

## **V. CORPORATE GOVERNANCE**

### **5.1 A set of corporate governance rules followed by PKN ORLEN in 2010**

In 2010, 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](http://www.corp-gov.gpw.pl) and on the corporate website: [www.orlen.pl](http://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 mid-2010 the Warsaw Stock Exchange (WSE) reviewed the Code of Best Practice for WSE Listed Companies and adjusted it to make it compliant with the amendments introduced to the provisions of law, international guidelines and stakeholders’ expectations.

In 2010 PKN ORLEN applied all the corporate governance rules set out in both: the formerly applicable and updated Code of Best Practice for WSE Listed Companies.

The Company follows also those recommendations provided for in the “Code of Best Practice for WSE Listed Companies”, which are not mandatory. Thus, it undertakes a number of activities with a view 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.

PKN ORLEN has its corporate website, which is a reliable and useful source of information about the Company for the capital market representatives. 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 Company provides all the interested parties with equal access to the information published on the website. The investor relations section is maintained both in Polish and in English.

The PKN ORLEN website in its present form was launched at the turn of 2009/2010 under the current address: [www.orlen.pl](http://www.orlen.pl). The portal was developed with the use of new technology and contains also a new service for the Company’s shareholders and for the stock exchange investors and analysts. It contains a lot of modern tools and information on the Company, 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 share quotations with a calculator of the return on investment in the Company’s stock,
- special form for contacts with the Company in respect of PKN ORLEN General Meetings, in accordance with the most recent amendments to the Commercial Code,
- possibility to subscribe for various types of PKN ORLEN newsletters, including the most recent investor relations news.

The investor relations section on the corporate website is divided into a few tabs to find all the current and periodical reports published by the Company as well as presentations prepared for material events in the Company with audio and video recording of such events.

There is also the WSE best practice tab on the website, in the investor relations section. 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” as well as brief information on best practice applied by the Company and the rules for selecting an entity authorized to audit the financial statements.

Via the corporate website the information is provided 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 Internet contact form related to general meetings.

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 go for the so-called roadshows – series of meetings with investors at their work place. For the capital market stakeholders 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, which allow them to better acquaint with the Company specifics.

**POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA**  
**MANAGEMENT BOARD REPORT ON THE OPERATIONS OF PKN ORLEN S.A.**  
**(Translation of a document originally issued in Polish)**

---

During the meetings with the capital market representatives, the representatives of PKN ORLEN provide information about the Parent Company, however, it is also possible to get feedback for the Company from the shareholders, investors or stock exchange analysts. Thanks to this feedback the Company, being aware of the information needs of its stakeholders, 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 centres worldwide.

With a view to develop the forms and quality of communication with the capital market, the Company publishes 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). These estimates are published a few weeks prior to the date of publication of the quarterly report. "Trading statements" allow for a fair building of consensus in respect of the Company's forecasted financial results on the capital market prior to their publication. This report creates new standards in the area of investor relations. Its favourable reception confirms how important for PKN ORLEN is an appropriate and timely communication with the market on the key topics for the investors.

The care for communication with the capital market players was appreciated also in 2010 and reflected through the awards granted to the Company in the area of investor relations:

- Listed Company of the Year in the Investor Relations category – ranking by Puls Biznesu/Pentor,
- First rank in WarsawScan 2010 – best information policy and corporate governance,
- First rank in WarsawScan 2010 – best website devoted to investor relations,
- "Best investor relations in Poland 2010" - IR Magazine.

## **5.2 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 drawing up financial statements is implemented through:

- verification whether a single accounting policy is applied by the ORLEN Capital Group companies as regards the recognition, measurement and disclosures in accordance with the International Financial Reporting Standards (IFRS),
- following accounting standards and monitoring compliance with them,
- a review, by an independent auditor, of the published financial reports 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 Capital Group,
- procedures to authorise and give opinions about financial statements before they are published,
- carrying out an independent and objective evaluation of risk management and internal control systems.

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 PKN ORLEN, periodically updated to ensure that it complies with the applicable laws, specifically with the IFRS, the Accounting Act dated 29 September 1994 and the Ordinance of the Ministry of Finance 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, requiring detailed explanations to ensure proper and uniform financial reporting principles.

The consolidated financial statements are drawn up based on reporting packages provided by the ORLEN Group companies which are reviewed in terms of their cohesion, completeness and continuity. Data required for the standalone financial statements is derived from accounting records kept in accordance with the PKN ORLEN procedures. The disclosures also cover additional information provided by individual organisational units of PKN ORLEN, which is also checked by the Corporate Accounting Office.

In order to reduce the risks relating to the process of drawing up financial statements on a current basis, they are quarterly checked by an auditor, i.e. more often than required under the applicable law. The financial statements for the 1<sup>st</sup> quarter, the half-year and the 3<sup>rd</sup> quarter of the year are reviewed, whereas the annual financial statement is subject 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, the financial statements are approved by the Management Board for publication and subsequently forwarded

**POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA**  
**MANAGEMENT BOARD REPORT ON THE OPERATIONS OF PKN ORLEN S.A.**  
**(Translation of a document originally issued in Polish)**

by the Investor Relations Office to the appropriate capital market institutions and made public. Before the publication, the financial statements are treated as confidential by the Company and provided solely to persons involved in the preparation, control and approval process.

The Company has an Audit Department which has to ensure an independent and objective evaluation of the risk management and internal audit systems, and analyse business processes. The Department operates based on the annual audit plans approved by the Management Board and accepted by the Audit Committee of the Supervisory Board and the Supervisory Board itself. The Audit Department can also carry out *ad hoc* audits as ordered by the Company's Supervisory Board or the Management Board.

In pursuit of the tasks and objectives set, the Audit 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 follow-up on its own recommendations as well as those given by the auditor as to the Company's financial statements.

Twice a year the Audit Department draws up a report for the Management Board and the Audit Committee of the Supervisory Board on monitoring the recommendations, summarising the conclusions regarding the audit tasks performed, identified risks and information about the implementation status of the recommendations given.

### 5.3 PKN ORLEN's shareholders with a significant stake

PKN ORLEN shares are listed on the Warsaw Stock Exchange Main List in the continuous trading system and in WIG20, the biggest companies index, WIG index as well as the industry index – WIG fuels. Since 19 November 2009 PKN ORLEN shares have been listed in the index of companies involved in corporate social responsibility – Respect Index.

PKN ORLEN shares are listed also in the form of Global Depositary Receipts (GDR) on the London Stock Exchange. Depositary receipts are also traded in the USA on the OTC market.

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

PKN ORLEN depositary receipts are lodged with The Bank of New York Mellon. The transaction unit on the London Stock Exchange is 1 GDR which accounts for two PKN ORLEN shares.

The ownership rights relating to PKN ORLEN shares are fully transferable.

Below is a list of PKN ORLEN's shareholders holding a significant stake is presented, specifying the number of shares held, the percentage of their share in the Company's share capital, the number of votes conferred by the shares held and their percentage share in the total number of votes at PKN ORLEN's General Meeting.

The year 2010 saw two changes in the structure of shareholders with more than 5% in the Company's share capital. The first one occurred on 5 February 2010 when Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK acquired the Company's shares representing 5.08% of the PKN ORLEN's share capital. Then, at the end of the year, on 23 November 2010, the Company was notified by ING Otwarty Fundusz Emerytalny (ING Open Pension Fund) that the fund reduced its share in the overall number of votes at the General Meeting of PKN ORLEN below 5%. ING Otwarty Fundusz Emerytalny maintained its over 5% shareholding in the Company's share capital from 18 February 2009. Shareholding structure in PKN ORLEN as at 1 January 2010:

Shareholders	Number of shares	Number of votes at General Meeting of PKN ORLEN	Share in total number of votes at General Meeting of PKN ORLEN	Percent of share capital of PKN ORLEN
State Treasury	117,710,196	117,710,196	27.52%	27.52%
ING Otwarty Fundusz Emerytalny*	22,118,813	22,118,813	5.17%	5.17%
Others	287,880,052	287,880,052	67.31%	67.31%
<b>Total</b>	<b>427,709,061</b>	<b>427,709,061</b>	<b>100.00%</b>	<b>100.00%</b>

\* in accordance with information received by the Company on 20 February 2009.

**POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA**  
**MANAGEMENT BOARD REPORT ON THE OPERATIONS OF PKN ORLEN S.A.**  
**(Translation of a document originally issued in Polish)**

Shareholding structure in PKN ORLEN as at 31 December 2010:

Shareholders	Number of shares	Number of votes at General Meeting of PKN ORLEN	Share in total number of votes at General Meeting of PKN ORLEN	Percent of share capital of PKN ORLEN
State Treasury	117,710,196	117,710,196	27.52%	27.52%
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK **	21,744,036	21,744,036	5.08%	5.08%
Others	288,254,829	288,254,829	67.40%	67.40%
<b>Total</b>	<b>427,709,061</b>	<b>427,709,061</b>	<b>100.00%</b>	<b>100.00%</b>

\* \*\*in accordance with information received by the Company on 9 February 2010

#### 5.4 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 the Act on Public Trading in Securities. The restriction, referred to in the previous sentence, does not apply to Nafta Polska S.A.<sup>1</sup>, the State Treasury and the depository bank which issued depository receipts in connection with the Company's shares under an agreement with the Company (if 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 Act on Public Trading in Securities. 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 depository receipts held 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 depository 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 the shares held having been disposed of following the day when the right to participate in the General Meeting was established,
- the parent company and the subsidiary shall accordingly mean a person:
  - that 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
  - that 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
  - that 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 accumulated 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,
- 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

<sup>1</sup> Nafta Polska S.A. ceased to be a shareholder of a Company as at 22 July 2009

**POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA**  
**MANAGEMENT BOARD REPORT ON THE OPERATIONS OF PKN ORLEN S.A.**  
**(Translation of a document originally issued in Polish)**

---

Grouping. The reduction of the number of votes involves decreasing the overall number of votes in the Company vested in the shareholders being members of the Shareholders Grouping to be exercised at the General Meeting. 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 votes 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 he/she is 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.

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 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 and Nafta Polska S.A.<sup>2</sup>,
- 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 request of the minister in charge of State Treasury.

In accordance with the applicable provisions of the Company's Articles of Association, until the minister in charge of State Treasury or another minister exercises the rights from PKN ORLEN shares owned by the State Treasury under the generally applicable law, the appropriate minister can appoint one or two Observers for the Company, who will be authorised to monitor the Company's activities, participate in the meetings of the Company's authorities, review the Company's documents, request reports and explanations, inspect the Company's assets. Detailed rules regulating the Observers' activity and their powers are set out in the General Meeting, Supervisory Board and Management Board Regulations. In accordance with 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"), the Act of 3 June 2005 on Specific Powers Vested in the

---

<sup>2</sup> Nafta Polska S.A. ceased to be a shareholder of a Company as at 22 July 2009

**POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA**  
**MANAGEMENT BOARD REPORT ON THE OPERATIONS OF PKN ORLEN S.A.**  
**(Translation of a document originally issued in Polish)**

---

Minister in Charge of State Treasury and Their Exercise in Capital Companies Significant for Public Order and Safety, which Act introduced the institution of the Observer in the Company, has expired. Thus, the Company's Management Board proposed to the General Meeting that the provisions concerning the Observer be removed from the Company's Articles of Association. The Annual General Meeting, on 25 June 2010, did not however express the consent to such change in the Company's Articles of Association. While the above act was in force, nobody was appointed to perform the function of the Observer in the Company.

Additionally, specific rights vested in the State Treasury shareholders may also arise out of the commonly applicable provisions of law, especially 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 section 7 item 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 State Treasury may also object to the Company's body passing resolution on:

- dissolution of the Company,
- change of function of, or ceasing, 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 section 7 item 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 and establishment of a limited property right thereon,
- 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 plenipotentiary in charge of the protection of critical infrastructure in the Company. The scope of the plenipotentiary's tasks includes providing the Minister in charge of State Treasury with information on the Company's authorities 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.

## **5.5 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.

## **5.6 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.orklen.pl](http://www.orklen.pl) in the "Company" and "Investor relations" sections in the "General Meeting" tab.

### **5.6.1 Convening and calling off PKN ORLEN's General Meetings**

The rules for convening and organising the General Meetings of Shareholders were materially amended by the General Meeting of Shareholders of PKN ORLEN on 15 July 2009. The provisions of corporate documents were then adjusted to comply with the provisions of law commonly applicable in this respect.

The General Meeting is to be convened in the manner and under the rules stipulated in the generally applicable provisions of law. The General Meeting is convened through placing an announcement on the Company's website

**POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA**  
**MANAGEMENT BOARD REPORT ON THE OPERATIONS OF PKN ORLEN S.A.**  
**(Translation of a document originally issued in Polish)**

---

and by delivering a current report to the capital market institutions and making it public. 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 fourteen days from filing the motion. The motion for the General Meeting to be held 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 stipulated in 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 Płock and in the Warsaw office, as well as on the corporate website [www.orklen.pl](http://www.orklen.pl).

Regardless the requirements set out in the generally applicable law on publishing draft resolutions to be presented at the General Meeting on the Company's website as soon as from the day when the General Meeting has been convened, the Company is obliged to provide draft resolutions in the form of a current report at least 26 days before the date the General Meeting is to be held in order to enable the shareholders to review and assess them.

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

For the shareholders who cannot participate in the General Meeting in person, 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 and change in the date of the General Meeting cannot be effected within the deadline specified above, such a General Meeting should be held unless it is impossible or excessively hindered due to the circumstances. In such case, 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 the 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.

#### **5.6.2 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 discharge of duties by the Supervisory Board and Management Board members,
- decide on the allocation of profit and the absorption 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,

**POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA**  
**MANAGEMENT BOARD REPORT ON THE OPERATIONS OF PKN ORLEN S.A.**  
**(Translation of a document originally issued in Polish)**

---

- approve the sale and lease of the Company's enterprise or an organised part thereof 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 whose 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 the issue of warrants,
- pass resolutions on winding-up the Company, its liquidation, restructuring and merger with another company,
- conclude holding contracts within the meaning of Article 7 of the Polish Commercial 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.

### **5.6.3 Voting at PKN ORLEN's General Meetings**

Unless stated otherwise in the Commercial 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, winding-up of the Company (including winding-up as a result of the Company's seat or business operations center 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 item placed on the agenda on the motion of the shareholders require 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 considered 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 have been described in chapter IV of this report.

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

### **5.6.4 Participation in PKN ORLEN's General Meetings**

In accordance with Article 406(1) § 1 of the Polish Commercial 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).

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,
- 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 issuing the certificate,
- signature of the person authorised to issue the certificate.



**POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA**  
**MANAGEMENT BOARD REPORT ON THE OPERATIONS OF PKN ORLEN S.A.**  
**(Translation of a document originally issued in Polish)**

---

At the request of the shareholder, the certificate should specify part or all of shares registered in his/her securities account.

The list of shareholders eligible to participate in the General Meeting is compiled by the Company on the basis of a specification prepared by the entity maintaining the securities deposit in accordance with the provisions of the Act on Trading in Financial Instruments dated 29 July 2005 (at present The National Depository for Securities, KDPW). KDPW prepares the list of entities entitled to participate in the General Meeting on the basis of specifications provided no later than twelve days prior to the date of the General Meeting date by the eligible entities. The lists submitted to KDPW are compiled on the basis of issued certificates of entitlement to participate in the General Meeting. KDPW provides such a list for the company's review no later than a week 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, as far as admissible 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, fulfills 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.

General Meetings can be attended by an Observer appointed by the minister in charge of State Treasury affairs. Until the publication of this report, the minister in charge of State Treasury affairs has not appointed any Observer for PKN ORLEN and, as stated in chapter IV of this report, the Act of 3 June 2005 on Specific Powers Vested in the State Treasury and Their Exercise in Joint-stock and limited-liability Companies of Material Significance for Public Order or Public Security, which established the institution of Observer in the Company, has expired.

In accordance with the Act of 18 March 2010 on Specific Powers Vested in the Minister in Charge of State Treasury, the right to request from the Company's authorities, including the General Meeting, any documents, information and explanations relating to the issues listed in the Act (i.e. concerning the Company's property disclosed in a uniform list of facilities, installations, devices and services comprised by the critical infrastructure referred to in the Act of 26 April 2007 on Crisis Management) is vested in charge of critical infrastructure protection.

PKN ORLEN pays special attention to activities facilitating the Company's communication with the external environment. For shareholders who cannot participate in the General Meeting in person, the Company arranges for an internet broadcast of the Meeting and offers simultaneous translation into English. A special section dedicated to the Company's General Meetings is included on the corporate PKN ORLEN website where information about the planned shareholders' meetings is provided along with material 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.

#### **5.6.5 General Meeting in 2010**

The General Meeting of the Company was held, on 25 June 2010. This was the Ordinary General Meeting of PKN ORLEN.

During the debates of the Ordinary General Meeting the shareholders approved the annual reports on the operations of the Company and the ORLEN Capital Group as well as the financial statements for 2009. They also resolved on confirming the performance of duties by all the Supervisory and Management Boards members.

The General Meeting resolved also to allocate the Company's entire profit generated in 2009 to the Company's reserve capital.

**POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA**  
**MANAGEMENT BOARD REPORT ON THE OPERATIONS OF PKN ORLEN S.A.**  
**(Translation of a document originally issued in Polish)**

The debates concerned also amendments to the PKN ORLEN's Articles of Association relating, among others, to the adjustment of current provisions of PKN ORLEN's Articles of Association to commonly applicable provisions of law. Moreover, the provisions of the Articles of Association relating to the Company's objects were extended to include two new areas, i.e. retail sales of alcoholic and non-alcoholic beverages carried on in specialised stores and the publishing of newspapers.

The General Meeting also consented to the disposal, lease or encumbrance with any other third party rights, of a few fuel stations as organized parts of the Company.

At the last year meeting, the General Meeting appointed the Supervisory Board members for the new term of office: Mr Maciej Mataczyński was appointed to perform the function of Chairman, and Ms Angelina Sarota, Mr Grzegorz Borowiec, Mr Artur Gabor, Mr Marek Karabuła, Mr Krzysztof Kołach, Mr Leszek Jerzy Pawłowicz and Mr Piotr Wielowieyski – to the function of Supervisory Board Members. On the same day the State Treasury appointed also Mr Janusz Zieliński to the PKN ORLEN Supervisory Board.

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

**5.7.1 Composition of PKN ORLEN's Management Board in 2010**

In 2010 the following persons were acting as members of the Management Board in PKN ORLEN:

Name and surname	Position held in PKN ORLEN's Management Board
Dariusz Jacek Krawiec	President of the Management Board, Chief Executive Officer as of 18 September 2008 Vice-President of the Management Board in charge of Crude Oil and Capital Group as of 17 June 2008 Vice- President of the Management Board as of 7 June 2008
Sławomir Jędrzejczyk	Vice-President of the Management Board, Chief Financial Officer as of 23 September 2008 Vice-President of the Management Board as of 18 September 2008 Member of the Management Board, Chief Financial Officer as of 17 June 2008 Member of the Management Board as of 7 June 2008
Wojciech Kotlarek	Member of the Management Board in charge of Sales as of 17 June 2008 Member of the Management Board as of 7 June 2008
Krystian Pater	Member of the Management Board in charge of Refinery as of 17 June 2008 Member of the Management Board as of 7 June 2008 Member of the Management Board in charge of Production from 20 March 2007 to 6 June 2008
Marek Serafin	Member of the Management Board in charge of Petrochemistry as of 17 June 2008 Member of the Management Board as of 7 June 2008

**POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA**  
**MANAGEMENT BOARD REPORT ON THE OPERATIONS OF PKN ORLEN S.A.**  
**(Translation of a document originally issued in Polish)**

---

**5.7.2 Composition of PKN ORLEN's Supervisory Board in 2010**

In 2010 the Company's business was monitored by the Supervisory Board in the following composition:

Name and surname	Position held in PKN ORLEN's Supervisory Board
Maciej Mataczyński	Chairman of the Supervisory Board as of 7 February 2008
Marek Karabuła	Vice-Chairman of the Supervisory Board from 15 February 2008 to 26 June 2010 and as of 20 July 2010 Member of the Supervisory Board as of 7 February 2008
Grzegorz Borowiec	Member of the Supervisory Board as of 7 February 2008
Krzysztof Kołach	Member of the Supervisory Board as of 7 February 2008
Jarosław Roślowski	Member of the Supervisory Board from 13 June 2008 to 25 June 2010
Piotr Wielowieyski	Member of the Supervisory Board as of 7 February 2008
Angelina Sarota	Secretary of the Supervisory Board from 13 June 2008 to 25 June 2010 and as of 20 July 2010 Member of the Supervisory Board as of 13 June 2008
Janusz Zieliński	Member of the Supervisory Board as of 6 July 2007
Artur Gabor	Member of the Supervisory Board as of 25 June 2010
Leszek Jerzy Pawłowicz	Member of the Supervisory Board as of 25 June 2010

**POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA**  
**MANAGEMENT BOARD REPORT ON THE OPERATIONS OF PKN ORLEN S.A.**  
(Translation of a document originally issued in Polish)

**5.7.3 Composition of Supervisory Board Committees in PKN ORLEN in 2010**

Name and surname	Position held in PKN ORLEN's Supervisory Board Committee
<b>Audit Committee</b>	
-from 20 July 2010 to 31 December 2010	
Artur Gabor	Committee Chairman, Independent Member of the Supervisory Board
Marek Karabuła	Committee Member
Leszek Jerzy Pawłowicz	Committee Member, Independent Member of the Supervisory Board
Piotr Wielowieyski	Committee Member, Independent Member of the Supervisory Board
Janusz Zieliński	Committee Member, Independent Member of the Supervisory Board
-from 1 January 2010 to 25 June 2010	
Piotr Wielowieyski	Committee Chairman, Independent Member of the Supervisory Board
Marek Karabuła	Committee Member
Janusz Zieliński	Committee Member, Independent Member of the Supervisory Board
<b>Corporate Governance Committee</b>	
-from 20 July 2010 to 31 December 2010	
Angelina Sarota	Committee Chairman
Grzegorz Borowiec	Committee Member
Maciej Mataczyński	Committee Member
-from 1 January 2010 to 25 June 2010	
Grzegorz Borowiec	Committee Chairman
Maciej Mataczyński	Committee Member
Angelina Sarota	Committee Member
<b>Strategy and Development Committee</b>	
- from 20 July 2010 to 31 December 2010	
Marek Karabuła	Committee Chairman
Krzysztof Kołach	Committee Member, Independent Member of the Supervisory Board
Leszek Jerzy Pawłowicz	Committee Member, Independent Member of the Supervisory Board
Piotr Wielowieyski	Committee Member, Independent Member of the Supervisory Board
Janusz Zieliński	Committee Member, Independent Member of the Supervisory Board
- from 1 January 2010 to 25 June 2010	
Marek Karabuła	Committee Chairman
Krzysztof Kołach	Committee Member, Independent Member of the Supervisory Board
Piotr Wielowieyski	Committee Member, Independent Member of the Supervisory Board
Janusz Zieliński	Committee Member, Independent Member of the Supervisory Board
<b>Nomination and Remuneration Committee</b>	
- from 20 July 2010 to 31 December 2010	
Maciej Mataczyński	Committee Chairman
Grzegorz Borowiec	Committee Member
Artur Gabor	Committee Member, Independent Member of the Supervisory Board
Krzysztof Kołach	Committee Member, Independent Member of the Supervisory Board
- from 1 January 2010 to 25 June 2010	
Maciej Mataczyński	Committee Chairman
Grzegorz Borowiec	Committee Member
Krzysztof Kołach	Committee Member, Independent Member of the Supervisory Board
Piotr Wielowieyski	Committee Member, Independent Member of the Supervisory Board
Jarosław Roślowski	Committee Member

**POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA**  
**MANAGEMENT BOARD REPORT ON THE OPERATIONS OF PKN ORLEN S.A.**  
**(Translation of a document originally issued in Polish)**

---

**5.7.4 The rules of conduct of the Management Board and Supervisory Board and Supervisory Board Committees in PKN ORLEN**

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.

**5.7.5 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 common term of office, ending on the day when the Ordinary General Meeting has been held, approving the financial statements 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.

PKN ORLEN's Supervisory Board is composed of six to nine members. The State Treasury is authorised to appoint and recall one member of the Supervisory Board, other members of the Supervisory Board are appointed and recalled by the General Meeting of Shareholders. On 25 June 2010 the Annual General Meeting of PKN ORLEN appointed Supervisory Board Members to a new term of office.

Pursuant to the Articles of Association of PKN ORLEN, at least two members of the Supervisory Board have to comply with the following independency provisions (the so-called independent members 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 nor has been, within the last three years prior to the appointment to the Supervisory Board, a partner or employee of the current or former chartered auditor examining the financial statements of the Company or a Related Entity,
- 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 ascendant, 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 said 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 point a 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.

**POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA**  
**MANAGEMENT BOARD REPORT ON THE OPERATIONS OF PKN ORLEN S.A.**  
**(Translation of a document originally issued in Polish)**

---

### **Organisation of PKN ORLEN's Supervisory Board's operations**

Sessions of the Supervisory Board are held when necessary, however, not less frequently than once every two months. Moreover, as stated in the Company's Articles of Association, a Supervisory Board session 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 session 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 session.

Sessions of the Supervisory Board can only take place when all its members have been properly invited. Sessions 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 certain issues being put on the agenda.

The Supervisory Board can pass resolutions if at least half of its members participate in the session. 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, and 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 of 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 Capital 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 Capital 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,

**POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA**  
**MANAGEMENT BOARD REPORT ON THE OPERATIONS OF PKN ORLEN S.A.**  
**(Translation of a document originally issued in Polish)**

---

- 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 item 1 of the Commercial Code, posing a direct threat to the Company,
- appoint the acting President of the Management Board, referred to in § 9 sec. 3 item 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 whose 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,
- dispose of or encumber, in any way whatsoever, shares or stakes in the following companies: Naftoport Sp. z o.o., Inowrocławskie Kopalnie Soli S.A. and in the company to be established with a view to transporting liquid fuels through pipelines,
- incur other liabilities exceeding the equivalent of one fifth of the share capital, as a result of one or several related legal actions being taken during the financial year, except for the following:
  - activities performed within the scope of ordinary management activity, including in particular all activities relating to Fuels trading,
  - activities approved by the Supervisory Board in the annual financial plans,
  - activities which need the consent of the Shareholders Meeting in order to be performed,
  - activities performed in connection with the implementation of the investment task, approved by the Supervisory Board in accordance with § 8 sec. 11 item 9 of the Articles of Association, up to the amount not exceeding 110 percent of the amount allocated for this investment task,
  - activities concerning the implementation of the investment task and the related liabilities, if expenditures or charges do not exceed the cap indicated in § 8 sec. 11 item 9 of the Articles of Association,
- carry out capital or tangible investments abroad worth more than one twentieth of the share capital,
- exercise the Company's voting right at general meetings and partners/associates/shareholders meetings of the subsidiaries and other entities, if the value of the shares or stakes held by the Company, at a price the shares were acquired or taken up exceed one fifth of the Company's share capital, as regards merger with another company and Company restructuring, sale and lease of the Company's undertaking and establishing on it the right to use, amendments to the Articles of Incorporation or Articles of Association, execution of the concern contract within the meaning of Article 7 of the Commercial Code and winding up of the Company,
- establish commercial law companies and join existing companies, as well as to make contributions to cover shares in companies, and to sell shares if the Company's capital involvement in a given company so far, or commitment which the Company is about to achieve as a result of buying or acquiring shares, calculated on the basis of the share purchase or acquisition price, exceeds one tenth of the initial capital, excluding the purchase of shares in the regulated market,
- pay interim dividends to the shareholders.

If the Supervisory Board withholds its consent to any of the above activities being taken, the Management Board can address the General Meeting of Shareholders to adopt a resolution to approve the relevant activity.

Additionally, following a request of at least two members, the Supervisory Board is obliged to consider undertaking supervisory actions specified in such request.

Given the best practice standards and in order to enable the shareholders to make a true and fair view of the Company, the Supervisory Board of PKN ORLEN is in charge of the additional duty to submit to the General Meeting of the Company a concise assessment of PKN ORLEN's standing. The assessment is submitted annually, before the date of the Company's General Meeting to allow time for PKN ORLEN shareholders to get acquainted with it.

**POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA**  
**MANAGEMENT BOARD REPORT ON THE OPERATIONS OF PKN ORLEN S.A.**  
**(Translation of a document originally issued in Polish)**

---

### **Committees of PKN ORLEN's Supervisory Board**

The Supervisory Board of PKN ORLEN may elect permanent or *ad hoc* 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 and Corporate Governance Committee. The said Committees report annually to the Supervisory Board on its activities.

The members of 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. 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 a tie, the Committee chairman has the casting vote.

### **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.

Furthermore, the tasks of the Audit Committee include:

- 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.



**POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA**  
**MANAGEMENT BOARD REPORT ON THE OPERATIONS OF PKN ORLEN S.A.**  
**(Translation of a document originally issued in Polish)**

---

### **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.

#### **5.7.6 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 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 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 statements 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.

The President, Vice-Presidents, and other members of the Management Board may be suspended from duty 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 casting vote referred to in § 9 sec. 5 item 2 of the Articles

**POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA**  
**MANAGEMENT BOARD REPORT ON THE OPERATIONS OF PKN ORLEN S.A.**  
**(Translation of a document originally issued in Polish)**

---

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.

Meetings of the Management Board are held in the Company's seat in Płock or in the Company's Headquarters 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 meeting. 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 procurator, unanimity of all members of the Management Board is required. A Management Board member who voted against a resolution that was adopted may communicate its 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 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,

**POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA**  
**MANAGEMENT BOARD REPORT ON THE OPERATIONS OF PKN ORLEN S.A.**  
**(Translation of a document originally issued in Polish)**

---

- 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 procuration,
- 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 draw up 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 draw up 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.

#### **5.7.7 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.

The remuneration for the Management Board Members is determined by the Supervisory Board. As part of the Supervisory Board, the Nomination & Remuneration Committee operates whose tasks, among others, include:

- to periodically review and recommend, the rules for determining incentive pay to the Management Board members and to the senior management, taking into account 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 systems 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 reasons underlying the awarded performance-driven remuneration in the context of evaluating the degree to which the Company's specified tasks and goals are met.

The main 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:

- Company car,
- Tools and technical appliances necessary to perform the duties of the Management Board Member,
- Reimbursement of business trips costs and costs of representation to the extent and in the amount relevant to the function held,
- Life and endowment insurance agreement,
- Private health insurance for the Management Board Member and his/her closest family.

#### **5.7.8 Rules for awarding bonuses to the key executive personnel**

In 2010 the ORLEN Group's key executive personnel was subject to the annual MBO bonus system. The regulations applicable to PKN ORLEN Management Board, executive directors of PKN ORLEN, management boards of the PKN 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 accounted for following the end of the year for which they were set, based on the rules adopted in the applicable Bonus System

**POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA  
MANAGEMENT BOARD REPORT ON THE OPERATIONS OF PKN ORLEN S.A.  
(Translation of a document originally issued in Polish)**

---

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.

In 2010 new MBO bonus standards were developed and approved for the senior managerial personnel in the ORLEN Group to be in force as of 2011. The main goal for implementation of the changes is to match the bonus system with PKN ORLEN Management Board's goals and to increase top management responsibility for ORLEN Group results.