



ORLEN

Polski Koncern Naftowy ORLEN
Spółka Akcyjna

**REPORT
OF THE SUPERVISORY BOARD OF PKN ORLEN S.A.
FOR 2015**

WARSAW, April 2016

I.COMPOSITION OF THE SUPERVISORY BOARD

As at 1 January 2015, the composition of the Supervisory Board (SB) of PKN ORLEN S.A. was as follows:

Angelina Sarota	Chairperson of the Supervisory Board
Leszek Pawłowicz	Vice-Chairman of the Supervisory Board(<i>Independent Member of the Supervisory Board</i>)
Adam Ambrozik	Member of the Supervisory Board
Grzegorz Borowiec	Member of the Supervisory Board
Artur Gabor	Member of the Supervisory Board (<i>Independent Member of the Supervisory Board</i>)
Cezary Banasiński	Member of the Supervisory Board (<i>Independent Member of the Supervisory Board</i>)
Maciej Bałtowski	Member of the Supervisory Board
Radosław L. Kwaśnicki	Member of the Supervisory Board
Cezary Możejński	Member of the Supervisory Board

Acting in compliance with § 8 clause 2 item 1 of the Articles of Association of Polski Koncern Naftowy ORLEN Spółka Akcyjna, on 23 November 2015 the Minister of the Treasury dismissed Mr Maciej Bałtowski from the position of a Member of the Supervisory Board. At the same time, acting in compliance with § 8 clause 2 item 1 of the Articles of Association of on 23 November 2015 the Minister of the Treasury appointed Mr Remigiusz Nowakowski to the Supervisory Board.

Due to the above mentioned changes, as from 23 November 2015 the Supervisory Board was composed as follows:

Angelina Sarota	Chairperson of the Supervisory Board
Leszek Pawłowicz	Vice-Chairman of the Supervisory Board(<i>Independent Member of the Supervisory Board</i>)
Adam Ambrozik	Member of the Supervisory Board
Grzegorz Borowiec	Member of the Supervisory Board
Artur Gabor	Member of the Supervisory Board (<i>Independent Member of the Supervisory Board</i>)
Cezary Banasiński	Member of the Supervisory Board (<i>Independent Member of the Supervisory Board</i>)
Radosław L. Kwaśnicki	Member of the Supervisory Board

Cezary Możejński Member of the Supervisory Board

Remigiusz Nowakowski Member of the Supervisory Board

As at 31 December 2015 the above mentioned composition of PKN ORLEN S.A. was not changed.

II. ACTIVITIES OF THE SUPERVISORY BOARD

In 2015, the Supervisory Board held 10 recorded meetings and adopted 72 resolutions.

The supervisory and control activities of the Supervisory Board in the financial year 2015 covered, among others, the following issues:

- the Supervisory Board provided its opinion on the report of the Management Board of PKN ORLEN S.A. on activities of the Company and financial statements for the financial year 2014;
- The Supervisory Board provided its opinion on the motion of the Company's Management Board regarding the net loss coverage for the financial year 2014 and on the level of dividend to be disbursed in 2015;
- the Supervisory Board provided its opinion on the report of the Management Board on activities of the ORLEN Capital Group for the financial year 2014 and consolidated financial statements of the ORLEN Capital Group.
- The Supervisory Board provided a positive opinion on motions submitted by the Management Board to be examined by WZS and NWZS;
- The Supervisory Board provided a positive opinion on the agenda and draft resolutions of the Ordinary General Meeting of PKN ORLEN covered for 28 April 2015 and draft resolutions of the Extraordinary General Meeting of PKN ORLEN covered for 29 January 2016;
- The Supervisory Board provided a positive opinion on the Financial Plan of PKN ORLEN for 2016.
- The Supervisory Board provided its consent for recapitalisation of ORLEN Upstream Sp. z o.o. in relation to accomplishment of investment projects;
- The Supervisory Board provided its consent for PKN ORLEN S.A. to incur any financial liabilities, whose value resulting from one or several related legal actions carried out at any point during the year 2015 exceeds the value of one fifth of the share capital.
- The Supervisory Board provided its consent for execution of the voting right by PKN ORLEN S.A. at the General Meeting of UNIPETROL a.s. in relation to amendments of the articles of association of this company;

- The Supervisory Board provided its consent for execution of the voting right by PKN ORLEN S.A. at the General Meeting of ORLEN Paliwa Sp. z o.o. in relation to a merger of ORLEN Paliwa Sp. z o.o. with ORLEN Gaz Sp. z o.o. and in relation to amendments of the articles of association of ORLEN Paliwa Sp. z o.o.
- The Supervisory Board provided its consent for execution of the voting right by PKN ORLEN S.A. at the General Meeting of Shareholders of ORLEN Paliwa Sp. z o.o. in relation to an amendment of the articles of association of this company;
- The Supervisory Board provided its consent for payment of a deposit for excise tax by PKN ORLEN S.A.;
- The Supervisory Board provided its consent for sale of real estate, perpetual usufruct or share in such real estate, whose net book value does not exceed one twentieth of the share capital.
- The Supervisory Board assessed accomplishment of targets set for 2014 by the Members of the Company's Management Board and granted annual bonuses for the financial year 2014;
- The Supervisory Board changed target cards for 2015 for all Members of the Company's Management Board;
- The Supervisory Board dismissed the President of the Management Board and appointed the President of the Management Board of PKN ORLEN S.A.;
- The Supervisory Board approved the managerial contract of the newly appointed President of the Management Board;

The activities of the Supervisory Board were documented by the adopted resolutions and minutes of the meetings of the Supervisory Board in 2015.

III.COMMITTEES OF THE SUPERVISORY BOARD

The Supervisory Board was supported in its activities by the Committees acting as collective advisory and consultancy bodies consisting of individual members of the Supervisory Board.

In 2015, the following permanent Committees operated within the Supervisory Board:

- Audit Committee
- Development & Strategy Committee
- Corporate Governance Committee
- Appointment & Remuneration Committee

- Social Responsibility Committee

Due to changes in the composition of the Supervisory Board of PKN ORLEN S.A. made on 23 November 2015, the Supervisory Board at its Meeting on 22 December 2015 by resolution no 1635/15 introduced changes to the compositions of the Committees. The compositions of the Supervisory Board Committees with changes have been presented in the description of operations of individual committees.

The detailed area of the activities of the Committees in 2015 was documented in the minutes of the meetings of respective Committees. (in 2015 there were altogether 31 meetings of Supervisory Board Committees).

Audit Committee

In 2015 the composition of the Audit Committee was the following:

Artur Gabor	Chairman of the Committee (<i>Independent Member of the Supervisory Board</i>)
Grzegorz Borowiec	Member of the Committee
Radosław L. Kwaśnicki	Member of the Committee
Leszek Pawłowicz	Member of the Committee (<i>Independent Member of the Supervisory Board</i>)

In 2015 the Audit Committee held fourteen reported meetings, including two joint meetings held with the Appointment and Remuneration Committee.

Pursuant to § 13 item 5 of the Regulations of the Supervisory Board, the Audit Committee passed decisions by way of resolutions (7 resolutions).

In 2015 the meetings of the Audit Committee were attended, apart from its members, also by other members of the Supervisory Board, members of the Management Board, the Counsel of the Company, executive directors and office directors, as well as the certified auditor.

Pursuant to § 15 of the Constitution of the Supervisory Board, the duty of the Audit Committee is to advise the Supervisory Board on appropriate implementation of the principles of budget and financial reporting, and internal control in the Company and the PKN ORLEN Group (according to the Accountancy Act), and to cooperate with the certified auditors of the Company.

The measures applied by the Audit Committee included:

- monitoring of the work of the certified auditor and reviews of proposals of the Management Board requesting consent to commission additional tasks to the auditor;
- review of interim financial statements of the Company as well as the annual standalone and consolidated financial statements of PKN ORLEN S.A.;

- providing an opinion on the Financial Plan for 2016;
- quarterly analysis of the results generated by PKN ORLEN Group in relation to the plan;
- providing opinion on the motion of the Company's Management Board regarding the net loss coverage for the financial year 2014 and on the level of dividend to be disbursed in 2015;
- review of the report of the certified auditor on execution of the procedures related to counting the quantitative indicators resulting from the MBO Regulations for the Members of the Company's Management Board for the financial year ending on 31 December 2014 ;
- analysis of periodic reports on the progress of implementation of recommendations, on summaries of observations and on the conclusions drawn from audits conducted by internal auditing services and issued by a certified auditor;
- review of the information regarding controls and verification procedures conducted by the Control and Security Office;
- discussing the report on important judicial proceedings with participation of PKN ORLEN S.A. and the Group.

Moreover, the Audit Committee expressed its recommendations to the PKN ORLEN Supervisory Board concerning the issues falling within the scope of activities of the Committee and discussed during meetings of the Supervisory Board.

Development & Strategy Committee

On 1 January 2015 until 22 December 2015 the composition of the Development & Strategy Committee was as follows:

Cezary Banasiński	Chairman of the Committee (<i>Independent Member of the Supervisory Board</i>)
Artur Gabor	Member of the Committee (<i>Independent Member of the Supervisory Board</i>)
Cezary Możejki	Member of the Committee
Leszek Pawłowicz	Member of the Committee (<i>Independent Member of the Supervisory Board</i>)
Angelina Sarota	Member of the Committee

At the meeting of the Supervisory Board of PKN ORLEN S.A. held on 22 December 2015, the Board introduced changes to the composition of the Development & Strategy Committee. Ms Angelina Sarota resigned from work in the committee and was replaced by Mr Remigiusz Nowakowski.

Due to the foregoing, from 22 December 2012 until 31 December 2015 the composition of the Development & Strategy Committee was as follows:

Cezary Banasiński	Chairman of the Committee (<i>Independent Member of the Supervisory Board</i>)
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Artur Gabor	Member of the Committee (<i>Independent Member of the Supervisory Board</i>)
Cezary Możejński	Member of the Committee
Leszek Pawłowicz	Member of the Committee (<i>Independent Member of the Supervisory Board</i>)
Remigiusz Nowakowski	Member of the Committee

In 2015, the Development & Strategy Committee held 6 reported meetings.

In 2015 the meetings of the Development & Strategy Committee were attended, apart from its members, also by other members of the Supervisory Board, members of the Management Board, the Counsel of the Company, executive directors and office directors, as well as consultants.

The area of the Development & Strategy Committee's activities is regulated by § 17 of the Regulations of the Supervisory Board in accordance with which the Committee is responsible for providing opinions and presenting recommendations to the Supervisory Board on issues regarding planned investments and de-investments with a key impact on the Company's assets.

Within the scope of its activities in 2015, the Development & Strategy Committee:

- analysed situation of ORLEN Lietuva; became familiar with innovative developmental projects of PKN ORLEN and monitored regularly progress in their accomplishment;
- discussed quarterly the status of accomplishment of PKN ORLEN's strategy for 2014- 2017;
- within the scope of PKN ORLEN's strategy, became familiar with directions of development of Upstream, their further updating and investment possibilities in this segment;
- recommended the motion of the Company's Management Board regarding a merger of ORLEN Paliwa sp. z o.o. and ORLEN GAZ sp. z o.o.;
- analysed an investment project of purchase of an exploring and mining company from technical and economic perspective;
- analysed and provided opinions of motions of the Management Board regarding recapitalisation of ORLEN Upstream Sp. z o.o. in relation to Unicorn and Gold Projects;
- recommended motions of the Management Board regarding entering into commercial agreements related to divestment of transportation and railway assets;

Corporate Governance Committee

As at 1 January 2015, the members of the Corporate Governance Committee of the Supervisory Board of PKN ORLEN S.A. included:

Cezary Możejński	Chairman of the Committee
Angelina Sarota	Member of the Committee
Maciej Bałtowski	Member of the Committee
Radosław L. Kwaśnicki	Member of the Committee

Because Maciej Bałtowski was dismissed from the Supervisory Board of PKN ORLEN S.A. from 23 November 2015 until 31 December 2015 the composition of the Corporate Governance Committee was as follows:

Cezary Możejński	Chairman of the Committee
Angelina Sarota	Member of the Committee
Radosław L. Kwaśnicki	Member of the Committee

In 2015, the Corporate Governance Committee held 4 reported meetings.

The meetings of the Corporate Governance Committee were attended, apart from its members, also by other members of the Supervisory Board, members of the Management Board, the Counsel of the Company, executive directors and office directors, as well as consultants.

The area of the Corporate Governance Committee's activities is regulated by § 16 of the Regulations of the Supervisory Board in accordance with which the Committee is responsible for presenting recommendations on the implementation of the principles of corporate governance, providing opinions on the implementation of the principles of corporate governance, providing opinions on the standard-setting documents and proposals of changes in the corporate documents of the Company, and also preparing such changes for the Supervisory Board's own documents, monitoring the management of the Company in terms of its compliance with legal and regulatory requirements, including compliance with the Code of Ethics and principles of corporate governance, and also providing opinions on reports on the observance of the principles of corporate governance prepared for the Warsaw Stock Exchange.

Within the area of its activities in 2015, the Corporate Governance Committee:

- became familiar with information received from the Management Board on the SME policy in respect to compliance with diversity principle in companies belonging to the State Treasury and information about internal regulations in PKN ORLEN S.A. related to implementation of the diversity principle;
- recommended to the Supervisory Board to approve the Report on application of corporate governance principles in PKN ORLEN S.A. in 2014;
- became familiar with the Company's opinion about amendments to the new Good Practices of Companies Listed on the Warsaw Stock Exchange within the scope of public consultations and presented its comments;
- provided its opinion on the motion of the Management Board regarding amendments to the Articles of Association of PKN ORLEN S.A.;
- recommended the motion concerning approval for execution of the voting right by PKN ORLEN S.A. at the General Meeting of UNIPETROL, a.s. as regards amendments to the Articles of Association of UNIPETROL, a.s.;

Nomination & Remuneration Committee

As of 1 January 2015, the composition of the Nomination & Remuneration Committee was as follows:

Angelina Sarota	Chairperson of the Committee
Cezary Banasiński	Member of the Committee (<i>Independent Member of the Supervisory Board</i>)
Grzegorz Borowiec	Member of the Committee
Adam Ambrozik	Member of the Committee
Maciej Bałtowski	Member of the Committee

Because Maciej Bałtowski was dismissed from the Supervisory Board of PKN ORLEN S.A. from 23 November 2015 until 31 December 2015 the composition of the Nomination & Remuneration Committee was as follows:

Angelina Sarota	Chairperson of the Committee
Cezary Banasiński	Member of the Supervisory Board (<i>Independent Member of the Supervisory Board</i>)
Grzegorz Borowiec	Member of the Committee
Adam Ambrozik	Member of the Committee

In 2015, the Nomination & Remuneration Committee held 3 reported meetings, including 2 joint meetings held with the Audit Committee.

The meeting of the Nomination & Remuneration Committee was attended, apart from its members, also by other members of the Supervisory Board and members of the Management Board.

The scope of Nomination and Remuneration Committee is regulated by § 18 of the Regulations of the Supervisory Board, according to which the duty of the Nomination and Remuneration Committee shall be to support the achievement of the Company's strategic objectives by furnishing the Supervisory Board with opinions and motions relating to the development of the management structure, including organisational solutions, remuneration system and selection of qualified personnel to ensure the Company's success.

Within the area of its activities in 2015, the Nomination & Remuneration Committee:

- prepared a recommendation for the Supervisory Board in the scope of assessment of individual quality bonus tasks for the members of the Management Board for 2014;
- recommended to the Supervisory Board indicators defining innovation level in the qualitative assessment of annual targets of the Members of the Management Board;
- due to a change of the President of the Management Board, worked out a recommendation concerning terms and conditions of a managerial contract for the newly appointed President of the Management Board of PKN ORLEN S.A.

Social Responsibility Committee (CSR Committee)

In 2015 the composition of the CSR Committee was as follows:

Artur Gabor	Chairman of the Committee (<i>Independent Member of the Supervisory Board</i>)
Radosław L. Kwaśnicki	Member of the Committee
Adam Ambrozik	Member of the Committee

The area of work of the Corporate Social Responsibility Committee is regulated by § 19 and § 20 of the Regulations of the Supervisory Board. The task of the Committee is to support achievement of the Company's strategic objectives by considering social, ethical and environmental issues in the Company's operations and in contacts with stakeholders. Moreover, the tasks of the Committee include supervision of the implementation of the Corporate Social Responsibility (CSR) strategy, monitoring of management of the Company in terms of compliance with requirements of the PKN ORLEN S.A. Values and Principles of Conduct, periodic assessment of the Company's activities in the field of CSR and adopting annual report summarizing CSR activities completed by the Company.

In 2015 the Corporate Social Responsibility Committee held 2 reported meetings.

The meetings of the Corporate Social Responsibility Committee were attended, apart from its members, also by other members of the Supervisory Board, members of the Management Board, executive directors and office directors.

Within the scope of its activities in 2015 the Social Responsibility Committee:

- became familiar with the CSR Strategy for PKN ORLEN S.A., presented its comments and acknowledged it;
- analysed the implementation status of the CSR Strategy in PKN ORLEN;

IV SELF-ASSESSMENT OF WORK OF THE SUPERVISORY BOARD OF PKN ORLEN S.A.

The composition and differentiated competences of the Members of the Supervisory Board guarantee efficient supervision of all fields of business of PKN ORLEN S.A. In 2015 four out of nine Members of the Supervisory Board were professors in economy, law and chemistry, two of them had Ph.D. in law, and the Supervisory Board consisted also of persons with economic, legal and engineering background. It should be emphasized that the majority of the Members of the Supervisory Board are active managers from the sector of enterprises, R&D sector and the public sector; and they have rich and versatile professional experience. Also the parity of independent members of the Supervisory Board (three Members) and the gender parity were fulfilled, but it should be stated that the latter was even improved in the new composition shaped by the decision of the Extraordinary General Meeting of Shareholders held on 29 January 2016.

According to the principles resulting from the Good Practices of Companies Listed on the Warsaw Stock Exchange, the Supervisory Board performed not only strictly supervisory function, but also supported the Management Board with its expertise in the field of strategic development plans

necessary at the times of transformation and challenges faced by the sector of fossil fuels in Europe and worldwide. The Supervisory Board focused in particular on innovations and R&D that formally became one of the qualitative criteria of work assessment of the Management Board Members in 2015 (since May 2015) and on corporate social responsibility, appointing a special committee devoted to this subject.

The cooperation with the Management Board was based on mutual trust and care for welfare of the Company and all its stakeholders, acting professionally all the time following the principle of division of responsibilities between these two bodies as defined in the Code. The Supervisory Board adjusted to the pace of work of the Management Board and made decisions facilitating uninterrupted functioning of the Company and accomplishment of its strategic and operating objectives. Moreover, the Supervisory Board also imitated certain supervisory and advisory activities that were accompanied by the Management Board.

V. OPINION ON THE FINANCIAL STATEMENTS AND THE REPORT OF THE MANAGEMENT BOARD

Pursuant to art. 382 § 3 of the Commercial Companies Code and § 8 oar. 11 subpar. 6 of the Company Statutes in relation to art. 395 § 2 par. 1 of the Commercial Companies Code and art. 45 and 53 par. 1 of the Accounting act and § 7 par. 7 subpar. 1 of the Company Statutes the Supervisory Board of the Company evaluates positively:

- 1) report of the Company's Management Board on the activities of Polski Koncern Naftowy ORLEN Spółka Akcyjna for the financial year ended on 31 December 2015;
- 2) stand-alone financial statements of Polski Koncern Naftowy ORLEN Spółka Akcyjna for the year ended 31 December 2015, including the following items verified by a certified auditor:
 - stand-alone profit and loss account (included in the profit or loss statement and other total income) for the period from 1 January 2015 to 31 December 2015 ended with a net profit in the amount of PLN 1,047,519,491.84 (in words: one billion forty-seven million five hundred nineteen thousand four hundred ninety-one Zloty 84/100);
 - stand-alone statement of the financial position as at 31 December 2015 presenting both on the assets side and on the liabilities side the amount of PLN 36,980,669,667.80 (in words: thirty-six billion nine hundred eighty million six hundred sixty-nine thousand six hundred sixty-seven Zloty, 80/100);
 - stand-alone statement of changes in equity presenting an increase in the equity as at 31 December 2015 in the amount of PLN 1,543,692,992.49 (in words: one billion five hundred forty-three million six hundred ninety-two thousand nine hundred ninety-two Zloty 49/100);
 - stand-alone cash flow statement presenting a decrease in the net cash balances of PLN 2,517,085,705.36 (two billion five hundred seventeen million eighty-five thousand seven hundred and five Zloty 36/100);
 - additional information including the introduction to the stand-alone financial statements and additional notes and explanations;

Having considered the opinion and the report of the certified auditor and also having thoroughly examined the aforementioned documents, in the opinion of the Supervisory Board, the financial statements of PKN ORLEN S.A. for the financial year 2015 and the report of the Management Board on activities of the Company are compliant with books, records and facts.

Pursuant to § 8 par. 11 subpar. 6a of the Company Statutes, in relation to art. 395 § 5 of the Commercial Companies Code and art. 55 and art. 63c par. 4 of the Accounting act in relation to § 7 par. 7 subpar. 1 of the Company Statutes, the Supervisory Board of the Company evaluates positively:

- 1) report of the Management Board on the activities of ORLEN Capital Group for the year ended on 31 December 2015;
- 2) consolidated financial statements of ORLEN Capital Group for the year ended 31 December 2015, including the following items verified by a certified auditor:
 - consolidated loss and profit statement (included in the consolidated report on loss and profit and other total income) for the period from 01 January 2015 to 31 December 2015 presenting a net profit of PLN 3,232,796,131.11 (in words: three billion two hundred thirty-two million seven hundred ninety-six thousand one hundred thirty-one Zloty 11/100);
 - consolidated statement of financial position as at 31 December 2015 presenting the total balance of assets and liabilities in the amount of PLN 48,137,062,310.82 (in words: forty-eight billion one hundred thirty-seven million sixty-two thousand three hundred and ten Zloty, 82/100);
 - consolidated statement of changes in equity presenting an increase in the equity as at 31 December 2015 in the amount of PLN 3,857,436,121.20 (in words: three billion eight hundred fifty-seven million four hundred thirty-six thousand one hundred and twenty-one Zloty 20/100);
 - consolidated cash flow statement presenting a decrease in the net cash and cash equivalents balance of PLN 1,607,179,726.91 (in words: one billion six hundred and seven million one hundred seventy-nine thousand seven hundred and twenty-six Zloty 91/100);
 - additional information including the introduction to the consolidated financial statements and additional notes and explanations;

VI. ASSESSMENT OF THE MOTION CONCERNING THE LEVEL OF DIVIDEND PAYMENT.

Pursuant to art. 382 § 3 of the Commercial Companies Code and § 8 par. 11 subpar. 6 of the Company Statutes in relation to art. 395 § 2 subpar. 2 and article 348 § 1 of the Commercial Companies Code and § 7 par. 7 subpar. 3 of the Company Statutes, , the Supervisory Board of the Company evaluates positively the motion of the Company's Management Board regarding distribution of net profit generated by PKN ORLEN S.A. in 2015 at the amount of PLN 1,047,519,491.84 PLN (in words: one billion forty-seven million five hundred nineteen thousand four hundred ninety-one Zloty 84/100) as follows:

- 1) the amount of PLN 855,418,122.00 (in words: eight hundred fifty-five million four hundred eighteen thousand one hundred twenty-two Zloty 00/100) to be allocated to dividend payments (PLN 2.00 per 1 share)
- 2) the remaining amount, i.e. PLN 192,101,369.84 (in words: one hundred ninety-two million one hundred and one thousand three hundred sixty-nine Zloty 84/100) to be allocated to the Company's capital reserve.

In the opinion of the Supervisory Board, the motion proposed by the Management Board regarding the distribution of net profit for 2015 is compliant with the strategy of the Company and the objectives of its operations.

The Company's Supervisory Board positively evaluates the motion of the Management Board regarding establishment of the day 15 July 2016 as the day of the dividend and the day of 5 August 2016 as the date of payment of the dividend.

VIII. ASSESSMENT OF THE SITUATION OF THE COMPANY WITH THE ASSESSMENT OF THE INTERNAL CONTROL SYSTEM, RISK MANAGEMENT, COMPLIANCE AND INTERNAL AUDIT FUNCTION.

According to the Good Practices of Companies Listed on the Warsaw Stock Exchange PKN ORLEN S.A. has efficient systems of internal control, risk management, compliance and internal audit function. Simultaneous functioning of all above mentioned elements enables constant supervision of the Company's operations and on-going assessments of its situation by the Supervisory Board.

The Company has also the structured internal control system that consists of complex internal procedures. To manage them, it uses a dedicated IT system that ensures its coherence through multi-field arrangements and approval on a respective level in the organisation.

Being aware of a need to ensure full and coordinated approach to the risk management process and in order to avoid earlier unidentified hazards and to manage them consciously, the Supervisory Board makes use of the popular system of Three Lines of Defence.

In PKN ORLEN S.A. the first line of defence consists of risk management performed by business units and control mechanisms in the Company's operating processes, the second line - of compliance functions, and the third one - of internal audit that controls the other two lines.

1. The first line of defence - the Integrated Corporate Risk Management System (ERM).

Already in 2013 PKN ORLEN S.A. was the first company (outside the financial sector, where it is required by regulations) to implement the Integrated Enterprise Risk Management System (ERM) connected with the key business processes and the internal control system. Worked-out solutions comply with the best practices in this field that are based on COSO standards. The Enterprise Risk Management Policy and Procedure were worked out and implemented, and the entire process is supported by a dedicated IT system.

ERM is one of the management tools that contribute to successful accomplishment of strategic and operational targets. The system covers all major business processes, such as production, logistics or sales, and a number of processes of the support function, for instance preparation of the financial statements or the strategic planning process.

In compliance with adopted methodology, the risk management process in ORLEN Group covers:

- identification of risks,
- their assessment through impact and probability of occurrence of a given event, taking into account both the gross risk assessment (as if no controlling mechanism were implemented in relation to given risk), as well as

the net risk assessment (resulting from efficiency of controlling mechanisms). Within the scope of risk assessment, the risk owner defines also a level of risk appetite facilitating accomplishment of strategic targets,

- working out plans of corrective measures in case of negative evaluation of functioning of controlling mechanisms,
- monitoring and reporting.

To provide the Supervisory Board with valid information on the major risks, risk assessment is conducted once a year by individual business areas, and in result of such risk assessment a current list of most essential risks is generated. Risk assessment is the responsibility of owners of processes, risks and controls.

In result of the self-assessment, respective corrective plans are worked out for individual risks and controls, and they are to lead the situation in which net risk assessment (including active controlling mechanisms) is equal to the risk appetite required by the organisation.

To ensure proper quality of self-assessment process accomplished by individual business areas, periodical verifications of correctness of testing of controlling mechanisms are conducted, and they also ensure supervision in the field of compliance for financial and operational risks.

A report is drafted after each completed process of risk self-assessment and testing of controlling mechanisms, and it is later presented to the Members of the Supervisory Board and the Audit Committee of the Supervisory Board. A report presents information on most significant risks for PKN ORLEN S.A. and their planned mitigation.

In 2015 process of risk self-assessment and testing of controlling mechanisms in PKN ORLEN S.A. was accomplished thanks to contribution of the key management staff, thanks to which assessment of 675 risks was updated in result of testing of 1280 controlling mechanisms in 85 business processes.

2. The second line of defence - the compliance function.

The compliance function PKN ORLEN S.A. is accomplished in four dimensions:

- within the scope of ERM as compliance of financial and operational risk assessment in relation to obtained efficiency of controlling mechanisms and the applicable ERM Policy and Procedure,
- through the internal audit function as assessment of compliance of the processes with internal regulations,
- compliance with integrated management systems (ISO),
- identification of regulatory risks, in particular the ones related to the Company's sector of operation.

PKN ORLEN S.A. prepared and announced the Integrated Management System Policy, that is periodically assessed - in respect to its accomplishment and validity - within the scope of assessment of the Integrated Management System by heads of organisational units, Executive Directors and Office Directors.

The Integrated Management System that operates in the Company includes results of audits, reviews, reported complaints and claims. Furthermore, preventive/ correcting/corrective activities are undertaken in result of observations/findings/non-conformance identified within the scope of the above processes. All mentioned above activities are aimed to ensure compliance with the following reference norms: ISO 9001 (quality management system), ISO 14001 (environmental management system), PN-N-18001 (OHS management system) and ISO 27001 (information security management system), ICSS Biomass and Biofuel Certification System, Company's Production Control System and Food Safety Management System. On the basis of the reviews performed, a comprehensive report on the state of the Integrated Management System in the organisation is prepared once a year, it is presented to the Management Board and published in an internal communication website - the Intranet.

Within the scope of regulatory risk management the Company regularly monitors legislative works on the international, EU and national level in respect to draft legal acts affecting the operations of the Company. At the same time the Company conducts activities aimed at identification of barriers triggering risks for the Company's operations, on the basis of which activities aimed at their mitigation are initiated.

The analysis of the Company's adjustment to the applicable and drafted legal acts is performed on ongoing basis and activities are initiated to adjust the Company to the requirements of the national and EU legislation, including legal changes in functioning in the EU internal market.

Moreover, the Company accomplishes also a lobbying strategy on the basis of the applicable legislation and internal regulations of PKN ORLEN SA, to ensure that PKN ORLEN S.A.'s opinion is taken into account at the international level. From time to time reports are drafted to present the activities performed and they are submitted to the Management Board.

3. The third line of defence - internal audit function.

The audit function is performed by the Audit, Control and Enterprise Risk Management Office, which is focused on conducting independent and objective assessments of the internal control system and analysis of business processes.

The Audit, Control and Enterprise Risk Management Office performs its activities in compliance with the International Internal Audit Standards (The Institute of Internal Auditors – the IIA); their compliance is verified periodically by a third party that has respective rights.

The independence of the Audit, Control and Enterprise Risk Management Office is ensured by respective reporting in the organisational structure, that is in functional respect it reports to the Audit Committee of the Supervisory Board and in administrative respect - to the President of the Management Board.

The Office carries out its tasks (audits and consulting projects) on the basis of annual audit plans approved by the Management Board and accepted by the Audit Committee of the Supervisory Board and the Supervisory Board.

Within the scope of tasks performed, issues related to compliance are verified on ongoing basis through assessment of the compliance of processes with internal regulations. The Audit, Control and Enterprise Risk Management Office may also perform ad hoc audits ordered by the Company's Supervisory Board or Management Board.

On the basis of its major activities, the Audit, Control and Enterprise Risk Management Office provides recommendation for the implementation of solutions and standards intended to mitigate risks related to failure to achieve the Company's objectives, improve the effectiveness of the internal control system and increase the capacity of business processes.

The Audit, Control and Enterprise Risk Management Office conducts also ongoing monitoring of given recommendations and prepares a report twice a year on progress in implementation of individual recommendations. Moreover, it monitors implementation of recommendations provided by the auditor of the Company's financial statements.

Moreover, reports on audit activities in PKN ORLEN S.A. and the Companies of ORLEN Group are prepared on quarterly basis and include detailed description of key observations. All the above mentioned reports are addressed to the Management Board and the Audit Committee of the Supervisory Board, thanks to which they can assess functioning of the whole organisation on ongoing basis.

Also the Control Unit operates within the structure of PKN ORLEN S.A.. Within the scope of planned and ad hoc activities, its main task focuses on identification of hazards related to the risks of abuse. Reports prepared on performed controls are presented to the Management Board and the Audit Committee of the Supervisory Board.

4. Statistics of performed activities.

- a) In the period from 1 January 2015 to 31 December 2015, **internal audit units of PKN ORLEN S.A. and the Companies from ORLEN Group completed altogether 53 audit tasks:**

The audit activities were conducted in all major areas of the Company's operations, taking also into account the assessment of risk significance on the basis of data from the Integrated Enterprise Risk Management System.

Within the scope of above mentioned audit tasks, altogether 209 observations were identified, including 14 in the field of "serious" risks.

All observations were accepted by the Management of the Company. Observations related to "serious" risks were presented to the Management Board and the Audit Committee of the Management Board of PKN ORLEN S.A.

- b) From 1 January to 31 December 2015 **the internal control unit of PKN ORLEN S.A. conducted 18 controls and 10 verification procedures. Moreover, similar functions in the Capital group conducted 57 controls altogether.**

Results of controlling activities were presented to the Management Board and the Audit Committee of the Management Board of PKN ORLEN S.A.

VIII ASSESSMENT OF FULFILMENT OF THE DISCLOSURE INFORMATION BY THE COMPANY IN RESPECT TO COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLES.

In 2015 PKN ORLEN complied with "Good Practices of Companies Listed on the Warsaw Stock Exchange" ("DPSN") in force at the Warsaw Stock Exchange ("Stock Exchange", "WSE"). The Company duly fulfilled disclosure obligations related to corporate governance principles defined in the Stock Exchange Regulation and provisions related to current and periodical information disclosed by issuers of securities;

If the Company does not comply with or incidentally breached a principle included in DPSN, a respective current report is sent in compliance with § 29 clause 3 of the Stock Exchange Regulation via EBI system administered by the Stock Exchange. In 2015 PKN ORLEN did not comply with only one principle from the applicable then version of DPSN. Taking into account that amended DPSN entered into force as from 1 January 2013, in 2013 PKN ORLEN informed that it did not comply with the principle of part IV item 10 of DPSN related to shareholders' possibility to participate in the General Meeting via electronic communication means in form of transmission of the General Meeting and two-way communication in real time (elements of e-general meeting).

The Company's Management Board recommended twice the provisions to be introduced by the shareholders to the Company's Articles of Association and General Meeting Regulation, that would facilitate e-general meetings. The proposal was not approved by the shareholders during Ordinary General Meetings held on 29 June 2011 and 30 May 2012.

On 16 May 2013 the Company reported through the EBI system that it did not comply with this principle. The failure to comply with the above mentioned principle has no impact on the Company's reliability and did not entail the risk of limiting or deterring shareholders' participation in the General Meetings.

Pertaining to § 91 item 5 point 4) of the Regulation of 19 February 2009 on the current and periodic information published by issuers of securities and on the conditions for regarding information required by the law of a non-member state as equivalent (Journal of Laws /Dz.U./No. 33, item 133), in the consolidated and stand-alone annual reports, PKN ORLEN publishes a statement on compliance with corporate governance principles.

A tag devoted to corporate governance may be found on the Company's website in section Investor relationships/Stock Exchange/WSE Good Practices (<http://www.orklen.pl/PL/RelacjeInwestorskie/Gielda/Strony/DobrePraktykiGPW.aspx>). The Company's annual reports on compliance with good practices and DPSN code may be also downloaded here. There is also brief information on good practices applied by the Company and all other information required in the Good Practices of Companies Listed on the Warsaw Stock Exchange.

In compliance with resolution no 1636/15 of 22 December 2015, the Supervisory Board of PKN ORLEN S.A. delegated Ms Angelina Sarota and Mr Radosław L. Kwaśnicki to perform supervisory functions on their own in respect to the Company's fulfilment of the disclosure obligation on compliance with corporate governance principles defined in the Stock Exchange Regulation and

provisions on current and periodical information. In January 2016 delegated representatives of the Supervisory Board had a meeting with the representatives of the Management Board and the Company's employees to determine principles of cooperation. They also discussed adjustment of the Company's internal organisational documents to the amendments of DPSN Code and provisions on the Company's disclosure obligation at the capital market that shall enter into force as from 3 July 2016.

IX ASSESSMENT OF RATIONALES OF THE COMPANY'S SPONSORING, CHARITY AND OTHER SIMILAR ACTIVITIES.

Sponsoring and charitable activities accomplished by PKN ORLEN in 2015 were included in PKN ORLEN's Strategy confirmed by the Management Board and Supervisory Board in November 2014, and in Marketing partial strategy reported to the Company's Strategy Committee by the Marketing Executive Director. Moreover, activities related to implementation of the CSR Strategy for PKN ORLEN were reported to the CSR Committee in December 2015. Performed activities complied with the Company's internal regulations and market practices. During the year performed activities and used tools in scope of sponsoring and charity were adjusted to the changing competitive environment.

The adopted sponsoring and charitable strategy created positive recognition and strong image of PKN ORLEN brands. It also translated into quantifiable effects.

In 2015 the media value generated the Company's activities amounted to over PLN 192 million¹, thanks to which PKN ORLEN was ranked 4 in Poland in respect to TV exposure. Sponsoring activities played an important role and also contributed significantly to establishment of an emotional relationship between a customer and the brand. It was confirmed by research. 85% of drivers are aware of the Company's sponsoring activities, and among persons interested in motor sports this share grows to 95%².

Projects and initiatives undertaken in 2015 helped to strengthen the position and increase PKN ORLEN's share in the fuel market. Despite activities undertaken by competitive chains fuel volume sales grew by 3.8%³. In 2015 PKN ORLEN sold more litres of VERVA fuel by 9.9% as compared to 2014⁴. Sales of products in Stop Cafe grew by 16.7 percentage points y-y⁵.

ORLEN has been the most valuable Polish brand for years, and it grows every year. According to Rzeczpospolita daily, in 2015 the brand value amounted to PLN 4.5 billion (growth by more than PLN 100 million as compared to 2014)⁶. Essential role is played by the Company's sponsoring activities that have direct impact on the image value. It should be emphasized that the Reputation Index of ORLEN Brands has been systematically growing and it is highest for companies in the fuel industry - 66 points (in 2014 - 59 points)⁷.

¹ Research of sports sponsoring and product placement efficiency, Pentagon Research, 2012-2015

² Sponsoring Monitor, GfK Polonia, 2012-2015

³ Retail Sales Controlling

⁴ Retail Sales Controlling, QlikView Reporting System

⁵ QlikView – Daily report

⁶ Ranking List of Most Valuable Brands, Rzeczpospolita

⁷ Brand Reputation Index, GfK Polonia, 2012-2015

Sponsoring and charitable activities have a direct impact on desired attributes of a brand. Thus, adjustment of attribute "beneficial for Poland and Poles" to ORLEN brand grew up to the level of 68% last year. At the same time, sponsoring activities support the image of product brands. The result in strengthening of VERVA brand association with such attributes as "power and dynamics" (76%) or "innovation" (65%).

Almost half of Poles believe that PKN ORLEN is involved in social activities to a sufficient extent. Answers "definitely sufficient" and "rather sufficient" were given by 48% of respondents⁸. In case of inhabitants of Płock such answers accounted for 65%; vast majority of inhabitants recognizes support of PKN ORLEN for the local community, e.g. purchase of medical equipment or financing leisure and sports areas. The Company's charitable activities were prized in numerous competitions and votes.

Warsaw, 25 April 2016

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Angelina Sarota
Chairperson of the Supervisory Board
PKN ORLEN S.A.

⁸ Brand Reputation Index, 2015, GfK Polonia