counter) market up to 4 March 2013. The depositary of the PKN ORLEN's depositary receipts was The Bank of New York Mellon. On the London Stock Exchange the traded unit was 1 GDR, which represented 2 PKN ORLEN's shares.

In 2012, PKN ORLEN decided to terminate the program of depositary receipts because of the decreasing investors interest in those securities. On 29 November 2012 the Company sent to The Bank of New York Mellon termination of depository agreements constituting the GDRs and the Company's American depositary receipts (ADRs).

Termination of depositary agreement constituting the GDRs took place on 27 February 2013 and the agreement constituting the ADRs on 4 March 2013.

The share capital of PKN ORLEN is divided into 427,709,061 ordinary bearer shares with a par value of PLN 1.25 each.

The ownership rights of PKN ORLEN’s shares are fully transferable.

Presented below is the list of PKN ORLEN’s shareholders possessing significant stakes with the number of shares held by these entities, their percentage share in the share capital of the Company, the number of votes resulting therefrom and their percentage of the total number of votes at the PKN ORLEN General Meeting.

In 2012 and until the date of authorization of this report, there was one change in the structure of shareholders with a stake of more than 5% in the Company’s share capital. On 30 March 2012 the Company was informed that ING Open Retirement Fund (ING OFE) became the owner of more than 5% of the total number of votes at a General Meeting of PKN ORLEN as a result of the PKN ORLEN’s shares acquisition in transactions on the Warsaw Stock Exchange, settled on 27 March 2012.

Before the acquisition of shares of the Company, the Fund owned 21,214,198 shares of PKN ORLEN representing 4.96% of share capital and entitled 21,214,198 of votes at the General Meeting of PKN ORLEN, what constituted to 4.96 % of the total number of votes.

As at 30 March 2012, the Fund owned 21,464,398 shares of PKN ORLEN representing 5.02% of share capital. The shares of PKN ORLEN owned by the Fund entitled to 21,464,398 of votes at the General Meeting of PKN ORLEN, what constitute 5.02 % of the total number of votes.

<table>
<thead>
<tr>
<th>SHAREHOLDERS</th>
<th>NUMBER OF SHARES</th>
<th>NUMBER OF VOTES AT A GENERAL MEETING OF PKN ORLEN</th>
<th>SHARE IN TOTAL NUMBER OF VOTES AT A GENERAL MEETING OF PKN ORLEN</th>
<th>SHARE IN SHARE CAPITAL OF PKN ORLEN</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Treasury</td>
<td>117 710 196</td>
<td>117 710 196</td>
<td>27,52%</td>
<td>27,52%</td>
</tr>
<tr>
<td>Aviva OFE *</td>
<td>21 744 036</td>
<td>21 744 036</td>
<td>5,08%</td>
<td>5,08%</td>
</tr>
<tr>
<td>Others</td>
<td>288 254 829</td>
<td>288 254 829</td>
<td>67,40%</td>
<td>67,40%</td>
</tr>
</tbody>
</table>
7.5 **PKN ORLEN’s shareholders vested with special control rights and voting right restrictions**

One PKN ORLEN share confers the right to one vote at the Company’s General Meeting.

As regards the voting right of particular shareholders, the Articles of Association state as follows:

- The voting right of the Company’s shareholders is restricted to the extent that at the General Meeting of Shareholders none of them can exercise more than 10% of the total votes existing in the Company as at the date the General Meeting of Shareholders is held, provided that such a restriction of the voting right does not apply for the purpose of determining the duties of acquirers of significant stakes in accordance with:
  - Competition and Consumer Protection Act of 16 February 2007,
  - Accounting Act of 29 September 1994,
  - Act of 22 September 2006 on Transparency of Financial Relations between Public Authorities and Public Entrepreneurs and on Financial Transparency of Certain Entrepreneurs,

The restriction does not apply to the State Treasury and the depository bank which issued depositary receipts in connection with the Company’s shares under the agreement with the Company (in case the bank exercises the voting right from the Company’s shares). The voting right exercised by the subsidiary is deemed to be exercised by the parent company within the meaning of the above mentioned acts. In order to calculate the number of votes held by a shareholder, the voting rights from the shares is added to the number of votes that the particular shareholder would acquire in the event of converting the held depositary receipts into shares.

- A shareholder is deemed to be each person, including the parent company and its subsidiary, that is directly or indirectly entitled to the voting right at the General Meeting under any legal title; that refers also to a person that is not a Company's shareholder, in particular a user, pledgee, a person authorised from the depositary receipt within the meaning of the Act of 29 July 2005 on Trading in Financial Instruments as well as a person authorised to participate in the General Meeting despite having the held shares been disposed of following the day when the right to participate in the General Meeting was established.

- Shareholders, whose votes are cumulated and reduced, are jointly referred to as the Shareholders Grouping. The cumulation of votes involves summing up the votes held by individual shareholders of the Shareholders Grouping. The reduction of the number of votes involves decreasing the overall number of the entitled votes in the Company during the General Meeting to the shareholders being members of the Shareholders Grouping. The number of votes is reduced in accordance with the following rules:
  - the number of votes of a shareholder who has the largest number of votes in the Company among the votes of all shareholders in the Shareholders Grouping, is decreased by the number of votes equal to the surplus in excess of 10% of the overall number of votes in the Company held in aggregate by all shareholders in the Grouping,
  - if, despite the reduction mentioned above, the overall number of votes held by the Shareholders Grouping to be exercised at the General Meeting exceeds 10% of the total number of votes in the Company, the number of votes held by the remaining shareholders in the Grouping is subject to further reduction. The number of votes is further reduced in the order established on the basis of the number of votes held by particular shareholders in the Shareholders Grouping (from the highest to the lowest one). The number of votes is being further reduced until the aggregate number of votes held by the Shareholders Grouping does not exceed 10% of the overall number of votes in the Company,
  - in each case, the shareholder whose voting right has been restricted, preserves the right to exercise at least one vote,
• restriction of the voting right also applies to the shareholder absent during the General Meeting,

− In order to establish the basis for the votes being cumulated and reduced in accordance with the above provisions, the Company's shareholder, the Management Board, the Supervisory Board and individual members of such bodies may request the Company's shareholder to provide information on whether a person is the parent company or the subsidiary of PKN ORLEN.

The power referred to above includes also the right to request the disclosure of the number of votes held by the Company's shareholder individually or together with other Company shareholders. The person that failed to perform or performed unduly the obligation to provide the information referred to in this point, may exercise the voting right from one share exclusively until the breach of such obligation has been remedied and exercising the voting right by such person from other shares is ineffective.

− The restriction of the voting right, which is referred to above, does not apply to entities dependent on the State Treasury.

− For the purpose of the regulations indicated above, the parent company and the subsidiary shall accordingly mean a person:
  • who has the status of the dominant entity, dependent entity or both within the meaning of the Act of 16 February 2007 on Competition and Consumers Protection, or
  • who has the status of the parent company, senior parent company, subsidiary, lower level subsidiary, jointly controlled entity or of both parent company (including senior parent company) and subsidiary (including the lower level subsidiary and jointly controlled entity) within the meaning of the Accounting Act of 29 September 1994, or
  • who exerts (parent company) or is subject to (subsidiary) significant influence within the meaning of the Act of 22 September 2006 on Transparency of Financial Relations between Public Authorities and Public Entrepreneurs and on Financial Transparency of Certain Entrepreneurs, or
  • whose votes from the Company's shares held directly or indirectly are cumulated with the votes of another person or other persons under the rules stipulated in the Act of 29 July 2005 on Public Offering and Conditions for Introducing Financial Instruments to the Organised Trading System and Public Companies, in connection with holding, selling or purchasing Company substantial shareholdings.

− In the event of doubts, the provisions of this chapter should be interpreted in accordance with Article 65 § 2 of the Polish Civil Code.

The State Treasury is authorised to appoint and revoke one of the Supervisory Board members. Moreover, one of the PKN ORLEN Management Board members is appointed and revoked by the Supervisory Board at the request of the Minister in charge of State Treasury.

According to the Company's Articles of Association, State Treasury was entitled to specific rights up to half of 2012. These gave a possibility to establish an Observer in the Company that was allowed to monitor the Company's operations as well as to participate in the Company's meetings and review its documents. Records of the Articles of Association relating to the Observer were deleted by the General Meeting resolution on 30 May 2012 and thereafter registered in the National Court Register on 25 June 2012 as a change in the Articles of Association.

In addition, special rights for the shareholder in person of the State Treasury can be a result of the commonly applicable provisions of law. Such rights in particular result from the Act of 18 March 2010 on specific rights vested in the Minister in charge of State Treasury and the exercise of such powers in certain capital companies or capital groups conducting business activities in the electricity, crude oil and gas fuel sectors (the 18 March 2010 Act on "Specific Rights Vested In the Minister In Charge of State Treasury"). Pursuant to the above act, the Minister in charge of State Treasury may object against the resolution passed by the Company's Management Board or any other legal action undertaken by the Company's Management Board regarding the disposal of assets disclosed in the uniform list of facilities, installations, appliances and services comprised in the critical infrastructure, referred to in article 5b item 7 point 1 of the Act of 26 April 2007 on Crisis Management, which pose a real threat to the functioning, business continuity and integrity of the critical infrastructure. The Minister in charge of the State Treasury may also object to the Company's body passing resolution on:
  • dissolution of the Company,
  • change of function or ceasing of the exploitation of the Company's asset disclosed in the uniform list of facilities, installations, appliances and services comprised in the critical infrastructure, referred to in article 5b item 7 point 1 of the Act of 26 April 2007 on Crisis Management,
  • change of the Company's business activity,
  • disposal or lease of the Company's enterprise or its organized part or establishment of a limited property right,
  • adoption of the operational and financial plan, investment activity plan or long-term strategic plan,
  • moving the Company's seat abroad

provided that such a resolution, if performed, would actually pose a real threat to the operations, business continuity and integrity of the critical infrastructure.

In accordance with the 18 March 2010 Act on Specific Rights Vested In the Minister In Charge of State Treasury , the Company's Management Board, in agreement with the Minister in charge of State Treasury and the Director of the Government Centre for Security is authorized to appoint and revoke a proxy in charge of the protection of the critical infrastructure in the Company. The scope of proxy's tasks includes...
providing the Minister in charge of State Treasury with the information on the Company's authorities (i.e. the General Meeting, the Supervisory Board, the Management Board) having undertaken the above specified legal actions, providing the information on the critical infrastructure to the Director of the Government Centre for Security on request, transferring and collecting information on any threats to the critical infrastructure in cooperation with the Director of the Government Centre for Security.

On 2 August 2011 the Management Board of PKN ORLEN appointed a Proxy for the critical infrastructure protection.

7.6 Rules for amending PKN ORLEN's Articles of Association

Any amendment to PKN ORLEN's Articles of Association requires a resolution of the General Meeting of Shareholders and has to be entered in the companies register. The resolution of the General Meeting of Shareholders to amend the Company's Articles of Association is adopted by three quarters of votes. The General Meeting may authorise the Supervisory Board to formulate the uniform text of the Articles of Association or make other editorial changes as set out in the resolution passed by the General Meeting.

Once the amendments to the Articles of Association are entered in the companies register, PKN ORLEN publishes a relevant current report.

7.7 Proceedings of PKN ORLEN's general meeting of shareholders, its key powers, and shareholders’ rights and their exercise

Proceedings and powers of PKN ORLEN's General Meeting of Shareholders are regulated in the Articles of Association and the Regulations of PKN ORLEN's General Meeting. The documents can be found on the PKN ORLEN's website: www.orlen.pl in the Company and Investor relations sections in the General Meeting tab.

Convening and calling off PKN ORLEN's General Meetings

The General Meeting is convened through placing an announcement on the Company's website and by delivering a current report to the capital market institutions and public information. The announcement should be placed at least 26 days before the scheduled date of the General Meeting.

The Ordinary General Meeting of Shareholders should be held no later than within six months from the end of every financial year.

The Extraordinary General Meeting of Shareholders is convened by the Management Board on its own initiative, on the motion of the Supervisory Board or on the motion of a shareholder or shareholders representing no less than one twentieth of the Company's share capital, within two weeks from filing the motion. The motion to convene the General Meeting should specify the issues for the agenda or include draft resolution on the proposed agenda. The Supervisory Board may convene the Extraordinary General Meeting if the Supervisory Board recognises that it is advisable to do so. The Supervisory Board may also convene the Extraordinary General Meeting if the Management Board fails to do so within two weeks following the submission of the relevant request by the Supervisory Board. The Extraordinary General Meeting may also be convened by the shareholders representing at least one half of the share capital or at least one half of the overall number of votes in the Company.

The shareholder or shareholders representing no less than one twentieth of the Company's share capital may request that specific issues be placed on the agenda of the nearest General Meeting under the rules of the generally applicable provisions of law.

All the materials to be presented to the shareholders at the General Meeting, specifically draft resolutions to be adopted by the General Meeting and other important materials are made available by the Company following the day when the General Meeting has been convened in the Company's seat in Plock and in the Warsaw office, as well as on the corporate website www.orlen.pl.

The General Meetings of PKN ORLEN are held in the Company's seat in Plock, however, they can also be held in Warsaw.

The Company arranges for an internet broadcast of the Meeting and offers simultaneous translation into English.

In accordance with the General Meeting Regulations the cancellation and the change in the date of the General Meeting should be effected forthwith once the requirement for the cancellation and the change in the date has occurred but no later than seven days prior to the day when the General Meeting is to be held. If the cancellation or change in the date of the General Meeting cannot be effected within the deadline specified above, such a General Meeting should be held. If it is impossible or excessively hindered to hold such a meeting due to the circumstances, the cancellation and change in the date of the General Meeting may be effected at any time prior to the day when the General Meeting is to be held. The cancellation and change in the date of the General Meeting is effected by announcement placed on the Company's website together with the reasons and complying with other legal requirements. Only the body or the person to have convened the General Meeting is competent to cancel the same. The General Meeting with the agenda containing specific issues put therein at the request of eligible entities, or which was convened at such a request, may be cancelled only with consent of such requesting entities.
Competence of PKN ORLEN's General Meeting

The General Meeting of Shareholders is especially authorised to:

- consider and approve the Company's annual financial statements, the annual report on the Company's business operations, the consolidated financial statements of the ORLEN Capital Group and the report on the ORLEN Capital Group business operations for the previous financial year;
- acknowledge the fulfilment of duties by the Supervisory Board and Management Board members;
- decide on the allocation of profit and the cover of losses as well as on the use of funds set up from profit, subject to special regulations which provide for a different way of their usage;
- appoint the Supervisory Board members, subject to the provisions of § 8 item 2 of the Articles of Association, and establish principles for their remuneration;
- increase and decrease the share capital unless otherwise stated in the Commercial Code and the Company’s Articles of Association,
- decide on claims for the rectification of damage caused when setting up the Company or exercising supervision or management,
- approve the sale and lease of the company or its organised part and establish a limited property right on such enterprise or an organised part thereof,
- grant consent to the sale of real estate, perpetual usufruct or interest in real estate which net book value exceeds one twentieth of the Company’s share capital,
- amend the Company's Articles of Association,
- set up and dissolve reserve capitals and other capitals and the Company's funds,
- pass resolutions to redeem shares and buy shares to be redeemed and to establish the redemption rules,
- issue convertible bonds or bonds with pre-emptive rights and issue warrants,
- pass resolutions on winding-up the Company, its dissolution, liquidation, restructuring of the Company and merger with another company,
- conclude holding contracts within the meaning of article 7 of the Commercial Companies Code.

Purchase of real estate, perpetual usufruct or interest in real estate, regardless of its value, as well as disposal of real estate, perpetual usufruct or interest in real estate where net book value does not exceed one twentieth of the Company’s share capital does not require a consent resolution of the General Meeting of Shareholders.

Voting at PKN ORLEN’s General Meetings

Unless stated otherwise in the Commercial Companies Code and the Articles of Association, resolutions of the General Meeting of Shareholders are passed with an absolute majority of votes cast, while votes cast mean votes “for”, “against” and “abstain.”

Resolutions of the General Meeting of Shareholders regarding preferred shares and the Company’s merger as a result of all the Company’s assets being transferred to another company, dissolution of the Company (including dissolution as a result of the Company’s seat or main plant being transferred abroad), liquidation of the Company, its restructuring and decrease in the share capital by redemption of some shares without the capital being simultaneously increased are passed with a majority of 90% of votes cast.

The General Meeting’s resolution to renounce the examination of an issue placed on the agenda may be adopted only in case when there are substantial reasons to do so. The resolutions to remove or not to consider an issue placed on the agenda on the motion of the shareholders requires the majority of 75% of votes cast provided that the shareholders present at the General Meeting who requested this issue be placed on the agenda previously agreed to the issue being removed from the agenda or not to consider it at all.

One PKN ORLEN share confers the right to one vote at the Company’s General Meeting. The voting right of the Company’s shareholders is restricted to the extent that at the General Meeting of Shareholders none of them (but for those specified in the Company's Articles of Association) can exercise more than 10% of the total votes existing in the Company as at the date the General Meeting of Shareholders is held.

The detailed rules for exercising the voting right are described in point 7.5 of the foregoing Management Board Report.

The shareholders can participate in the General Meeting and exercise their voting rights in person or by the proxy.

On 30 May 2012 during the Ordinary General Meeting, the Management Board willing to implement recommendations and principles of the "Best Practice for WSE Listed Companies" proposed to the shareholders of the Company the possibility to participate from 1 January 2013 in the General Meeting using the means of electronic communication. Relevant provisions to the Articles of Association were also proposed. Unfortunately, this proposal was rejected by the shareholders of the Company.

Participation in PKN ORLEN's General Meetings

In accordance with the Commercial Companies Code, the right to participate in the Company's General Meeting is vested only in the persons that are the Company’s shareholders sixteen days before the date of the General Meeting (date of registration in the General Meeting).

A shareholder who wants to take part in the General Meeting of the Company must report it to the entity where the securities account is kept.
At the request of the shareholder, filed no earlier than the announcement of convening the General Meeting has been published and no later than on the working day following the day when the participation in the General Meeting has been registered, the entity where the securities account is kept issues a personal certificate of entitlement to attend the General Meeting. This certificate includes:

- the business name, seat, address and stamp of the issuer and the certificate number,
- number of shares held (at the shareholder request part or all of the shares registered on the securities account should be indicated),
- type and code of shares,
- the business name, seat and address of the Company,
- nominal value of shares,
- name and surname or the business name of the shareholder,
- the seat (place of residence) and address of the shareholder,
- purpose of issuing the certificate,
- date and place of the certificate issuing,
- signature of the person authorised to issue the certificate.

On the basis of the personal certificates the entities where the securities accounts are kept prepare lists of shareholders eligible to participate in the Company’s General Meeting. These lists are submitted to the National Depository for Securities (Krajowy Depozyt Papierów Wartościowych S.A. “KDPW”, presently the entity maintaining the securities deposit) no later than twelve days prior to the date of the General Meeting date. KDPW provides such a list for the company’s review no later than a week prior to the date of the General Meeting. PKN ORLEN’s Management Board issues the list of shareholders eligible to participate in the General Meeting in Płock and in Warsaw office before three days prior to the date of the General Meeting.

The General Meeting may be attended by the members of the Management Board and the Supervisory Board, who can take the floor, even if they are not shareholders, without any invitations being sent. An Ordinary General Meeting of Shareholders can be attended by the members of the Management Board and the Supervisory Board whose mandates have expired before the date of the General Meeting and who exercised their functions in the financial year for which the Management Board report and the financial statements are to be approved by the Ordinary General Meeting of Shareholders.

General Meetings of Shareholders can also be attended by other persons invited by an authority convening the General Meeting or allowed to enter the meeting room by the Chairman, specifically, certified auditors, legal and financial advisers or the Company’s employees. PKN ORLEN under the applicable law and with due consideration of the Company’s interests allows media representatives to attend the General Meetings. The Management Board ensures that each General Meeting is attended by an independent expert specialised in commercial law.

Members of the Management Board and the Supervisory Board and the Company’s certified auditor provide the Meeting participants with explanations and information about the Company, within the scope of their authorisation and to the extent required for the issues discussed by the General Meeting to be resolved. Questions posed by the General Meeting participants are answered in view of the fact that PKN ORLEN, as a public company, fulfils its reporting obligations in a manner specified in the applicable capital market regulations and the information cannot be provided otherwise than in conformity with these regulations.

The shareholders of the Company may communicate with the Company via the corporate website. This way shareholders can send an electronic notice of proxy or proxy document allowing the identification of the principal and the proxy together with other related documentation.

Special section dedicated to the Company’s General Meetings is used for this purpose. The section includes also useful to the shareholders materials, among others, the guideline “How to participate in General Meeting” updated in accordance with changes that occur in the commonly applicable provisions of law, information about the planned shareholders’ meetings along with materials relating to such meetings, archive materials from the meetings held, including texts of resolutions adopted and video files with internet broadcasts of the General Meetings.

**General Meetings in 2012**

In 2012 two General Meetings of PKN ORLEN were held:

- on 12 January 2012 – the Extraordinary General Meeting of PKN ORLEN,
- on 30 May 2012 – the Ordinary General Meeting of PKN ORLEN.

The Extraordinary General Meeting of PKN ORLEN made changes in the Supervisory Board. Mr Krzysztof Kołach was dismissed. Subsequently, the Extraordinary General Meeting decided to establish 9-member Supervisory Board and appointed Mr Michał Gołębiowski as a member of the Supervisory Board.

During the Ordinary General Meeting the shareholders approved the annual reports on the operations of the Company and the ORLEN Group as well as the financial statements for 2011. They also decided on the fulfilment of duties by all the Supervisory and the Management Boards members excluding the fulfilment of duties by Mr Marek Serafin, in whose case the Ordinary General Meeting did not pass a resolution confirming his fulfilment of duties as a Member of the Management Board.

The General Meeting decided also to allocate the Company’s entire profit generated in 2011 to the Company’s reserve capital.
The Ordinary General Meeting of PKN ORLEN adopted a resolution to remove provisions relating to possibility of setting up the Observer in the Articles of Association and passed the resolution to establish a uniform act of the Articles of Association.

The Ordinary General Meeting debated on the amendments to the PKN ORLEN's Articles of Association in order to implement the provisions that enable the shareholders to participate in the General Meeting with the use of electronic communication means, which includes:

− broadcast of the General Meetings,
− two-way communication in real-time within which shareholders may speak during the General Meeting, being in a different place than where the Meeting is held,
− voting in person or by a Proxy.

These above mentioned proposals prepared by the Management Board were not approved by the General Meeting. Decisions permitting to hold the so called e-meeting were not introduced. Thus, at the request of the Management Board, the issue regarding changes of the Rules of the General Meeting was removed from the agenda of the General Meeting.

At the same time, on 30 May 2012 the Ordinary General Meeting established the 8-member Supervisory Board and appointed Mr Paweł Białek as a member of the Supervisory Board of PKN ORLEN.

7.8 Composition and proceedings of the management and supervisory authorities in PKN ORLEN and their committees

Apart from generally applicable laws, the rules of conduct for PKN ORLEN's Supervisory Board, its Committees and the Management Board are regulated in PKN ORLEN's Articles of Association and the Supervisory Board and the Management Board Regulations, respectively. The proceedings of the management and supervisory authorities in PKN ORLEN are also subject to the corporate governance principles set out by the Warsaw Stock Exchange.

7.8.1 The Management Board

Composition of PKN ORLEN's Management Board in 2012

As at 1 January 2012 the composition of the Management Board of PKN ORLEN was as follows:

**TABLE 41. Composition of the PKN ORLEN's Management Board as at 1 January 2012.**

<table>
<thead>
<tr>
<th>NAME AND SURNAME</th>
<th>POSITION HELD IN PKN ORLEN MANAGEMENT BOARD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dariusz Jacek Krawiec</td>
<td>President of the Management Board, Chief Executive Officer</td>
</tr>
<tr>
<td>Sławomir Jędrzejczyk</td>
<td>Vice – President of the Management Board, Chief Financial Officer</td>
</tr>
<tr>
<td>Grażyna Piotrowska-Oliwa</td>
<td>Member of the Management Board, Sales</td>
</tr>
<tr>
<td>Krystian Pater</td>
<td>Member of the Management Board, Refinery</td>
</tr>
<tr>
<td>Piotr Wielowieyski</td>
<td>Member of the Supervisory Board delegated to act temporarily a Member of the Management Board, Petrochemistry</td>
</tr>
</tbody>
</table>

In March 2012 there were changes in the composition of the Management Board. The Supervisory Board of PKN ORLEN appointed Mr Piotr Chełmiński at its meeting on 6 March 2012 as Member of the Management Board responsible for Petrochemistry, effective 10 March 2012. On 7 March 2012 Ms Grażyna Piotrowska-Oliwa, Member of the Management Board responsible for Sales resigned from the position effective 18 March 2012 due to the appointment by the Supervisory Board of Polskie Górnictwo Naftowe i Gazownictwo S.A. (“PGNIG”) as Chief Executive Officer of PGNIG. Then, the Supervisory Board of PKN ORLEN, on 14 March 2012, appointed Mr Marek Podstawa as Member of the Management Board responsible for Sales effective 19 March 2012.

Until 31 December 2012 and the date of authorization of these financial statement composition of the Management Board has not changed.
TABLE 42. Composition of the PKN ORLEN's Management Board as at 31 December 2012.

<table>
<thead>
<tr>
<th>NAME AND SURNAME</th>
<th>POSITION HELD IN PKN ORLEN MANAGEMENT BOARD</th>
</tr>
</thead>
<tbody>
<tr>
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<td>President of the Management Board, Chief Executive Officer</td>
</tr>
<tr>
<td>Sławomir Jędrzejczyk</td>
<td>Vice – President of the Management Board, Chief Financial Officer</td>
</tr>
<tr>
<td>Piotr Chełmiński</td>
<td>Member of the Management Board, Petrochemistry</td>
</tr>
<tr>
<td>Krystian Pater</td>
<td>Member of the Management Board, Refinery</td>
</tr>
<tr>
<td>Marek Podstawa</td>
<td>Member of the Management Board, Sales</td>
</tr>
</tbody>
</table>

Number of women and men acting as Management Board Members in the last two years

$TABLE 43$. Number of women and men acting as Management Board Memebers of PKN ORLEN, including changes in composition of the reporting period:

<table>
<thead>
<tr>
<th>AS AT</th>
<th>NUMBER OF WOMEN</th>
<th>NUMBER OF MEN</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 January 2011</td>
<td>0</td>
<td>5</td>
</tr>
<tr>
<td>30 June 2011</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>9 December 2011</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>1 January 2012</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>10 March 2012</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>19 March 2012</td>
<td>0</td>
<td>5</td>
</tr>
<tr>
<td>31 December 2012</td>
<td>0</td>
<td>5</td>
</tr>
</tbody>
</table>

Division of powers of the Company's Management Board

Mr Dariusz Jacek Krawiec, President of the Management Board of PKN ORLEN at the same time fulfilling the function of the Chief Executive Officer supervises the following areas: human resources, strategy and project management, purchases, Counsel to PKN ORLEN, marketing, corporate communication, audit, crude oil trading, upstream as well as information protection, critical infrastructure and defense.

Mr Sławomir Jędrzejczyk, Vice – President of the Management Board, Chief Financial Officer supervises the following areas: planning and reporting, business controlling, supply chain management, finance management, taxes, investor relations, capital investments and divestments, IT.

Mr Piotr Chełmiński, Member of the Management Board in charge of Petrochemistry supervises the following areas: petrochemical production, sale of petrochemical products, chemistry, health and safety, environmental protection, development and efficiency, implementation of property investments, energetics.

Mr Krystian Pater, Member of the Management Board in charge of Raffinery supervises the following areas: refinery production, oil production, energy production, investments and efficiency of refinery production.

Mr Marek Podstawa, Member of the Management Board in charge of Sales supervises the following areas: wholesale in refinery products, sale of oils, retail sale, and logistics.

The rules of PKN ORLEN's Management Board operations

The PKN ORLEN Management Board's principal objective is to realise the Company's interest, which is understood as building the value of its assets entrusted by its shareholders, with due respect for the rights and interests of the parties other than the shareholders, involved in the Company operations, especially creditors and employees.

The Management Board of PKN ORLEN ensures transparency and efficiency of the Company's management system and guarantees that the Company's affairs will be handled in accordance with the applicable law and good business practice.
Appointing and recalling PKN ORLEN’s Management Board

The Management Board of PKN ORLEN consists of five to nine members, including the President, Vice-Presidents and others members of the Management Board. Members of the Management Board are appointed and recalled by the Supervisory Board. One member of the Management Board is appointed and recalled by the Supervisory Board upon the request of the Minister in charge of the State Treasury.

The term of office of the Management Board members is a joint term of office, ending on the day when the Annual General Meeting has been held, approving the financial statement for the whole second financial year of such term of office. So determined joint term of office is assumed to commence on 7 June 2008. At its meeting on 24 March 2011 the Supervisory Board appointed the Management Board of PKN ORLEN for a joint three-year term. The new term of the Management Board started on 30 June 2011, i.e. after the holding of the Ordinary General Meeting approving the financial statements for 2010.

The President, Vice-Presidents, and other members of the Management Board may be suspended from duties for significant reasons by the Supervisory Board.

Should the Management Board President be suspended from duty or his/her mandate expires before the end of the term of office, all his/her powers, except for the right to the vote cast referred to in § 9 item 5 point 2 of the Articles of Association, are to be executed by the person appointed by the resolution of the Supervisory Board acting as President of the Management Board until the new Management Board President is appointed or the current one is restored to his/her position.

Organisation of PKN ORLEN’s Management Board activity

Meetings of the Management Board are held when necessary, however, not less frequently than once every two weeks. Each member of the Management Board may request in writing for a Management Board meeting to be convened or certain issues to be placed on the agenda. The request should contain the proposed agenda and the justification for the request. The meeting should be held within seven days of the request being filed.

The meeting of the Management Board is convened by the President who manages the activity of the Management Board and has to fix the date, venue and the agenda of the meeting. In exceptional cases the meeting of the Management Board may be convened by the Vice-President or two members of the Management Board. The meeting can also be held without being formally convened if all the Management Board members are present and none of them has objected to the meeting being held or any proposed issues being put on the agenda.

Invited Company employees, advisers and other persons can attend the meeting with the consent of the person chairing the meeting of the Management Board. Additionally, in case of issues relating the critical infrastructure components, a Proxy for the critical infrastructure can take part as an advisor in the meeting of the Management Board. Meetings of the Management Board are held in the Company’s seat in Plock or in the Company’s office in Warsaw. The person convening the meeting may, however, determine another venue for the meeting to be held.

The Management Board adopts resolutions at the meetings. For a resolution to be effective the scheduled meeting has to be notified to all the members of the Management Board and at least one half of the Management Board members have to be present at the meeting. The Management Board resolutions are passed with a simple majority of votes (in the event of a voting deadlock, the President of the Management Board has the casting vote) provided that for resolutions to grant a procuration, unanimity of all members of the Management Board is required. A Management Board member who voted against a resolution that was adopted may communicate his/her dissenting opinion, however, such communication has to be provided with the reasoning.

Resolutions are adopted in an open vote. A secret ballot may be ordered at a request of each member of the Management Board. Resolutions are signed by all members of the Management Board who were present at the Management Board meeting on which the resolution was adopted. The resolution is also signed by the member of the Management Board who filed a dissenting opinion, with a note: “dissenting opinion” or “votum separatum”.

Competences of PKN ORLEN’s Management Board

The Management Board has to handle all the affairs of PKN ORLEN which are not reserved to be considered by other authorities of the Company under the provisions of the Commercial Code or the Articles of Association. All the members of the Management Board are obliged and authorised to handle the affairs of PKN ORLEN.

All the matters going beyond the ordinary course of business are subject to resolutions of the Management Board, however, the consent of the Management Board is not required to carry out an activity being an integral part of another activity which has already been approved by the Management Board unless the resolution of the Management Board provides otherwise. Activities falling within the scope of the ordinary course of business are activities related to fuels trading within the meaning of the Company’s Articles of Association (i.e. crude oil, petroleum products, biocomponents, biofuels and other fuels, including natural gas, industrial gas and fuel gas) and any other activities not specified in the Management Board Regulations.
A resolution of the Management Board is required, among others to:

- adopt and amend the Management Board Regulations,
- adopt and amend the Organisational Rules and Regulations of PKN ORLEN,
- adopt motions to be submitted to the Supervisory Board and / or to the General Meeting of Shareholders, in particular, any motions sent to these bodies for their consent to perform certain actions, issue opinions, make an assessment or give an approval, which are required in accordance with the generally applicable law and / or the Company's Articles of Association,
- convene the General Meetings of Shareholders and adopt the proposed agenda of the General Meetings
- approve annual and long-term financial plans as well as the Company's development strategy
- approve investment tasks and corresponding liabilities if the resulting expenditures and encumbrances exceed PLN 10,000,000,
- incur liabilities, manage the property rights and any form of encumbrance on the Company's property where the total value exceeds PLN 20,000,000 (with certain exceptions to that rule)
- dispose and purchase real estate, perpetual usufruct or an interest in real estate and to establish a limited property right,
- dispose of, purchase and encumber stakes, shares or other interest in other entities, including shares admitted to public trading,
- issue the Company’s securities,
- approve the annual report on the Company’s business operations, the Company’s annual, half-yearly and quarterly financial statements, the ORLEN Capital Group’s annual, half-yearly and quarterly financial statements,
- adopt and change the Company’s employees’ remuneration scheme, as well as decisions regarding introduction and fundamentals of the incentive schemes,
- conclude, amend and terminate a collective labour agreement applicable in the Company, and other agreements with trade unions,
- establish the principles of granting and revoking powers of attorney,
- formulate the so-called donation policy of the Company,
- grant a procurement,
- establish the internal segregation of duties among the members of the Management Board,
- set up establishments / offices abroad,
- handle other matters which at least one member of the Management Board requests to be handled in the form of a resolution,
- take decisions on the payment of interim dividends.

The Management Board has to regularly provide the Supervisory Board with exhaustive information on all aspects of PKN ORLEN's business operations and the risks related to such operations as well as the methods of managing such risks. Additionally, the Management Board has to prepare and adopt annual and long-term financial plans and the Company development strategy in the form, to the extent and by the deadlines set by the Supervisory Board. The Management Board of PKN ORLEN has also to prepare and submit to the Supervisory Board the annual financial statements of PKN ORLEN and the annual financial statements of the ORLEN Group for the previous financial year.

### 7.8.2 Supervisory Board

#### Composition of PKN ORLEN's Supervisory Board in 2012

TABLE 44. Composition of PKN ORLEN's Supervisory Board as at 1 January 2012

<table>
<thead>
<tr>
<th>NAME AND SURNAME</th>
<th>POSITION HELD IN PKN ORLEN'S SUPERVISORY BOARD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maciej Mataczyński</td>
<td>Chairman of the Supervisory Board</td>
</tr>
<tr>
<td>Marek Karabuła</td>
<td>Vice – Chairman of the Supervisory Board</td>
</tr>
<tr>
<td>Angelina Sarota</td>
<td>Secretary of the Supervisory Board</td>
</tr>
<tr>
<td>Grzegorz Borowiec</td>
<td>Member of the Supervisory Board</td>
</tr>
<tr>
<td>Artur Gabor</td>
<td>Independent member of the Supervisory Board</td>
</tr>
<tr>
<td>Krzysztof Kolach</td>
<td>Independent member of the Supervisory Board</td>
</tr>
<tr>
<td>Leszek Jerzy Pawłowicz</td>
<td>Independent member of the Supervisory Board</td>
</tr>
<tr>
<td>Piotr Wielowieyski</td>
<td>Independent member of the Supervisory Board (in period from 9 December 2011 to 9 March 2012 – delegated to act as a Member of the Management Board of PKN ORLEN)</td>
</tr>
<tr>
<td>Janusz Zielński</td>
<td>Independent member of the Supervisory Board</td>
</tr>
</tbody>
</table>

At the beginning of the 2012 changes in the composition of the Supervisory Board were made. On 12 January 2012 the Extraordinary General Meeting of PKN ORLEN revoked Mr Krzysztof Kolach from the Supervisory Board. At the same time the Extraordinary General Meeting appointed Mr Michał Golebiowski to the Supervisory Board.
Additionally, as of 11 January 2012, Minister of the State Treasury based on § 8 item 2 point 1 of Articles of Association, acting on behalf of the State Treasury - the shareholder recalled Mr Janusz Zielinski from his office of the Supervisory Board of PKN ORLEN. Concurrently Minister of the State Treasury, as of 12 January 2012 appointed Mr Cezary Banasiński to the Supervisory Board.

Further changes in the composition of the Supervisory Board took place in March 2012. Mr Marek Karabula and Mr Piotr Wielowieyski submitted statements on resignation from the position of PKN ORLEN's Supervisory Board Member, effective from 28 March 2012.

On 24 April 2012 the Supervisory Board appointed Mr. Leszek Jerzy Pawłowicz to act as Vice – Chairman of the Supervisory Board.

On 30 May 2012 the Ordinary General Meeting appointed Mr. Paweł Białek to function as the Supervisory Board member.

Until 31 December 2012 and the date of authorisation of this financial statement composition of the Supervisory Board has not changed.

**TABLE 45.** Composition of the PKN ORLEN's Supervisory Board as at 31 December 2012.

<table>
<thead>
<tr>
<th>NAME AND SURNAME</th>
<th>POSITION HELD IN PKN ORLEN's SUPERVISORY BOARD</th>
</tr>
</thead>
<tbody>
<tr>
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<td>Chairman of the Supervisory Board</td>
</tr>
<tr>
<td>Leszek Jerzy Pawłowicz</td>
<td>Vice – Chairman of the Supervisory Board</td>
</tr>
<tr>
<td>Angelina Sarota</td>
<td>Secretary of the Supervisory Board</td>
</tr>
<tr>
<td>Cezary Banasiński</td>
<td>Independent member of the Supervisory Board</td>
</tr>
<tr>
<td>Grzegorz Borowiec</td>
<td>Member of the Supervisory Board</td>
</tr>
<tr>
<td>Artur Gabor</td>
<td>Independent member of the Supervisory Board</td>
</tr>
<tr>
<td>Michał Gołębiowski</td>
<td>Member of the Supervisory Board</td>
</tr>
<tr>
<td>Paweł Białek</td>
<td>Member of the Supervisory Board</td>
</tr>
</tbody>
</table>

In 2012 the Supervisory Board held 12 meetings and adopted 81 resolutions.

**Number of women and men acting as Supervisory Board Members of PKN ORLEN in the last two years.**

**TABLE 46.** Number of women and men acting as Supervisory Board Members of PKN ORLEN, including changes in its composition in the reporting period:.

<table>
<thead>
<tr>
<th>AS AT</th>
<th>NUMBER OF WOMEN</th>
<th>NUMBER OF MEN</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 January 2011</td>
<td>1</td>
<td>8</td>
</tr>
<tr>
<td>1 January 2012</td>
<td>1</td>
<td>8</td>
</tr>
<tr>
<td>12 January 2012</td>
<td>1</td>
<td>8</td>
</tr>
<tr>
<td>29 March 2012</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>30 May 2012</td>
<td>1</td>
<td>7</td>
</tr>
<tr>
<td>31 December 2012</td>
<td>1</td>
<td>7</td>
</tr>
</tbody>
</table>

**The rules of conduct of PKN ORLEN's Supervisory Board**

**Appointing and recalling members of PKN ORLEN's Supervisory Board**

Members of PKN ORLEN's Supervisory Board are appointed for a joint term of office, ending on the day when the Ordinary General Meeting has been held, approving the financial statement for the whole second financial year of such term of office. Individual members of the Supervisory Board and the entire Supervisory Board can be recalled at any time before the end of the term of office. The General Meeting of PKN ORLEN appoints the Chairman of the Supervisory Board, whereas the vice-chairman and the secretary are appointed by the Supervisory Board from amongst the other members of the Board.
Meetings of the Supervisory Board can only take place when all its members have been properly invited. Meetings can also be held without the requestor can call the session by himself through a written notice specifying the time, venue and the proposed agenda sent to the members of the Supervisory Board, at least seven days before the date of the meeting.

In such cases the session should be convened within two weeks from the receipt of such request and should be held no later than within three weeks of such request being received. If a Supervisory Board meeting is not convened within two weeks of the request being filed, the shareholder or shareholders representing at least one tenth of the share capital, the Management Board or a member of the Supervisory Board.

he/she is not an employee of the Company or a Related Entity,

he/she has not been a member of management authorities of the Company or a Related Entity within the last five years prior to the appointment to the Supervisory Board,

he/she is not a member of supervisory and management authorities of a Related Entity,

he/she does not receive nor has received, within the last five years prior to the appointment to the Supervisory Board, a considerable additional remuneration, i.e. remuneration exceeding the aggregate amount of PLN 600,000 from the Company or a Related Entity, apart from the remuneration due to the member of supervisory authorities,

he/she is not a shareholder holding 5% or more votes at the Company’s General Meeting of Shareholders or a Related Entity’s General Meeting,

he/she is not a member of supervisory or management authorities or an employee of an entity having 5% or more votes at the Company’s General Meeting of Shareholders or a Related Entity’s General Meeting

he/she is not an descendant, descendant, spouse, sibling, spouse’s parent or any other person remaining in an adoptive relationship with any of the persons mentioned above,

he/she has not hold the position of the Company’s Supervisory Board member for more than 3 terms of office,

he/she is not a member of the Management Board of the company, where a member of the Company’s Management Board holds the position of a member of the Supervisory Board,

he/she is free from any significant connections with members of the Company’s Management Board by participation in other companies.

Independent members of the Supervisory Board, before being appointed to the Supervisory Board, should submit to the Company a written statement confirming that they comply with the above mentioned provisions. If the mentioned provisions are not met, a member of the Supervisory Board is obliged to immediately notify the Company thereof. The Company informs the shareholders about the current number of independent members of the Supervisory Board.

If the number of independent members of the Supervisory Board is less than two, the Company’s Management Board is obliged to immediately convene a General Meeting of Shareholders and put an issue concerning changes in the composition of the Supervisory Board on the agenda of the General Meeting. The Supervisory Board acts in its current composition until the changes in the composition of the Supervisory Board are made, i.e. the number of independent members is adjusted to the statutory requirements set in the Articles of Association whereas the provisions of § 8 item 9 of the Articles of Association (containing a list of resolutions which must be passed with consent of at least one half of independent Supervisory Board members) do not apply.

Organisation of PKN ORLEN’s Supervisory Board’s operations

Meetings of the Supervisory Board are held when necessary, however, not less frequently than once every two months. The meetings are convened by the Chairman of the Supervisory Board. In case of his absence or inability to act his role this task is ascribed to the Vice – Chairman of the Supervisory Board, and respectively to Secretary of the Supervisory Board. Written invitations shall be sent to the Members of the Supervisory Board, at least seven days before the date of the session.

Moreover, as stated in the Company’s Articles of Association, a Supervisory Board meeting should be convened following a written request of a shareholder or shareholders representing at least one tenth of the share capital, the Management Board or a member of the Supervisory Board. In such cases the session should be convened within two weeks from the receipt of such request and should be held no later than within three weeks of such request being received. If a Supervisory Board meeting is not convened within two weeks of the request being filed, the requestor can call the session by himself through a written notice specifying the time, venue and the proposed agenda sent to the members of the Supervisory Board, at least seven days before the date of the meeting.

Meetings of the Supervisory Board can only take place when all its members have been properly invited. Meetings can also be held without the meeting being formally convened if all the Supervisory Board members are present and grant their consent to the session being held and to certain issues being put on the agenda.

The Supervisory Board can pass resolutions if at least half of its members participate in the meetings. Subject to the provisions of the Commercial Code, a resolution of the Supervisory Board can be passed in writing or with the use of direct means of remote communication. Resolutions of the Supervisory Board are passed with an absolute majority of the votes cast, in the presence of at least half of the members of the Supervisory Board, while the votes cast mean votes “for”, “against” and “abstain.” This does not apply to any members of the Management
Board or the entire Management Board being recalled or suspended during the term of their office when at least two thirds of all the Supervisory Board members have to vote in favour of the resolution.

Passing resolutions on the following matters:
- any contribution to members of the Management Board provided by the Company or any related entities,
- giving permission to sign any significant agreement by the Company or a subsidiary with an entity related to the Company, a member of the Supervisory Board, or Management Board, as well as with their related entities,
- appointing a certified auditor to audit the financial statements of the Company requires the consent of at least one half of the independent members of the Supervisory Board. Such provisions do not exclude applying Article 15 § 1 and 2 of the Commercial Code.

With a view to fulfilling its duties, the Supervisory Board can review all the Company documents, demand reports and explanations from the Management Board and the employees as well as inspect the Company’s assets.

**Competence of PKN ORLEN's Supervisory Board**

The Supervisory Board of PKN ORLEN exercises permanent supervision over the Company’s operations, in all fields of its activity, specifically, the Supervisory Board is authorised to act as set out in the Commercial Code and the Company’s Articles of Association. The Supervisory Board takes relevant steps required to regularly obtain exhaustive information from the Management Board about all the material issues relating to PKN ORLEN’s operations and the risk related to the business operations and risk management methods applied.

Pursuant to the Articles of Association, the Supervisory Board is also authorised to:
- appoint and recall the President, Vice-Presidents and other members of the Management Board (except for one member of the Management Board appointed and recalled by the Supervisory Board at the request of the State Treasury until the State Treasury sells the last Company share), represent the Company in contracts with the Management Board, including the terms of their employment contracts,
- suspend the activities of individual or all members of the Management Board for important reasons as well as delegating a member or members of the Supervisory Board to temporarily perform the duties of those members of the Management Board who are unable to perform their duties,
- approve the Management Board Regulations,
- appoint an entity authorised to audit the financial statements of the Company and the consolidated financial statements of the ORLEN Group in accordance with the Accounting Act,
- assess the financial statement in terms of its accuracy both in terms of its compliance with the accounting books and documents, the factual status, assess the Management Board’s report on the Company’s business operations, as well as the Management Board motions on the allocation of profit and coverage of loss, and submit to the General Meeting of Shareholders an annual written report on the results of the above assessments,
- assess the financial statement of the ORLEN Group and the Management Board’s report on the business operations of the ORLEN Group and submit the annual written report on the results of such assessment,
- issue opinions on any matter submitted by the Management Board to be presented either to Ordinary or Extraordinary General Meeting of Shareholders,
- grant consent to the members of the Management Board to take positions in supervisory or management authorities of other entities and to collect remuneration for such activities,
- grant consent to implement investment project and to incur the related liabilities in case the expenses or charges due to such activity exceed the equivalent of one half of the Company’s share capital,
- set the scope, accuracy and time for submission by the Management Board of its annual and long-term financial plans and plans for the Company’s development strategy,
- approve the Company’s development strategy and long-term financial plans,
- issue opinions on the annual financial plans,
- give consent, upon the Management Board’s motion, to sell real estate, perpetual usufruct or participation in real estate where the net book value does not exceed one twentieth of the share capital,
- give consent, upon the Management Board’s motion, to purchase real estate, perpetual usufruct or participation in real estate where the net acquisition price exceeds one fortieth of the share capital,
- give consent to purchase the Company’s own shares to prevent serious damage referred to in Article 362 § 1 point 1 of the Commercial Code, posing a direct threat to the Company,
- appoint the acting President of the Management Board, referred to in § 9 item 3 point 3, in the event the President is suspended from duty or his/her mandate expires before the end of the term of office.

The Articles of Association also stipulate that the consent of PKN ORLEN’s Supervisory Board is required to:
- set up a branch abroad,
- sell or encumber fixed assets which net book value exceed one twentieth of the asset value stated in the recent financial statements approved by the General Meeting of Shareholders, as a result of one or several related legal actions being taken,
committees which act as its collective advisory and opinion making bodies. The following permanent Committees operate within the Supervisory Board of PKN ORLEN:

- Audit Committee,
- Strategy & Development Committee,
- Nomination & Remuneration Committee,
- Corporate Governance Committee.

The mentioned Committees report annually to the Supervisory Board on its activities. Competences of the Committee is regulated by Terms of the Supervisory Board, which is made available for shareholders on the Company’s website www.orlen.pl.

All Committees are appointed by the Supervisory Board from amongst its members and the Committee itself chooses its Chairman. The Committees consist of between 3 to 5 members, but at least two members of Audit Committee are independent members and at least one has skills and expertise in the field of accounting or finance.

The Committee meetings are convened by the Committee chairman and, if he/she is either absent or unable to perform his/her duties, by the chairman of the Supervisory Board or another member of the Supervisory Board indicated by the chairman, who invites all the Committee Members to the meeting and notifies all the other Supervisory Board members of the meeting. All the members of the Supervisory Board can participate in the Committee meetings. The Committee chairman can invite to the Committee meetings members of the Management Board, the Company’s employees and other persons whose participation in the meeting is expedient to carry out the Committee tasks.
The Committee resolutions are passed with a simple majority of the votes cast. In the event of an equal number of “for” and “against” vote cast, the Committee chairman has the casting vote.

Composition of Supervisory Board Committees of PKN ORLEN in 2012

**TABLE 47.** Composition of Supervisory Board Committees of PKN ORLEN as at 1 January 2012.

<table>
<thead>
<tr>
<th>NAME AND SURNAME</th>
<th>POSITION HELD IN PKN ORLEN’s SUPERVISORY BOARD COMMITTEE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Audit Committee</strong></td>
<td></td>
</tr>
<tr>
<td>Artur Gabor</td>
<td>Committee Chairman, Independent Member of the Supervisory Board</td>
</tr>
<tr>
<td>Marek Karabuła</td>
<td>Committee Member</td>
</tr>
<tr>
<td>Leszek Jerzy Pawłowicz</td>
<td>Committee Member, Independent Member of the Supervisory Board</td>
</tr>
<tr>
<td>Piotr Wielowieyski</td>
<td>Committee Member, Independent Member of the Supervisory Board</td>
</tr>
<tr>
<td>Janusz Zieliński</td>
<td>Committee Member, Independent Member of the Supervisory Board</td>
</tr>
<tr>
<td><strong>Corporate Governance Committee</strong></td>
<td></td>
</tr>
<tr>
<td>Angelina Sarota</td>
<td>Committee Chairman</td>
</tr>
<tr>
<td>Grzegorz Borowiec</td>
<td>Committee Member</td>
</tr>
<tr>
<td>Maciej Mataczyński</td>
<td>Committee Member</td>
</tr>
<tr>
<td><strong>Strategy and Development Committee</strong></td>
<td></td>
</tr>
<tr>
<td>Marek Karabuła</td>
<td>Committee Chairman, Independent Member of the Supervisory Board</td>
</tr>
<tr>
<td>Krzysztof Kołach</td>
<td>Committee Member, Independent Member of the Supervisory Board</td>
</tr>
<tr>
<td>Leszek Jerzy Pawłowicz</td>
<td>Committee Member, Independent Member of the Supervisory Board</td>
</tr>
<tr>
<td>Piotr Wielowieyski</td>
<td>Committee Member, Independent Member of the Supervisory Board</td>
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<tr>
<td>Janusz Zieliński</td>
<td>Committee Member, Independent Member of the Supervisory Board</td>
</tr>
<tr>
<td><strong>Nomination and Remuneration Committee</strong></td>
<td></td>
</tr>
<tr>
<td>Maciej Mataczyński</td>
<td>Committee Chairman</td>
</tr>
<tr>
<td>Grzegorz Borowiec</td>
<td>Committee Member</td>
</tr>
<tr>
<td>Artur Gabor</td>
<td>Committee Member, Independent Member of the Supervisory Board</td>
</tr>
<tr>
<td>Krzysztof Kolach</td>
<td>Committee Member, Independent Member of the Supervisory Board</td>
</tr>
</tbody>
</table>

Mr. Krzysztof Kołach and Janusz Zieliński were recalled from the Supervisory Board Committee with regards to changes in composition of the Supervisory Board which took place in January 2012.

On 19 January 2012 Mr. Michał Gołębiowski was appointed as a member of the Audit Committee, Strategy and Development Committee as well as Nomination and Remuneration Committee by the Supervisory Board. Mr. Cezary Banasiński was appointed a member of the Strategy and Development Committee.

The resignation of Mr Marek Karabuła and Mr Piotr Wielowieyski from the position of PKN ORLEN’s Supervisory Board Member effective from 28 March 2012, caused reduction in composition of the Supervisory Board Committee.

On 30 May 2012 the Supervisory Board complemented composition of the Supervisory Boards Committees when the Ordinary General Meeting of PKN ORLEN appointed as a new member of the Supervisory Board - Mr. Paweł Białek. Mr. Cezary Banasiński became a new chairman of Strategy and Development Committee.

Until 31 December 2012 and the date of authorization of this financial statement composition of the Supervisory Board Committee has not changed.
TABLE 48. Composition of Supervisory Board Committees of PKN ORLEN as at 31 December 2012.

<table>
<thead>
<tr>
<th>NAME AND SURNAME</th>
<th>POSITION HELD IN PKN ORLEN’S SUPERVISORY BOARD COMMITTEE</th>
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<tbody>
<tr>
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<td>Committee Chairman, Independent Member of the Supervisory Board</td>
</tr>
<tr>
<td>Leszek Jerzy Pawłowicz</td>
<td>Committee Member, Independent Member of the Supervisory Board</td>
</tr>
<tr>
<td>Michał Gołębiowski</td>
<td>Committee Member</td>
</tr>
<tr>
<td>Paweł Białek</td>
<td>Committee Member, Member of the Supervisory Board</td>
</tr>
<tr>
<td>Angelina Sarota</td>
<td>Committee Chairman</td>
</tr>
<tr>
<td>Grzegorz Borowiec</td>
<td>Committee Member</td>
</tr>
<tr>
<td>Maciej Mataczyński</td>
<td>Committee Member</td>
</tr>
<tr>
<td>Paweł Białek</td>
<td>Committee Member, Member of the Supervisory Board</td>
</tr>
<tr>
<td>Cezary Banasiński</td>
<td>Committee Chairman, Independent Member of the Supervisory Board</td>
</tr>
<tr>
<td>Michał Gołębiowski</td>
<td>Committee Member</td>
</tr>
<tr>
<td>Leszek Jerzy Pawłowicz</td>
<td>Committee Member, Independent Member of the Supervisory Board</td>
</tr>
<tr>
<td>Paweł Białek</td>
<td>Committee Member, Member of the Supervisory Board</td>
</tr>
<tr>
<td>Maciej Mataczyński</td>
<td>Committee Chairman</td>
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<td>Grzegorz Borowiec</td>
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<tr>
<td>Artur Gabor</td>
<td>Committee Member, Independent Member of the Supervisory Board</td>
</tr>
<tr>
<td>Michał Gołębiowski</td>
<td>Committee Member</td>
</tr>
<tr>
<td>Paweł Białek</td>
<td>Committee Member, Member of the Supervisory Board</td>
</tr>
</tbody>
</table>

Audit Committee

The task of the Audit Committee is to advise the Supervisory Board of PKN ORLEN on the issues related to the proper implementation of budget and financial reporting rules and internal control within the Company and the ORLEN Group, as well as cooperation with the Company’s certified auditors. In particular, the tasks of the Committee are:

− to monitor the work of the Company’s certified auditors and submit recommendations to the Supervisory Board as to the selection and fee of the Company’s certified auditors,
− to discuss with the Company’s certified auditors, prior to commencement of audit of each annual financial statements, the nature and scope of the audit, and to monitor co-ordination of work between the Company’s certified auditors,
− to review interim and annual financial statements of the Company (consolidated and unconsolidated), with particular focus on:
  • any changes of accounting standards, rules and practice,
  • main areas of judgement,
  • material corrections following from the audit,
  • going concern statements,
  • compliance with applicable accounting regulations.
− to discuss any problems or objections that may result from the audit of the financial statements,
− to analyse the letters to the Management Board drawn up by the Company’s certified auditors, independency and objectivity of their audit and the Management Board’s replies,
− to give opinions on annual and long-term financial plans,
− to give opinions on the dividend policy, profit distribution and issue of securities,
− to review the management accounting system,
− to review the internal control system, including control mechanisms in terms of finance, operations, compliance with the provisions of law, risk and management assessment, to review the reports of internal certified auditors employed by the Company and basic findings made by other internal analysts together with the Management Board’s replies to such findings,
− to review the independency of internal auditors and to give opinions on the Management Board’s intentions as to employment or dismissal of the head of internal audit,
to review, on an annual basis, the internal audit program, coordination of the work of internal and external auditors and to analyse the conditions for internal auditors’ operation, cooperation with the Company’s organisational units in charge of audit and control and to evaluate their work on a periodical basis,
− to consider all other issues relating to the Company’s audit raised by the Committee or the Supervisory Board,
− to notify the Supervisory Board of any material issues regarding the operation of the Audit Committee.

The Audit Committee meetings are held at least once per quarter, each time prior to the publication of the financial statements by the Company.

Corporate Governance Committee

The task of the Corporate Governance Committee is to:
− evaluate the implementation of the corporate governance principles,
− to submit recommendations to the Supervisory Board as to the implementation of the corporate governance principles,
− issue opinions on normative corporate governance documents,
− evaluate reports concerning compliance with the corporate governance principles prepared for the Warsaw Stock Exchange,
− issue opinions on the draft amendments of the Company’s corporate documents and to develop such drafts in case of own documents of the Supervisory Board,
− to monitor the management of the Company in terms of legal and regulatory compliance, including the compliance with the PKN ORLEN’s Code of Ethics and the corporate governance principles.

Strategy and Development Committee

The task of the Strategy and Development Committee is to issue opinions and submit recommendations to the Supervisory Board on planned investments and divestments which exert a material impact on the Company’s assets. In particular, the Committee:
− assesses the effect of planned and conducted already implemented investments and divestments on the form of the Company’s assets,
− evaluates the activities, contracts, letters of intent and other documents relating to the actions aimed at acquisition, sale, encumbrance or any other disposal of the Company’s material assets,
− issues opinions on any strategic documents which the Management Board submits to the Supervisory Board,
− issues opinions on the Company’s development strategy, including long-term financial plans.

Nomination and Remuneration Committee

The task of the Nomination and Remuneration Committee is to help to attain the strategic goals of the Company by providing the Supervisory Board with opinions and motions on how to shape the management structure, with regard to organisational solutions, remuneration schemes and selection of the staff with the skills required to ensure the Company’s success. In particular, the tasks of the Committee include:
− to initiate and issue opinions on the solutions in the area of Management Board members nomination system,
− to issue opinions on the solutions proposed by the Management Board in the area of the Company’s management system, aimed at ensuring efficiency, integrity and safety of the Company’s management,
− to periodically review and recommend the rules for determining incentive schemes to the Management Board members and top executives, with a view to the Company’s interest,
− to periodically review the remuneration system applicable to Management Board members and managerial staff directly reporting to the Management Board members, including managerial contracts and incentive schemes and to submit to the Supervisory Board the proposals how to shape them in the context of the Company’s strategic goal attainment,
− to submit to the Supervisory Board opinions on the rationale behind performance-driven remuneration, in the context of evaluating the degree to which the Company’s specified tasks and goals are met,
− to assess the Company’s human resources management system.

7.9 Description of the remuneration policy and the rules for its determination

The remuneration for the Supervisory Board Members is determined by the Company’s General Meeting.

Remuneration for Members of the Board is determined by the Supervisory Board taking into account the recommendations of the Nomination and Remuneration Committee.

The components of the Management Board Members remuneration system include:
− monthly fixed base pay,
− annual bonus dependent on the accomplishment level of quantitative and qualitative targets,
− severance pay for dismissal from the Management Board Member function,
− compensation for non-competition.
Additional benefits for the Management Board Members may include company car, tools and technical appliances necessary to perform the duties of the Management Board Member, cover the business travel and representation costs in the area and amount corresponding to the assigned functions, life and endowment insurance agreement, private health insurance for the Management Board Member and his/her closest family as well as possibility to cover reasonable expenses of personal and property protection.

Rules for awarding bonuses to the key executive personnel

In 2012 the ORLEN Group’s key executive personnel was subjected to the annual MBO bonus system (management by objectives). The regulations applicable to the PKN ORLEN’s Management Board, executive directors of PKN ORLEN, management boards of the ORLEN Group and other key positions in the Group have certain common features. The persons subject to the above mentioned systems are remunerated for the accomplishment of individual targets set at the beginning of the bonus period by the Supervisory Board for the Management Board Members and by the Management Board Members for the key executive personnel. The targets set are qualitative or quantitative (measurable) and are settled for following the end of the year for which they were set, based on the rules adopted in the applicable Bonus System Regulations. The bonus systems are structured in a way so as to promote the cooperation between individual employees in view to achieve the best possible results at PKN ORLEN and ORLEN Group level.

Since January 2012, the Rules for MBO bonuses to key executive personnel members in the ORLEN Group have been restated. The changes were implemented in order to increase flexibility and motivate capability of a system as well as adjustment of the Bonus Regulations to the best market practices.
The Management Board Report on the operations of PKN Orlen was authorized by the Management Board of the dominant entity on 28 March 2013.

Dariusz Krawiec  
President of the Board

Sławomir Jędrzejczyk  
Vice-President of the Board

Piotr Chełmiński  
Member of the Board

Krystian Pater  
Member of the Board

Marek Podstawa  
Member of the Board
## Glossary of selected technical definitions

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ALKYLATION</strong></td>
<td>Refinery process in PKN ORLEN, namely that olefin and paraffin fractions are merged in order to produce high-octane gasoline component (alkylate). The process is run on alkylation installation in the presence of hydrofluoric acid.</td>
</tr>
<tr>
<td><strong>BARREL</strong></td>
<td>Unit of liquid volume used mainly in the oil industry. 1 barrel of crude oil (1 bbl) = 42 American gallons = 158,96832 l.</td>
</tr>
<tr>
<td><strong>BIOESTERS</strong></td>
<td>Methyl esters of higher fatty acids produced from vegetable oils or animal fats. Used as a bio-component for diesel fuel or as a fuel for cars with diesel engines. Meets the quality standards set for the biofuel in the PN EN 14214, applicable both in Poland and other European Union markets.</td>
</tr>
<tr>
<td><strong>BIOETHANOL</strong></td>
<td>Ethanol derived from biomass or biodegradable waste.</td>
</tr>
<tr>
<td><strong>CATALYST</strong></td>
<td>Substance, which accelerates (initiates) the expected chemical reaction.</td>
</tr>
<tr>
<td><strong>CRACKING</strong></td>
<td>Thermal or catalytic conversion of heavy or more complex hydrocarbons into light products and coke, which increases the yields of light products from crude oil.</td>
</tr>
<tr>
<td><strong>DIFFERENTIAL BRENT/URAL</strong></td>
<td>Difference between the quotations of two kinds of crude oil, calculated as: Med Strip - Ural Rdam (Ural CIF Rotterdam).</td>
</tr>
<tr>
<td><strong>DISTILLATION</strong></td>
<td>Method of physical separation of liquid mixtures, which uses the phenomenon of differences in boiling temperatures of particular components in the mixture undergoing distribution.</td>
</tr>
<tr>
<td><strong>HYDROCARBONS</strong></td>
<td>Organic compounds made of carbon and hydrogen. Crude oil and natural gas are mixtures of hydrocarbons.</td>
</tr>
<tr>
<td><strong>HYDROCRACKING</strong></td>
<td>Cracking of hydrocarbon raw materials in the presence of hydrogen. This process raises the efficiency of light products from crude oil.</td>
</tr>
<tr>
<td><strong>HYDRODESULPHURIZATION</strong></td>
<td>The process of removing sulfur compounds in the raw material by contact with hydrogen at the catalyst bed under high temperature and pressure.</td>
</tr>
<tr>
<td><strong>MED STRIP</strong></td>
<td>Brent crude oil quotation.</td>
</tr>
<tr>
<td><strong>MODEL OLEFIN MARGIN</strong></td>
<td>Calculated as: revenues from products sold (100% Products = 50% Ethylene + 30% Propylene + 10% Benzene+ 10% Toluene) - costs (100% input = 75% naphtha + 25% LS VGO). Contract market quotations.</td>
</tr>
<tr>
<td><strong>MODEL PETROCHEMICAL MARGIN</strong></td>
<td>Calculated as: revenues from products sold (98% Products = 44% HDPE + 7% LDPE + 35% PP Homo + 12% PP Copo) - costs (100% input = 75% naphtha + 25% LS VGO). Contract market quotations.</td>
</tr>
<tr>
<td><strong>MODEL REFINING MARGIN</strong></td>
<td>Calculated as: revenues from products sold (93,5% Products = 36% Gasoline + 43% Diesel + 14,5% HHO) - costs (100% input: crude oil and other raw materials). Total input calculated acc. to Brent crude quotations. Spot market quotations.</td>
</tr>
<tr>
<td><strong>MONOMERS</strong></td>
<td>Molecules of the same type or number of different kind of compounds characterize not very high molecular weight, which can form polymers during polymerization reaction.</td>
</tr>
<tr>
<td><strong>POLYMERS</strong></td>
<td>Chemicals of very high molecular weight, which consist of many repeated units called mers, polyethylene and polypropylene.</td>
</tr>
<tr>
<td><strong>TRR</strong></td>
<td>Total Recordable Rate = international accident rate in enterprises determined as follows: (number of accidents in a given period/number of hours worked in the period)* 1 000 000.</td>
</tr>
<tr>
<td><strong>UPSTREAM</strong></td>
<td>Oil exploration and mining.</td>
</tr>
<tr>
<td><strong>URAL RDAM (URAL CIF ROTTERDAM)</strong></td>
<td>Ural crude oil quotation in Rotterdam.</td>
</tr>
</tbody>
</table>


## Financial Glossary

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ADR</strong></td>
<td>American Depository Receipt = certificate issued by an American bank representing a share of a foreign stock that the bank holds in trust but that is traded on an American stock exchange.</td>
</tr>
<tr>
<td><strong>EURIBOR</strong></td>
<td>Euro Interbank Offered Rate – interest rate of interbank credit on the interbank market in euro zone.</td>
</tr>
<tr>
<td><strong>GDR</strong></td>
<td>Global Depositary Receipt = security issued outside of Poland by the Depositary Bank in relation to shares.</td>
</tr>
<tr>
<td><strong>LIBOR</strong></td>
<td>London Interbank Offered Rate – interest rate on the London market that apply to interbank credits.</td>
</tr>
</tbody>
</table>
**WIBOR**  
Warsaw Inter Bank Offered Rate - interest rate on the Polish interbank market that apply to interbank credits.

### FINANCIAL RATIOS

<table>
<thead>
<tr>
<th>LIQUIDITY RATIOS</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>CURRENT LIQUIDITY</td>
<td>current assets/short-term liabilities</td>
</tr>
<tr>
<td>QUICK LIQUIDITY</td>
<td>(current assets– inventories - prepayments)/ short-term liabilities</td>
</tr>
<tr>
<td>NET WORKING CAPITAL</td>
<td>trade receivables + inventories – trade liabilities</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>TURNOVER RATIOS</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>RECEIVABLES TURNOVER</td>
<td>average amount of trade receivables/net revenues x 365 days</td>
</tr>
<tr>
<td>LIABILITIES TURNOVER</td>
<td>average amount of trade liabilities, gross /cost of goods sold x 365 days</td>
</tr>
<tr>
<td>INVENTORY TURNOVER</td>
<td>average amount of inventories/net revenues x 365 days</td>
</tr>
<tr>
<td>ASSETS TURNOVER</td>
<td>net revenues/average balance of assets</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>DEBT SERVICE COVERAGE RATIO</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>FINANCIAL LEVERAGE</td>
<td>net debt/equity (calculated using the average carrying amount in the period) x 100%</td>
</tr>
</tbody>
</table>