

## 6. CORPORATE GOVERNANCE STATEMENT

### 6.1. CORPORATE GOVERNANCE RULES

In 2018, PKN ORLEN applied all the principles included in the code "Best Practice for GPW Listed Companies 2016" ("Code of Best Practice") applicable on the Warsaw Stock Exchange. The code is available on the Warsaw Stock Exchange website <https://www.gpw.pl/best-practice> and on the PKN ORLEN corporate website [www.orlen.pl](http://www.orlen.pl) in the section dedicated to the Company's shareholders <https://www.orlen.pl/EN/InvestorRelations/ShareholderServicesTools/Pages/WSEBestPractice.aspx>.

#### Communication with the capital market

The Company communicates with the capital market through the following channels:

- Investor Relations section of its corporate website, which provides financial and operating data and information on the Company's macro environment.
- Expert's blog written by PKN ORLEN's Chief Economist at <http://napedzamyprzyszosc.pl/>, containing commentary on current market developments, expert publications, and coverage of industry conferences.
- Social media: Corporate Twitter account ([https://twitter.com/PKN\\_ORLEN](https://twitter.com/PKN_ORLEN)); Press Officer's Twitter account (<https://twitter.com/RzecznikORLEN>); Corporate Facebook page (<https://www.facebook.com/ORLEN.Official>); LinkedIn (<https://pl.linkedin.com/company/pkn-orlen-s.a.>); YouTube ([https://www.youtube.com/channel/UC4n9\\_g-u8r3JErOSyOdECZQ/featured](https://www.youtube.com/channel/UC4n9_g-u8r3JErOSyOdECZQ/featured)) and Instagram (<https://www.instagram.com/pkn.orlen/>).
- Closed one-on-one or group meetings, held both in Poland and abroad, also as teleconferences.
- Press conferences open to the general public, streamed live over the Internet and interpreted into English. The conferences follow all major corporate events such as the release of quarterly results or strategy announcement.
- Series of meetings with investors, held both in Poland and abroad (roadshows).
- Meetings of capital market participants with the Company's key managers in the headquarters and places where PKN ORLEN conducts its operations (site visits).
- The Investor and Analyst Days organised from time to time – workshops concerning various areas of the Company's activity, run by representatives of the Management Board, executive directors and selected managers.

PKN ORLEN's achievements in 2018:

- Innovative ORLEN IN WALLET scheme for individual shareholders was launched, offering discounts on products sold at the Company's service stations and opportunity to enrol on the Investment Academy programme run under the auspices of CFA Society Poland.
- Sixth in a row dividend payout of PLN 3 per share.
- Retail bond issue programme with a total value of PLN 1bn was closed.
- Quarterly and half-year reports were issued around 24 days after closing the relevant financial periods.

- PKN ORLEN was selected for inclusion in the RESPECT Index of socially responsible companies.

#### Company's response to publicly voiced opinions and information injuring its reputation

At PKN ORLEN, there is an internal regulation in place concerning image-building activities, interaction with the media as well as passing of information, relevant to PKN ORLEN's image, to the Corporate Communication Department's Executive Director. It requires a multi-stage verification of information concerning the Company and its representatives before it is made public.

The regulation also sets out the rules of response where any opinions or information shared in the public domain may harm PKN ORLEN's reputation. Such response is coordinated by the Executive Director for Corporate Communication.

#### Corporate Social Responsibility activities of PKN ORLEN

PKN ORLEN's corporate social responsibility is to create business value in a sustainable manner that ensures consistency between its business and social objectives, with future generations in mind. This broad approach to responsibility requires the implementation of CSR activities across all business areas, CSR activities involve educating stakeholders and inspiring in them a sense of responsibility, protecting health and safety of employees, commitment to employee development, optimisation of environmental impacts, promoting ethical values, anti-corruption measures, respect for human rights, customer focus and responsiveness to customer needs, and building partnership-based relations with business partners.

In 2018, PKN ORLEN pursued its CSR strategy adopted in previous years, but also commenced work to draft the 'ORLEN Group CSR Strategy until 2022'. The latter document was approved by the Company's Strategy Committee in December 2018. The strategic priorities are to build PKN ORLEN's image as a leader of CSR and sustainable development, seek to achieve consistency between PKN ORLEN's business and CSR objectives, generate CSR synergies across the Group, commit to the United Nations' Sustainable Development Goals, and support the 'Accessibility Plus' programme.

PKN ORLEN's sponsorship focus is on selected themes including professional and amateur sports, culture and art, promotion of the Polish economy, international promotion of Poland, education and knowledge advancement, social projects, and initiatives in the areas of national history, memory and tradition. PKN ORLEN is committed to engagement with its local communities. Special attention is paid to Plock, where PKN ORLEN delivers cross-sectoral partnerships, charity, sponsorship and volunteer service projects. In 2018, as many as 98 such projects were run in Plock. An important category of activities are social sponsorship events, aimed to improve the quality of local residents' lives, chiefly in small communities, and to build strong relations with all stakeholders. A total of 173 such projects were run by the Company.

PKN ORLEN communicates its CSR initiatives via the Responsible Business section of its corporate website and its annual integrated

reports available online ([https://www.orklen.pl/PL/Odpowiedzialny\\_Biznes/Strony/default.aspx](https://www.orklen.pl/PL/Odpowiedzialny_Biznes/Strony/default.aspx)). The website's content includes the Company's Sponsorship Policy ([https://www.orklen.pl/PL/Odpowiedzialny\\_Biznes/Sponsoring/Strony/](https://www.orklen.pl/PL/Odpowiedzialny_Biznes/Sponsoring/Strony/)

[Sponsoring.aspx](#)) and Charitable Giving Policy ([https://www.orklen.pl/PL/Odpowiedzialny\\_Biznes/Dobroczynosc/Strony/Dobroczynosc.aspx](https://www.orklen.pl/PL/Odpowiedzialny_Biznes/Dobroczynosc/Strony/Dobroczynosc.aspx)).

## 6.2. CONTROL, RISK MANAGEMENT AND COMPLIANCE SYSTEM

The Company's system of internal control and risk management in the preparation of financial statements is implemented through:

- verification whether uniform accounting policies are applied by the ORLEN Group companies as regards the recognition, measurement and disclosures in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the European Union,
- following and monitoring compliance with the relevant accounting standards,
- internal controls, including separation of duties, multi-stage data verification, accuracy reviews of data received and independent checks,
- following uniform templates of separate and consolidated accounts and periodic verification whether they are properly applied by the ORLEN Group companies,
- verification of the consistency of the ORLEN Group companies' financial reports with data entered into the integrated IT system used to prepare the ORLEN Group's consolidated financial statements,
- auditor's review of Q1, H1 and Q3 financial statements and audit of full-year financial statements of PKN ORLEN and the ORLEN Group,
- procedures to authorise, approve and assess financial statements before they are issued,
- independent and objective evaluation of the risk management and internal control systems.

Economic events at PKN ORLEN are recorded in an integrated financial accounting system. Security and availability of information contained in the financial accounting system are controlled at all levels of the database, applications and presentations, as well as at the operating system level. System integration is ensured by data entry control systems (validation, authorisation, a list of values) and logs of changes. PKN ORLEN keeps its IT system up to date with the changing accounting policies and other legal requirements. PKN ORLEN's solutions are implemented into systems of the ORLEN Group companies.

In order to ensure that uniform accounting policies are applied, the ORLEN Group companies have to follow, for the purpose of preparing consolidated financial statements, the accounting policy adopted by PKN ORLEN and approved by the ORLEN Group companies (the "Accounting Policy"). The Accounting Policy is periodically updated to ensure compliance with any new legislation. Consolidated financial statements are prepared based on the integrated IT system where the process of consolidating data sourced from reporting packages provided by each ORLEN Group company is performed. Designed for financial management and reporting purposes, the system enables the unification of financial information. Performance and budget-related data, forecasts and statistics are gathered in one place, which ensures direct control and data compatibility.

The data is reviewed for cohesion, completeness and consistency, which is achieved thanks to embedded controls checking the compatibility of data entered by the respective companies.

In order to keep mitigating risks associated with the preparation of financial statements, they are reviewed by an auditor quarterly, i.e.

more often than required by applicable laws. Q1, H1 and Q3 financial statements are reviewed by the auditor, whereas full-year financial statements are subject to an audit.

As per the relevant procedure in place at PKN ORLEN (meeting all applicable requirements), the auditor of the Company's financial statements is appointed by the Supervisory Board based on a recommendation from the Audit Committee and a report on the tender process held by the Audit Committee. Deloitte Audyt Spółka z ograniczoną odpowiedzialnością, Spółka komandytowa has been appointed as a qualified auditor of PKN ORLEN's financial statements for 2017–2018. During audit work, the auditor makes an independent assessment of the reliability and accuracy of separate and consolidated financial statements and confirms that the internal control and risk management system is effective. The auditor presents the audit and review findings to the Management Board and the Audit Committee of the Supervisory Board.

The Audit Committee, appointed by the Supervisory Board in the exercise of its powers, is a supervisory body with some of its powers and responsibilities defined in the Act on Statutory Auditors, Audit Firms, and Public Oversight of May 11th 2017, including the following:

- monitoring the preparation of the ORLEN Group's financial statements to ensure compliance with the Group's Accounting Policy and applicable laws,
- monitoring the independence of the qualified auditor and the auditing firm,
- monitoring the effectiveness of the internal control, internal audit and risk management systems.

The Company has in place certain procedures to authorise financial statements, under which periodic reports are submitted to the Management Board and then to the Supervisory Board's Audit Committee for its opinion. Once the Audit Committee's opinion is received and the auditor completes its review or audit of the financial statements, they are authorised for issue by the PKN ORLEN Management Board by means of a qualified electronic signature and then released to the public by the Investor Relations Office.

Full-year financial statements are also presented to the Supervisory Board for final assessment and control of the financial reporting process. The Supervisory Board is an independent body ensuring the reliability and accuracy of information disclosed in the financial statements of PKN ORLEN and the ORLEN Group.

The Financial Control, Risk and Compliance Management Office operates within the Management Board Member for Corporate Affairs function, with a primary responsibility for the implementation of internal control, risk and compliance management processes. The Office is divided into:

- Financial Control Department, responsible for detecting any irregularities and business misconduct, verifying compliance of conduct of PKN ORLEN and ORLEN Group employees with applicable laws, internal organisational rules and professional standards, estimating the impact of any potential irregularities or misconduct, defining corrective measures and designating responsible persons, as well as assessing internal

organisational documents. The Department's staff carry out inspections in accordance with an annual inspection schedule (scheduled financial inspections) as well as ad hoc and preliminary inspections. Reports on scheduled and ad hoc inspections provide post-inspection orders/recommendations designed to mitigate the identified irregularities and misconduct, whereas preliminary inspections lead to the issuance of proposals of recommended actions based on the inspection findings to the extent necessary to identify any irregularities. Twice a year the Financial Control, Risk and Compliance Management Office prepares a report for the Company's Management Board on the completed financial inspections and progress in the implementation of post-inspection orders/recommendations,

- Enterprise Risk Management Department, which coordinates – in line with the applicable policy and procedure – the enterprise risk management process by providing tools and methodological support to participants of the risk self-assessment process and testing of controls deployed at PKN ORLEN and the Group companies. Its tasks are to support business areas in the implementation of project objectives, with a minimum expense of work and optimisation of the project value by carrying out regular training sessions in identification, description and assessment of project-related risks, as well as workshops and

consultations for project managers and other persons involved in project work. Its work also includes strategic risk management, from monitoring, to assessment to reporting of risks related to the delivery of strategic objectives. The Enterprise Risk Management Department prepares regular reports on risk management at PKN ORLEN and other ORLEN Group companies, which are then presented to the relevant Management Boards,

- Compliance Management Department, which supervises compliance by the ORLEN Group companies with applicable laws, internal regulations, voluntary standards of conduct and ethical standards. The key objective of the ORLEN Group's compliance system is to proactively monitor the regulatory environment of all corporate business processes and to ensure a uniform approach to implementing and reporting compliance requirements across the Group. At PKN ORLEN, the compliance system is a dispersed function, where compliance risk is managed by Directors reporting directly to a Management Board Member under the supervision of the Head of the Financial Control, Risk and Compliance Management Office. The compliance management process is regularly reported to the Company's Management and Supervisory Boards.

### 6.3. MAJOR SHAREHOLDINGS

In 2018 and until the date of authorisation of this report, there were no changes in the structure of shareholders holding more than 5% of the PKN ORLEN share capital. The number of shares held by shareholders is presented based on the most recent official data acquired by the Company.

The Company's Articles of Association do not impose any restrictions on the transferability of PKN ORLEN shares. However, such restrictions may be stipulated by generally applicable laws including, without limitation, the Act on State Property Management and the Act on Control of Certain Investments.

**TABLE 49.** PKN ORLEN's shareholding structure as at January 1st 2018, December 31st 2018 and the date of authorisation of this report.

Shareholder	Number of shares and votes at a general meeting (as at Jan 1 2018*)	Percentage of share capital and total voting rights at the General Meeting (as at Jan 1 2018*)	Number of shares and voting rights at the General Meeting (as at Dec 31 2018**)	Percentage of share capital and total voting rights at the General Meeting (as at Dec 31 2018**)	Number of shares and voting rights at the General Meeting (as at the report authorisation date**)	Percentage of share capital and total voting rights at the General Meeting (as at the report authorisation date**)
State Treasury	117 710 196	27.52%	117 710 196	27.52%	117 710 196	27.52%
Nationale-Nederlanden OFE	33 000 000	7.72%	30 000 000	7.01%	30 000 000	7.01%
Aviva OFE	29 900 000	6.99%	28 240 000	6.60%	28 240 000	6.60%
Others	247 098 865	57.77%	251 758 865	58.87%	251 758 865	58.87%
<b>Total</b>	<b>427 709 061</b>	<b>100.00%</b>	<b>427 709 061</b>	<b>100.00%</b>	<b>427 709 061</b>	<b>100.00%</b>

\* According to information from the PKN ORLEN AGM convened for June 30th 2017.

\*\* According to information from the PKN ORLEN AGM convened for June 26th 2018 and adjourned to July 17th 2018.

### 6.4. SPECIAL CONTROL POWERS AND VOTING RIGHTS

Detailed rules for the exercise of special control powers and voting rights are laid down in PKN ORLEN's Articles of Association. According to the provisions of the Articles of Association, one PKN ORLEN share confers one voting right at the Company's General

Meeting. The voting rights of shareholders have been capped in the Articles of Association so that none of them may exercise more than 10% of total voting rights existing at the Company as at the date when the General Meeting is held. The cap on voting rights does not

apply to the State Treasury and the depositary bank which has issued, on the basis of an agreement with the Company, depositary receipts in respect of Company shares (if this entity exercises voting rights conferred by Company shares).

Shareholders whose voting rights are aggregated or reduced are jointly referred to as a "Shareholder Grouping". Detailed rules of such aggregation and reduction are specified in the Articles of Association. Shareholders forming a Shareholder Grouping may not exercise more than 10% of total voting rights existing at the Company as at the date when the General Meeting is held.

If the aggregated number of shares registered at the General Meeting by shareholders forming a Shareholder Grouping exceeds 10% of total voting rights at the Company, the voting rights resulting from the number of shares held are subject to reduction, the rules of which have been specified in detail in the Articles of Association.

The cap on voting rights described above does not apply to subsidiaries of the State Treasury.

The State Treasury is entitled to appoint and remove one Member of the Supervisory Board. Furthermore, one Member of the PKN ORLEN Management Board is appointed and removed by the Supervisory Board upon the State Treasury's motion.

## 6.5. AMENDMENTS TO ARTICLES OF ASSOCIATION

Any amendment to PKN ORLEN's Articles of Association requires a resolution of the General Meeting and has to be entered in the business register. A resolution of the General Meeting to amend the Company's Articles of Association is passed by three-quarters of votes. The General Meeting may authorise the Supervisory Board to formulate the consolidated text of the Articles of Association or make

## 6.6. GENERAL MEETING

Proceedings and powers of PKN ORLEN's General Meeting are set out in the Articles of Association and the Rules of Procedure for the General Meeting, available on PKN ORLEN's website:<http://www.orklen.pl/EN/Company/Pages/CorporateBylaws.aspx>.

The Company sets the venue and date of a General Meeting so as to enable participation by the largest possible number of shareholders. General Meetings of PKN ORLEN are held at the Company's registered office in Plock, but may also be held in Warsaw. General Meetings may be attended by members of the media.

PKN ORLEN takes relevant measures to ensure that drafts of General Meeting resolutions contain a justification helping shareholders cast an informed vote. All the materials are available to shareholders at the Company's headquarters in Plock and office in Warsaw, as well as on the corporate website at [www.orklen.pl](http://www.orklen.pl) starting from the date of a notice convening the General Meeting.

### Convening and calling off the General Meeting

The General Meeting is convened by way of a notice published on the Company's website and a current report.

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

Additionally, in accordance with the Articles of Association, as long as the State Treasury is entitled to appoint a Member of the Supervisory Board, a resolution granting consent for transactions involving any sale or encumbrance of shares in the following companies: Naftoport Sp. z o.o., Inowrocławskie Kopalnie Soli S.A. as well as the company to be established to operate the pipeline transport of liquid fuels, will require a vote in favour of its adoption by the Supervisory Board Member appointed by the State Treasury.

Special rights vested in the State Treasury as the Company's shareholder may also result from generally applicable provisions of law, i.e:

- the Act on Special Rights Vested in the Minister Competent for Energy and their Exercise in Certain Capital Companies or Groups Conducting Business Activities in the Electricity, Crude Oil and Gas Fuel Sectors, dated March 18th 2010;
- the Act on Control of Certain Investments, dated of July 24th 2015;
- the Act on State Property Management, dated December 16th 2016.

other editorial changes as set out in a resolution passed by the General Meeting.

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

General Meeting is convened by the Management Board on its own initiative, upon the Supervisory Board's motion or upon the motion of a shareholder or shareholders representing no less than one-twentieth of the Company's share capital, within two weeks of submitting the motion. The Supervisory Board may convene an Extraordinary General Meeting if it sees fit to do so. In addition, the Supervisory Board may convene an Extraordinary General Meeting if the Management Board fails to do so within two weeks of the Supervisory Board's submitting the relevant request. An Extraordinary General Meeting may also be convened by shareholders representing at least one half of the share capital or at least one half of total voting rights at the Company.

The Company arranges for an internet broadcast of the General Meeting and offers simultaneous interpretation into English. The Company does not provide for shareholders' participation in a General Meeting using means of electronic communication through real-time bilateral communication where shareholders could take the floor during the General Meeting from a location other than the venue of the General Meeting.

Shareholders may exercise voting rights during a General Meeting either in person or through a proxy.

In accordance with the Rules of Procedure for the General Meeting, a General Meeting may be called off if there are extraordinary impediments to its holding or its holding would be obviously groundless. The cancellation or rescheduling of a General Meeting

should be effected forthwith once the circumstances requiring its cancellation or rescheduling have occurred, but no later than seven days prior to the day when the General Meeting was to be held. If the cancellation or rescheduling of a General Meeting cannot be effected within the deadline specified above, the General Meeting should be held as originally scheduled. If it is impossible or excessively difficult to hold that General Meeting due to existing circumstances, the cancellation or rescheduling of the General Meeting may be effected at any time prior to the day when the General Meeting was to be held. The cancellation or rescheduling of a General Meeting is effected by way of a notice posted on the Company's website together with reasons and in compliance with other legal requirements. Only the body or person who has convened a General Meeting is entitled to cancel it. A General Meeting with the agenda containing specific issues put thereon at the request of eligible entities, or which has been convened at such request, may only be cancelled with the consent of such requesting entities.

#### **Powers and responsibilities of the General Meeting**

The General Meeting is authorised in particular to:

- review and approve the Company's full-year financial statements; annual Directors' report on the Company's operations; consolidated financial statements of the ORLEN Group and Directors' report on the ORLEN Group's operations for the previous financial year,
- acknowledge the fulfilment of duties by the Supervisory Board and Management Board Members,
- decide on the allocation of profit and coverage of loss, and on the application of funds set aside from earnings,
- appoint the Supervisory Board Members, subject to the provisions of Art. 8.2 of the Articles of Association, and establish policies for their remuneration,
- increase and reduce the share capital unless the Commercial Companies Code or the Company's Articles of Association stipulate otherwise,
- decide on any claims for redress of damage caused upon the Company's formation or when managing or supervising the Company,
- grant consent to any sale or lease of the business or its organised part, and creation of limited property rights in the business or its organised part,
- grant consent to any sale of real property, perpetual usufruct or interest in real property with a net carrying value exceeding 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 funds of the Company,
- resolve to cancel shares and buy shares to be cancelled, and establish the terms of such cancellation,
- issue convertible bonds or bonds with pre-emptive rights and issue warrants,
- dissolve, liquidate and restructure the Company or merge it with another company,
- conclude group contracts within the meaning of Art. 7 of the Commercial Companies Code.

#### **Participation in the General Meeting**

In accordance with the Commercial Companies Code, the right to participate in the Company's General Meeting is vested only in

persons that are the Company's shareholders sixteen days before the date of the General Meeting (record date).

Shareholders may communicate with the Company via the corporate website, using the contact form available at: <http://www.orlen.pl/EN/InvestorRelations/GeneralMeetings/Contact/Pages/default.aspx>, or through email (at: [walne.zgromadzenie@orlen.pl](mailto:walne.zgromadzenie@orlen.pl)). Through this channel, shareholders may send an electronic notice of proxy or proxy document enabling the identification of the principal and the proxy together with other related documentation. A section dedicated to the Company's General Meetings contains some useful materials for shareholders, including a guideline entitled "How to participate in the General Meeting", information about upcoming General Meetings along with relevant materials, materials pertaining to General Meetings held in the past, including texts of resolutions passed and video files with internet broadcasts of General Meetings.

The General Meeting may be attended by Members of the Management Board and the Supervisory Board, who can participate and speak, even if they are not shareholders, without any invitation. The Annual General Meeting may be attended by Members of the Management Board and the Supervisory Board whose mandates expired before the date of the General Meeting but who still performed their functions during the financial year for which the Directors' report and the financial statements are to be approved by the Annual General Meeting.

General Meetings may also be attended by other persons invited by the body convening the General Meeting or allowed to enter the meeting room by the Chairman, especially qualified auditors, legal and financial advisers and the Company's employees. Subject to the applicable law and with due consideration of the Company's interests, PKN ORLEN may allow its General Meetings to be attended by members of the media. The Management Board ensures that each General Meeting is attended by an independent expert in commercial law.

#### **Voting at the General Meeting**

Unless stated otherwise in the Commercial Companies Code or the Articles of Association, resolutions of the General Meeting are passed by an absolute majority of the votes cast. One PKN ORLEN share confers one voting right at the Company's General Meeting. Limitations on the shareholders' voting rights are described in the section on special control powers and voting rights.

#### **General Meetings in 2018**

In 2018 two General Meetings were held: an Extraordinary General Meeting held on February 2nd 2018 and the Annual General Meeting held on June 26th 2018, which was adjourned and then resumed on July 17th 2018.

During the Extraordinary General Meeting, the Company's shareholders amended Resolution No. 4 of the Extraordinary General Meeting of January 24th 2017 on the remuneration policy for persons directing certain companies, setting up a list of Management Objectives and additional Management Objectives that would condition the payment of variable pay components for 2018.

The Annual General Meeting held on June 26th 2018 passed resolutions concerning:

- approval of the annual Directors' reports on the operations of the Company and the ORLEN Group as well as the financial statements for 2017,

- acknowledgement of the fulfilment of duties by all the Supervisory and Management Board Members,
- allocation of the net profit for the 2017 financial year in the following manner:
  - 1) PLN 1 283 127 183 to be paid as dividend (PLN 3 per share)
  - 2) the balance of PLN 4 818 665 392.09 to be transferred to the Company's statutory reserve funds.
- appointment of Andrzej Kapala to the Company's Supervisory Board,

- amendment of the Company's Articles of Association to enable the Management Board to vote on resolutions using means of remote communication and arrange Supervisory Board meetings.

After the adjournment, the Annual General Meeting passed a resolution to amend the Extraordinary General Meeting's resolution of January 24th 2017 on the remuneration policy for persons directing certain companies.

## 6.7. MANAGEMENT AND SUPERVISORY BODIES

Apart from generally applicable laws, the operating procedures of PKN ORLEN's Supervisory Board, its Committees and Management Board are set out in PKN ORLEN's Articles of Association and the Rules of Procedure for the Supervisory Board or the Management Board, as appropriate. The proceedings of the management and supervisory bodies at PKN ORLEN are also subject to the corporate governance principles set out by the Warsaw Stock Exchange. In order to achieve the highest standards in the performance of the Management Board's and Supervisory Board's duties defined in the generally applicable laws and internal regulations, as well as to ensure that these duties are discharged effectively, the Management Board and Supervisory Board Members must possess extensive

qualifications and experience. The current composition of the Management and Supervisory Boards ensures a good balance and diversity in terms of gender, educational background, age and professional experience.

Any outside employment of the Management Board Members is assessed by the Supervisory Board, which – pursuant to the Company's Articles of Association – grants permission to Management Board Members to serve on the supervisory or management bodies of any other entities and to receive remuneration for such service.

### 6.7.1. The Management Board

#### Composition of PKN ORLEN Management Board and division of remits

**TABLE 50.** Composition of PKN ORLEN Management Board as at January 1st 2018.

Name and surname	Position held on PKN ORLEN Management Board
Wojciech Jasiński	President of the Management Board Chief Executive Officer
Mirosław Kochalski	Vice President of the Management Board
Zbigniew Leszczyński	Member of the Management Board, Sales
Krystian Pater	Member of the Management Board, Production
Wiesław Protasewicz	Member of the Management Board, Finance
Maria Sosnowska	Member of the Management Board, Investments and Procurement

#### Changes on the Management Board during the previous financial year

The PKN ORLEN Supervisory Board at its meeting on February 5th 2018 removed the following Members from the Management Board:

- Wojciech Jasiński, President of the Management Board,
- Mirosław Kochalski – Vice President of the Management Board,
- Maria Sosnowska, Member of the Management Board, Investments and Procurement.

At the same meeting the Supervisory Board, acting pursuant to Art. 9.1.3 of the Company's Articles of Association on a motion from the Energy Minister of February 5th 2018, appointed Daniel Obajtek as President of the PKN ORLEN Management Board. The Supervisory Board also decided to delegate Józef Węgrecki to temporarily (for up to three months) perform the duties of a Management Board

Member responsible for Investments and Procurement, with effect from February 5th 2018.

At its meeting on March 22nd 2018, the PKN ORLEN Supervisory Board removed Krystian Pater from the Management Board, with effect from March 22nd 2018.

At the same meeting, the Supervisory Board decided to delegate Jadwiga Lesisz, with effect from March 23rd 2018, to temporarily perform the duties of the Management Board Member responsible for Investments and Procurement, until the vacancy is filled but not for longer than three months.

In addition, the Supervisory Board appointed the following persons to the Management Board:

## ORLEN GROUP

- Ryszard Lorek – as Member of the Management Board, Chief Sales Officer, with effect from April 10th 2018;
- Józef Węgrecki – as Member of the Management Board, Chief Operating Officer, with effect from March 23rd 2018.

On March 29th 2018, the Company received a letter of resignation from Mr Ryszard Lorek, whereby he resigned from the position of the PKN ORLEN Management Board Member responsible for Sales.

At its meeting on June 19th 2018, the Supervisory Board of PKN ORLEN appointed Patrycja Klarecka as Member of the Management Board, Chief Sales Officer, with effect from June 24th 2018.

At its meeting on August 10th 2018, the Supervisory Board of PKN ORLEN appointed the following persons to the Management Board:

- Michał Róg – as Member of the Management Board for Wholesale and International Trade,
- Armen Konrad Artwich – as Member of the Management Board for Corporate Affairs.

**TABLE 51.** Composition of PKN ORLEN Management Board as at December 31st 2018.

Name and surname	Position held on PKN ORLEN Management Board	Remit
Daniel Obajtek	CEO, President of the Management Board	strategy, human resources, marketing, corporate communication, management office, control and security, audit, legal and external relationships;
Armen Konrad Artwich	Member of the Management Board, Corporate Affairs	administration, environmental protection, the Capital Group, financial control, risk management and compliance management;
Patrycja Klarecka	Member of the Management Board, Retail Sales	IT, retail sales, innovation, efficiency and sales growth;
Zbigniew Leszczyński	Member of the Management Board, Development	procurement, realisation of property investments, development and technology, health and safety;
Wiesław Protasewicz	Member of the Management Board, Finance	planning and reporting, business controlling, financial management, taxes, investor relations, supervision over infrastructure and information security;
Michał Róg	Member of the Management Board, Wholesale and International Trade	wholesale of refining products, trade in petrochemical products, logistics, trade in crude oil and natural gas, supply chain management;
Józef Węgrecki	Member of the Management Board, Operations	refining production, petrochemical production, power generation, production efficiency and optimisation, technology, water and wastewater management;

**TABLE 52.** Composition of PKN ORLEN Management Board as at the date of authorisation of this report.

Name and surname	Position held on PKN ORLEN Management Board	Remit
Daniel Obajtek	CEO, President of the Management Board	strategy and investor relations, human resources, sports marketing, sponsorship and events, corporate communication, management office, control and security, audit, legal, external relations, trade in crude oil and natural gas;
Armen Konrad Artwich	Member of the Management Board, Corporate Affairs	administration, environmental protection, the Capital Group, financial control, risk management and compliance management;
Patrycja Klarecka	Member of the Management Board, Retail Sales	IT, retail sale, innovation, marketing;
Zbigniew Leszczyński	Member of the Management Board, Development	procurement, realisation of property, investments, development and technology, health and safety;
Wiesław Protasewicz	Member of the Management Board, Finance	financial management, planning and reporting, business controlling, taxes, supervision over infrastructure and information security;

Michał Róg	Member of the Management Board, Wholesale and International Trade	wholesale of refining products, trade in petrochemical products, logistics, supply chain management;
Józef Węgrecki	Member of the Management Board, Operations	refining production, petrochemical production, power generation, production efficiency and optimisation, technology, water and wastewater management;

The current division of remits between Members of the PKN ORLEN Management Board is also available on the Company's website <http://www.orklen.pl/PL/OFirmie/ZarzadSpolki/ObszaryOdpowiedzialnoscii/Strony/default.aspx>.

#### Appointment and removal of the Management Board

The Management Board of PKN ORLEN consists of five to nine members, including the President, Vice Presidents and other Members of the Management Board. Members of the Management Board are appointed and removed by the Supervisory Board. One Member of the Management Board is appointed and removed by the Supervisory Board upon the motion of the State Treasury.

The term of office of the Management Board Members is a joint term, ending on the date of the Annual General Meeting approving the financial statements for the full second financial year of such term of office.

The Supervisory Board may suspend the President, Vice Presidents, individual Members of the Management Board and the Management Board as a whole from their duties for valid reasons. Should the Management Board President be removed or suspended from duties or should his/her mandate expire before the end of the term of office, all his/her powers, except for the casting vote referred to in Art. 9.5.2 of the Articles of Association, are to be exercised by the person appointed by a resolution of the Supervisory Board as acting President of the Management Board until a new Management Board President is appointed or the current one is restored to his/her position.

The current term of office of the Management Board began on June 30th 2017 and ends on the date of the General Meeting of PKN ORLEN approving the Company's financial statements for the financial year 2019.

#### Organisation of the Management Board activity

Detailed rules for the convening of Management Board meetings are set out in the Rules of Procedure for the Management Board, available on the Company's website (<http://www.orklen.pl/PL/OFirmie/Strony/DokumentyKorporacyjne.aspx>).

Meetings of the Management Board are held at least once every two weeks. For Management Board resolutions to be valid, a scheduled meeting has to be notified to all Members of the Management Board and at least half of the Management Board Members have to be present at the meeting. Management Board resolutions are passed by a simple majority of votes (in the event of a voting tie, the President of the Management Board has the casting vote) provided that for resolutions to grant a commercial power of proxy, unanimity of all Members of the Management Board is required. A Management Board Member who voted against a resolution that

was carried may communicate his/her dissenting opinion, which, however, needs to be justified.

Resolutions are voted on by open ballot. A secret ballot may be ordered at a request of each Member of the Management Board. Resolutions are signed by all Members of the Management Board who were present at the Management Board meeting on which a given resolution was passed. A resolution is also signed by the Member of the Management Board who filed a dissenting opinion, with a note: "dissenting opinion" or "votum separatum".

Because the Company's Articles of Association were amended at the Annual General Meeting on June 26th 2018, the Rules of Procedure for the Management Board were changed to the effect that resolutions of the Management Board may be voted on using means of remote communication. Resolutions voted on under such procedure are only valid if all Management Board Members have been notified of the contents of the draft resolutions, with the proviso that such notification may also be made using means of remote communication.

According to the Rules of Procedure for the Management Board, the Management Board Members must notify the Supervisory Board of any actual or potential conflict of interest which has arisen or may arise in connection with the positions held by them. Should the Company's interest be in conflict with the personal interests of a Management Board Member, the Management Board Member in question should abstain from deciding on such matter and request that a relevant note be made in the minutes of the meeting. In the case of doubt as to whether a conflict of interest exists, the matter is resolved by the Management Board by way of a resolution. According to the Rules of Procedure for the Management Board, a conflict of interest is understood as a circumstance in which a decision made by a Member of the Management Board may be influenced by a personal interest of the Management Board Member or his/her close person, i.e. their spouse, children, persons related to them through blood or marriage in the first or second degree, or any persons to whom the Member is personally related.

#### Powers and responsibilities of the Management Board

All Members of the Management Board are obliged and authorised to manage PKN ORLEN's affairs.

All matters going beyond the ordinary course of business are subject to resolutions of the Management Board. Matters falling within the scope of ordinary business are those related to trading in fuels 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) or energy, and any other matters not expressly specified in the Rules of Procedure for the Management Board. In addition, the Management Board's consent is not required to perform an action which is an integral part of any other action for which the Management Board already gave



its consent, unless the Management Board's resolution states otherwise.

A resolution of the Management Board is required, among other things, to:

- adopt and amend the Rules of Procedure for the Management Board,
- 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,
- convene the General Meetings and adopt their proposed agendas,
- adopt annual and long-term financial plans as well as the Company's development strategy,
- approve investment projects and corresponding liabilities if the resulting expenditures or charges exceed PLN 10 000 000,
- incur liabilities, dispose of property rights and encumber in any way the Company's assets with a value exceeding PLN 20 000 000 (subject to certain exceptions),
- sell and purchase real property, perpetual usufruct or an interest in real property, and create limited property rights,
- dispose of, purchase and encumber shares or other equity instruments of other entities, including shares admitted to public trading,
- issue the Company's securities,

- authorise the Company's and the ORLEN Group's financial statements,
- adopt and change the employee remuneration scheme, and make decisions regarding the introduction and design of incentive schemes,
- conclude, amend and terminate a collective bargaining agreement applicable at 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 commercial power of proxy,
- establish the internal division of remits between the Members of the Management Board,
- set up establishments/offices abroad,
- resolve other matters which at least one Member of the Management Board requests to be resolved by way of a resolution,
- take decisions on 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.

### 6.7.2. The Supervisory Board

**TABLE 53.** Composition of PKN ORLEN Supervisory Board as at January 1st 2018.

Name and surname	Position held on PKN ORLEN Supervisory Board
Angelina Sarota	Chairman of the Supervisory Board
Radosław L. Kwaśnicki	Vice – Chairman of the Supervisory Board
Mateusz Henryk Bochacik	Secretary of the Supervisory Board
Izabela Felczak-Poturnicka	Member of the Supervisory Board
Adrian Dworzyński	Member of the Supervisory Board (Independent Member of the Supervisory Board)
Agnieszka Krzętowska	Member of the Supervisory Board (Independent Member of the Supervisory Board)
Wojciech Kryński	Member of the Supervisory Board (Independent Member of the Supervisory Board)

On January 5th 2018, the Energy Minister, acting on behalf of the State Treasury and pursuant to Art. 8.2.1 of the Company's Articles of Association, appointed Małgorzata Niezgoda to the Supervisory Board. On February 1st 2018, Małgorzata Niezgoda tendered her resignation as Member of the PKN ORLEN Supervisory Board.

The PKN ORLEN Extraordinary General Meeting on February 2nd 2018 removed from the Supervisory Board Agnieszka Krzętowska, Angelina Sarota and Adrian Dworzyński and appointed Izabela Felczak-Poturnicka as Chairman of the Supervisory Board, Agnieszka Biernat-Wiatrak, Jadwiga Lesisz and Małgorzata Niezgoda as Members of the Supervisory Board. On February 5th 2018, the Energy Minister, acting on behalf of the State Treasury and pursuant to Art. 8.2.1 of the Company's Articles of Association, appointed Józef Węgrecki to the Supervisory Board of PKN ORLEN. On February 5th 2018, the Supervisory Board of PKN ORLEN delegated Józef Węgrecki to temporarily perform the duties of a Management Board Member responsible for Procurement and Investments. On March 1st 2018, Agnieszka Biernat-Wiatrak ceased

to be an independent Member of the Supervisory Board. On March 14th 2018, Radosław Kwaśnicki, Vice Chairman of the Supervisory Board, submitted a representation to the effect that he met the independence criteria. On March 22nd 2018, Józef Węgrecki resigned as Member of the Supervisory Board. On March 22nd 2018, the Supervisory Board delegated Jadwiga Lesisz, Member of the Supervisory Board, to serve, with effect from March 23rd 2018, as a Management Board Member responsible for Investments and Procurement, for a period not longer than three months.

On June 26th 2018, the Annual General Meeting of PKN ORLEN appointed Andrzej Kapala to the Company's Supervisory Board. On the same day, i.e. June 26th 2018, the Head of the State Treasury Department at the Chancellery of the Prime Minister, acting on behalf of the State Treasury and pursuant to Art. 8.2.1 of the Company's Articles of Association, appointed Anna Wójcik to the PKN ORLEN Supervisory Board.

In 2018, the PKN ORLEN Supervisory Board held 21 minuted meetings and passed 175 resolutions. The attendance of PKN ORLEN Supervisory Board Members at Supervisory Board meetings

was 99%. In the case of absence of a Supervisory Board Member from a meeting, the Supervisory Board passed a resolution to authorise the absence.

**TABLE 54.** Composition of PKN ORLEN Supervisory Board as at December 31st 2018.

Name and surname	Position held on PKN ORLEN Supervisory Board
Izabela Felczak-Poturnicka	Chairman of the Supervisory Board
Radosław L. Kwaśnicki	Vice – Chairman of the Supervisory Board (Independent Member of the Supervisory Board from March 14th 2018)
Mateusz Henryk Bochacik	Secretary of the Supervisory Board (Independent Member of the Supervisory Board from February 26th 2018)
Wojciech Kryński	Member of the Supervisory Board (Independent Member of the Supervisory Board)
Małgorzata Niezgoda	Member of the Supervisory Board
Jadwiga Lesisz	Member of the Supervisory Board (Independent Member of the Supervisory Board)
Agnieszka Biernat-Wiatrak	Member of the Supervisory Board
Andrzej Kapała	Member of the Supervisory Board (Independent Member of the Supervisory Board)
Anna Wójcik	Member of the Supervisory Board

On February 15th 2019, Mateusz Henryk Bochacik resigned as Member of the Supervisory Board of PKN ORLEN.

**TABLE 55.** Composition of PKN ORLEN Supervisory Board as at the date of authorisation of this report.

Name and surname	Position held on PKN ORLEN Supervisory Board
Izabela Felczak-Poturnicka	Chairman of the Supervisory Board
Radosław L. Kwaśnicki	Vice – Chairman of the Supervisory Board (Independent Member of the Supervisory Board from March 14th 2018)
Wojciech Kryński	Member of the Supervisory Board (Independent Member of the Supervisory Board)
Małgorzata Niezgoda	Member of the Supervisory Board
Jadwiga Lesisz	Member of the Supervisory Board (Independent Member of the Supervisory Board)
Agnieszka Biernat-Wiatrak	Member of the Supervisory Board
Andrzej Kapała	Member of the Supervisory Board (Independent Member of the Supervisory Board)
Anna Wójcik	Secretary of the Supervisory Board

**Operating procedures of the Supervisory Board**

PKN ORLEN's Supervisory Board is composed of six to nine Members. The State Treasury as a shareholder is authorised to appoint and remove one Member of the Supervisory Board, while other Members of the Supervisory Board are appointed and removed by the General Meeting. Members of PKN ORLEN's Supervisory Board are appointed for a joint term of office, ending on the date of the Annual General Meeting approving the financial statements for the full second financial year of such term of office. Individual Members of the Supervisory Board and the entire Supervisory Board may be removed at any time before the end of their 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 among the other Members of the Board.

At least two Supervisory Board Members must meet the independence criteria specified in PKN ORLEN's Articles of Association. In accordance with the Code of Best Practice, independent Supervisory Board Members are not employees of the Company, its subsidiary or associate, do not have a similar contractual relationship with any of these entities, and have no ties to a shareholder that would preclude their independence. Before being appointed to the Supervisory Board, independent Members of the Supervisory Board should submit to the Company a written statement to the effect that they meet the criteria set out in the Articles of Association and in the Code of Best Practice. Moreover, candidates to the Supervisory Board should submit statements based on which it would be possible to determine whether they meet the requirements for members of the Audit Committee of the Supervisory Board, as set out in the Act on Statutory Auditors, Audit Firms, and Public Oversight of May 11th 2017, including the requirements concerning independence of the Audit Committee Members. Statements on meeting the

independence criteria are submitted to the other Supervisory Board Members and to the Management Board.

If the independence criteria are not met, a Member of the Supervisory Board is obliged to immediately notify the Company of the same. The Company then informs the shareholders of 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 and put an item concerning changes in the composition of the Supervisory Board on the agenda of the General Meeting. The Supervisory Board will continue to operate as then composed until changes in the composition of the Supervisory Board are made, i.e. the number of independent Members is adjusted to the requirements set forth in the Articles of Association, and the provisions of Art. 8.9 of the Articles of Association (containing a list of resolutions which must be passed with the consent of at least half of independent Supervisory Board Members) will not apply.

In accordance with the Rules of Procedure for the Supervisory Board, a Supervisory Board Member should not resign mid-term if this could prevent the Supervisory Board from performing its duties, and in particular from timely passing a resolution on any matter material to the Company. If a Supervisory Board Member has resigned or is unable to perform his/her duties, the Company should immediately take appropriate steps to fill the vacancy or change the composition of the Supervisory Board.

Organisation of the Supervisory Board, in accordance with the principles outlined in PKN ORLEN's Articles of Association and the Rules of Procedure for the Supervisory Board, is described on the corporat website:

<http://www.orlen.pl/PL/Ofirmie/Strony/DokumentyKorporacyjne.aspx>

Meetings of the Supervisory Board are held when necessary, but at least once every two months.

The Supervisory Board may pass resolutions if at least half of its Members participate in the meeting. Subject to the provisions of the Commercial Companies Code, a resolution of the Supervisory Board may be passed in writing or with the use of direct means of remote communication. Resolutions of the Supervisory Board are passed by an absolute majority of the votes cast in the presence of at least half of the Members of the Supervisory Board. This does not apply to resolutions to remove or suspend from duties any Members of the Management Board or the entire Management Board during the term of their office, in which case at least two-thirds of all the Supervisory Board Members must vote in favour of a given resolution.

Passing resolutions on the following matters:

- any benefits 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 their related entities,
- appointing a qualified auditor to audit the financial statements of the Company,

requires the consent of at least half of the independent Members of the Supervisory Board. The foregoing provisions do not exclude the application of Art.15.1 and Art. 15.2 of the Commercial Companies Code.

## **Powers and responsibilities of the Supervisory Board**

The Supervisory Board of PKN ORLEN exercises ongoing 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 Companies Code and the Company's Articles of Association, in conformity with the Rules of Procedure for the Supervisory Board and – where generally applicable laws so stipulate – resolutions of the General Meeting and the Supervisory Board as well as internal organisational documents in place at the Company.

To ensure the highest standards of corporate governance and in order to enable shareholders to form a true and fair view of the Company, the Supervisory Board of PKN ORLEN has the additional obligation to submit to the General Meeting:

- assessment of PKN ORLEN's standing, including the internal control, risk management, compliance and internal audit function,
- an annual report on its work,
- assessment of how the Company's corporate governance disclosure obligations are fulfilled,
- assessment of the soundness of the Company's sponsorship, charity and similar activities,
- review and assessment of the operations of the Group companies in the assessment of the Group's consolidated financial statements,
- assessment of the use of non-current assets by the Company.

The Supervisory Board gives its opinions on reports concerning entertainment expenses, legal expenses, marketing costs, public relations and communication expenses, and management consultancy fees, prepared by the Management Board.

Except as provided for in generally applicable laws and the Articles of Association, the following require the consent of the Supervisory Board:

- entry into agreements for legal services, marketing services, public relations and communication services, and management consultancy services, if the total expected fees for providing such services exceed the amount of PLN 500 000 on a net basis per year or the maximum amount of fees is not specified, or any amendments to such agreements,
- a donation agreement or any other agreement having a similar effect, with a value exceeding PLN 20 000 or 0.1% of total assets within the meaning of the Accounting Act, as per the most recent approved financial statements,
- an agreement on release from debt or any other agreement having a similar effect, with a value exceeding PLN 50 000 or 0.1% of total assets within the meaning of the Accounting Act, as per the most recent approved financial statements.

The Supervisory Board approves detailed rules for disposal of non-current assets, within the meaning of the Accounting Act, with a value exceeding 0.1% of total assets as per the most recent approved financial statements.

The General Meeting of the Company appointed the Supervisory Board for a new term of office on June 3rd 2016. The current term of office of the Supervisory Board began on June 3rd 2016 and ends on the date of the General Meeting of PKN ORLEN approving the Company's financial statements for the financial year 2018.

The Supervisory Board of the current term is composed of Members with educational background in law, economics and finance and diverse professional experience, who completed specialist courses and training programmes and hold international certificates.

The qualifications of the Chairman and Members of the Supervisory Board are available on the corporate website at <https://www.orlen.pl/PL/OFirmie/RadaNadzorcza/Strony/default.aspx>.

In 2018, the number of Supervisory Board Members was as required under the Company's Articles of Association. As at January 1st 2018, the Supervisory Board included three independent Members, and as at December 31st 2018 it included five independent Members.

Pursuant to Sections 8.1 and 8.2 of the Rules of Procedure for the Supervisory Board, in order to discharge its duties, the Supervisory Board may inspect all the Company's documents, request the Management Board and employees to provide reports and clarifications, and review the Company's assets. To enable the Supervisory Board to perform its duties, the Management Board gives it access to information on matters concerning the Company. In order to guarantee the proper discharge of its duties, the Supervisory Board may request that the Management Board prepare, at the expense of the Company, expert and other opinions for the Supervisory Board, or employ an adviser.

Pursuant to Sections 27.1 and 27.2 of the Rules of Procedure for the PKN ORLEN Supervisory Board, a Supervisory Board Member

should inform the other Members of the Supervisory Board of any conflicts of interest which have arisen or may arise, as well as abstain from taking the floor when the matter which has given rise to the conflict is being discussed, abstain from voting on the relevant resolution and request that the fact be recorded in the minutes. No breach of the provisions of the preceding sentence may render the Supervisory Board's resolution invalid. In the case of doubt as to whether a conflict of interest exists, the matter is resolved by the Supervisory Board by way of a resolution.

#### Committees of the Supervisory Board

The Supervisory Board of PKN ORLEN may appoint standing or ad hoc committees, which act as its collective advisory and opinion making bodies.

The following standing committees operate within the Supervisory Board of PKN ORLEN:

- Audit Committee,
- Strategy and Development Committee,
- Nomination and Remuneration Committee,
- Corporate Governance Committee,
- Corporate Social Responsibility Committee (CSR Committee).

#### Composition of PKN ORLEN Supervisory Board Committees in 2018

**TABLE 56.** Composition of PKN ORLEN Supervisory Board Committees as at January 1st 2018.

Name and surname	Position held on PKN ORLEN Supervisory Board Committee
<b>Audit Committee</b>	
Wojciech Kryński	Committee Chairman, Independent Member of the Supervisory Board
Radosław L. Kwaśnicki	Committee Member
Adrian Dworzyński	Committee Member, Independent Member of the Supervisory Board
Agnieszka Krzętowska	Committee Member, Independent Member of the Supervisory Board
Izabela Felczak-Poturnicka	Committee Member
<b>Strategy and Development Committee</b>	
Radosław L. Kwaśnicki	Committee Chairman
Angelina Sarota	Committee Member
Adrian Dworzyński	Committee Member, Independent Member of the Supervisory Board
Agnieszka Krzętowska	Committee Member, Independent Member of the Supervisory Board
Izabela Felczak-Poturnicka	Committee Member
<b>Nomination and Remuneration Committee</b>	
Angelina Sarota	Committee Chairman
Mateusz Bochacik	Committee Member
Adrian Dworzyński	Committee Member, Independent Member of the Supervisory Board
Agnieszka Krzętowska	Committee Member, Independent Member of the Supervisory Board
<b>Corporate Governance Committee</b>	
Adrian Dworzyński	Committee Chairman, Independent Member of the Supervisory Board
Angelina Sarota	Committee Member
Mateusz Bochacik	Committee Member

Radosław L. Kwaśnicki	Committee Member
<b>Corporate Social Responsibility Committee</b>	
Agnieszka Krzętowska	Committee Chairman, Independent Member of the Supervisory Board
Radosław L. Kwaśnicki	Committee Member
Izabela Felczak-Poturnicka	Committee Member

**TABLE 57.** Composition of PKN ORLEN Supervisory Board Committees as at December 31st 2018.

Name and surname	Position held on PKN ORLEN Supervisory Board Committee
<b>Audit Committee</b>	
Wojciech Kryński	Committee Chairman, Independent Member of the Supervisory Board
Radosław L. Kwaśnicki	Committee Member, Independent Member of the Supervisory Board from March 14th 2018
Izabela Felczak-Poturnicka	Committee Member
Jadwiga Lesisz	Committee Member, Independent Member of the Supervisory Board from February 26th 2018
Andrzej Kapała	Committee Member, Independent Member of the Supervisory Board from July 19th 2018
<b>Strategy and Development Committee</b>	
Radosław L. Kwaśnicki	Committee Chairman, Independent Member of the Supervisory Board from March 14th 2018
Izabela Felczak-Poturnicka	Committee Member
Małgorzata Niezgoda	Committee Member from January 30th 2018
Agnieszka Biernat-Wiatrak	Committee Member, Independent Member of the Supervisory Board from February 2nd to March 1st 2018
Andrzej Kapała	Committee Member, Independent Member of the Supervisory Board from July 19th 2018
<b>Nomination and Remuneration Committee</b>	
Małgorzata Niezgoda	Committee Chairman from February 26th 2018
Mateusz Bochacik	Committee Member, Independent Member of the Supervisory Board from February 26th 2018
Wojciech Kryński	Committee Member from February 5th 2018, Independent Member of the Supervisory Board
Jadwiga Lesisz	Committee Member from September 11th 2018, Independent Member of the Supervisory Board
Anna Wójcik	Committee Member from July 19th 2018
<b>Corporate Governance Committee</b>	
Agnieszka Biernat-Wiatrak	Committee Chairman from February 26th 2018, Independent Member of the Supervisory Board from February 2nd to March 1st 2018
Mateusz Bochacik	Committee Member, Independent Member of the Supervisory Board from February 26th 2018
Radosław L. Kwaśnicki	Committee Member, Independent Member of the Supervisory Board from March 14th 2018
<b>Corporate Social Responsibility Committee</b>	
Jadwiga Lesisz	Committee Chairman from February 26th 2018, Independent Member of the Supervisory Board
Radosław L. Kwaśnicki	Committee Member, Independent Member of the Supervisory Board from March 14th 2018
Izabela Felczak-Poturnicka	Committee Member
Anna Wójcik	Committee Member from July 19th 2018

**TABLE 58.** Composition of PKN ORLEN Supervisory Board Committees as at the date of authorisation of this report.

Name and surname	Position held on PKN ORLEN Supervisory Board Committee
<b>Audit Committee</b>	
Wojciech Kryński	Committee Chairman, Independent Member of the Supervisory Board
Radosław L. Kwaśnicki	Committee Member, Independent Member of the Supervisory Board from March 14th 2018
Izabela Felczak-Poturnicka	Committee Member
Jadwiga Lesisz	Committee Member, Independent Member of the Supervisory Board from February 26th 2018
Andrzej Kapala	Committee Member, Independent Member of the Supervisory Board from July 19th 2018
<b>Strategy and Development Committee</b>	
Radosław L. Kwaśnicki	Committee Chairman, Independent Member of the Supervisory Board from March 14th 2018
Izabela Felczak-Poturnicka	Committee Member
Małgorzata Niezgoda	Committee Member from January 30th 2018
Agnieszka Biernat-Wiatrak	Committee Member from February 26th 2018, Independent Member of the Supervisory Board from February 2nd to March 1st 2018
Andrzej Kapala	Committee Member, Independent Member of the Supervisory Board from July 19th 2018
<b>Nomination and Remuneration Committee</b>	
Małgorzata Niezgoda	Committee Chairman from February 26th 2018
Wojciech Kryński	Committee Member from February 5th 2018, Independent Member of the Supervisory Board
Radosław L. Kwaśnicki	Committee Member from March 20th 2019, Independent Member of the Supervisory Board
Jadwiga Lesisz	Committee Member from September 11th 2018, Independent Member of the Supervisory Board
Anna Wójcik	Committee Member from July 19th 2018
<b>Corporate Governance Committee</b>	
Agnieszka Biernat-Wiatrak	Committee Chairman from February 26th 2018, Independent Member of the Supervisory Board from February 2nd to March 1st 2018
Andrzej Kapala	Committee Member from March 20th 2019, Independent Member of the Supervisory Board
Radosław L. Kwaśnicki	Committee Member, Independent Member of the Supervisory Board from March 14th 2018
Izabela Felczak-Poturnicka	Committee Member from March 20th 2019
<b>Corporate Social Responsibility Committee</b>	
Jadwiga Lesisz	Committee Chairman from February 26th 2018, Independent Member of the Supervisory Board
Radosław L. Kwaśnicki	Committee Member, Independent Member of the Supervisory Board from March 14th 2018
Izabela Felczak-Poturnicka	Committee Member
Anna Wójcik	Committee Member from July 19th 2018

**Audit Committee**

Tasks of the Audit Committee are to advise the Supervisory Board of PKN ORLEN on matters 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 qualified auditors. The Audit Committee meetings are held at least once per quarter, prior to each publication of the Company's financial statements.

Pursuant to the Rules of Procedure for the PKN ORLEN Supervisory Board, the majority of the Audit Committee Members, including its Chairman, should satisfy the independence criteria defined in the Company's Articles of Association, the Code of Best Practice and

the Act on Statutory Auditors, Audit Firms, and Public Oversight. At least one Member of the Audit Committee should have the expertise and competence in accounting or financial auditing. At least one Member of the Audit Committee or individual Members of the Committee should have the expertise and competence specific to the industry in which the Company operates. The qualifications of individual Members of the Audit Committee are described in the first section of the Directors' report on the operations of the ORLEN Group in 2018 and on the corporate website at: <https://www.orlen.pl/PL/OFirmie/RadaNadzorcza/Strony/default.aspx>

PKN ORLEN's Audit Committee performs all duties required under the Act on Statutory Auditors, Audit Firms, and Public Oversight of

May 11th 2017. Members of the Audit Committee also meet all conditions provided for in the Act.

In 2018, the Audit Committee held 17 minuted meetings.

In 2018, the Audit Committee formulated a recommendation with respect to the appointment of an auditing firm in accordance with the Supervisory Board-approved updated auditor selection and appointment policy and procedure, non-audit services policy, and auditor independence monitoring and oversight procedure. Key provisions of the document are as follows:

- the auditor is selected in advance in accordance with the auditor rotation rules, by way of requests for proposals issued by the Supervisory Board based on the Audit Committee's recommendation,
- the auditor is selected based on clear and non-discriminatory criteria, in a manner ensuring that the audit services provided to the Company are of the highest quality and that all criteria and standards of the auditor's and the auditing firm's independence and impartiality are met,
- the first audit engagement letter is signed with an auditing firm for at least two years, subject to the rules on rotation of the auditing firm and lead auditor stipulated under applicable laws,
- the principle of objectivity is met by analysing any non-audit services provided by the auditor that extend beyond the scope of the audit engagement letter in order to avoid any conflicts of interest.

The Audit Committee carried out the auditor selection procedure and prepared a relevant recommendation for the Supervisory Board. The Audit Committee's work related to auditor selection was led by Wojciech Kryński. The selection process was documented in meeting minutes and a report.

Also, permitted non-audit services were provided to PKN ORLEN and selected Group companies in 2018 that had been contracted in compliance with the applicable procedure, i.e. each non-audit service had been preceded by an independence assessment and approved by the Audit Committee, including:

- assurance services related to audit - review of interim separate and consolidated financial statements for Q1, Q3 and H1 2018;
- assurance service: confirming the calculation of the energy intensity indicator for PKN ORLEN;
- agreed-upon procedures for the Supervisory Board: analysis of selected indicators affecting the calculation of actual performance vs. volume targets for Management Board Members in PKN ORLEN;
- assurance service: verification of the correctness of information related to the 12th issue of the RESPECT Index;
- assurance service: independent verification of the PKN ORLEN Capital Group's Integrated Report;
- assurance service: verification of capital expenditures ("derogation") in PKN ORLEN;
- assurance services related to audit - review of interim separate and consolidated financial statements of Unipetrol a.s. for Q1, Q3 and H1 2018;
- assurance service: confirming the calculation of the energy intensity indicator for Anwil S.A., IKS Solino S.A.;
- assurance service: verifying the calculation of the share of consumed electricity costs in the value of production sold in 2017 by Anwil S.A.;

- assurance service: verification of separate accounting records kept by ORLEN Aviation Sp. z o.o. with regard to ground handling operations pursuant to Article 178.1.1 of the Aviation Act of 3 July 2001;
- assurance service: verification of the report on the solvency and financial standing of ORLEN Insurance Limited.

#### **Corporate Governance Committee**

The Corporate Governance Committee is responsible for assessing the implementation of corporate governance standards, providing the Supervisory Board with recommendations on the adoption of corporate governance standards, giving opinions on corporate governance documents, assessing reports on compliance with corporate governance standards drafted for the Warsaw Stock Exchange, giving opinions on proposed amendments to the Company's corporate documents and drafting such amendments for the Supervisory Board's own documents, monitoring Company management procedures in terms of their compliance with legal and regulatory requirements, including disclosure requirements of the capital market as well as compliance with the Core Values and Standards of Conduct of PKN ORLEN and corporate governance principles.

In 2018, the Corporate Governance Committee held 5 minuted meetings.

#### **Strategy and Development Committee**

Tasks of the Strategy and Development Committee are to provide opinions and submit recommendations to the Supervisory Board on proposed investments and divestments which may have a material impact on the Company's assets.

In 2018, the Strategy and Development Committee held 7 minuted meetings.

#### **Nomination and Remuneration Committee**

Tasks of the Nomination and Remuneration Committee are to help attain the Company's strategic goals by providing the Supervisory Board with opinions and proposals on how to shape the management structure, with regard to organisational solutions, remuneration schemes and selection of staff with the skills required to ensure the Company's success.

The majority of the Nomination and Remuneration Committee Members should be independent. Where the Nomination and Remuneration Committee is not composed of the majority of independent Members of the Supervisory Board, the Committee is chaired by the Chairman of the Supervisory Board.

In 2018, the Nomination and Remuneration Committee held 15 minuted meetings.

#### **Corporate Social Responsibility Committee**

Tasks of the CSR Committee are to support the Company's strategic objectives by taking due account of social, ethical and environmental aspects in the Company's operations and its interaction with stakeholders (including employees, customers, shareholders, and local communities).

In 2018, the Corporate Social Responsibility Committee held 11 minuted meetings.

## 6.8. REMUNERATION POLICY

Remuneration for Members of the Management Board at PKN ORLEN is determined by the Supervisory Board taking into account the relevant resolution of the General Meeting, in connection with the Act on the Rules of Remunerating Persons Who Direct Certain Companies, and recommendations of its Nomination and Remuneration Committee. The main components of the Management Board Members remuneration include:

- fixed monthly base pay,
- annual bonus (variable pay) depending on their performance against certain quantitative and qualitative targets and achievement of identifiable separate objectives,
- severance pay for contract termination by the Company,
- non-compete compensation.

All components of the remuneration are governed by a contract between a Member of the Management Board and the Company.

Benefits for directors reporting to the Management Board at PKN ORLEN may include, in particular: a company car, variable universal life insurance, additional medical cover for the director and their closest family, including the right to preventive healthcare, sports programmes and rehabilitation, partial coverage of rented accommodation costs, coverage of relocation costs if the relocation takes place during the director's employment, benefits defined in the Rules of Participation in the Company Social Benefits Fund, and the right to participate in the Employee Pension Plan on the terms applicable at the Company.

The remuneration policy in place at PKN ORLEN supports the achievement of the Company's goals, including in particular a long-term increase of its shareholder value and stability of operations.

### General terms and conditions of the variable of the remuneration

Members of PKN ORLEN's Management Board are entitled to an variable pay on the terms set out in their respective contracts, which include the Rules of the Incentive Scheme for the Management Board as an appendix. The level of variable pay depends on the performance against individual targets (both qualitative and quantitative), set by the Supervisory Board for individual Members of the Management Board. Based on the general set of Management Objectives established by the PKN ORLEN General Meeting, the Supervisory Board sets from four to ten individual bonus targets per year, which are recorded in a Member's MBO Sheet. The Supervisory Board may also set a separate objective or objectives for a particular year, which must be met as a precondition to variable remuneration payment for that year.

Assessment of a Management Board Member's performance against individual bonus targets (both quantitative and qualitative) and achievement of separate objectives is made on an annual basis by the Supervisory Board, on the President of the Management Board's recommendation which contains an assessment of individually performed bonus targets for all Members of the Management Board, the Management Board's recommendation regarding achievement of the separate objective/objectives, reports on the performance against individual bonus targets by Members of the Management Board, PKN ORLEN's financial statements and other documents which the Supervisory Board considers appropriate to examine.

The Supervisory Board passes a resolution to grant a variable pay for a given financial year to a Management Board Member,

specifying the bonus amount, or a resolution not to grant a variable pay. Such resolution is the basis for payment of the variable pay provided that the Company's consolidated financial statements for the financial year have been approved by the General Meeting.

The Supervisory Board set the following six quantitative targets for all Members of the Management Board for 2018:

- reported EBIT of the Group,
- LIFO-based EBITDA of the Group,
- maintenance CAPEX of the Group + general and personnel costs of the Group,
- growth CAPEX of the Group,
- stock performance ratio (TSR of PKN ORLEN relative to the market),
- accident rate: TRR of the Group and its external contractors and attributed relevant bonus thresholds to these targets. The Supervisory Board additionally set two qualitative targets for each Member of the Management Board associated with the Group's key challenges for the year.

Additionally, in accordance with the resolutions of the PKN ORLEN General Meeting, the Supervisory Board set the following separate objectives, which must be met as a precondition to receipt of an variable pay for 2018:

- compliance with the principles of remuneration for members of management and supervisory bodies in line with the Act across all Group companies,
- discharge of the obligations referred to in Art. 17-20, Art. 22 and Art. 23 of the Act on State Property Management of December 16th 2016 within the Company's subsidiaries within the meaning of Art. 4.3 of the Act on Competition and Consumer Protection of February 16th 2007.

### Rules for awarding bonuses to key management personnel (including Members of the Management Board)

The regulations on bonuses applicable to the PKN ORLEN Management Board, directors reporting directly to the Management Board, and other key positions within the Group have certain common features. Persons covered by these schemes are remunerated for their performance against individual targets set at the beginning of a bonus period by the Supervisory Board for the Management Board Members and by the Management Board for key executive personnel. The bonus systems are consistent with the Company's Values, promote cooperation between particular employees, and motivate them to achieve the best possible results for the ORLEN Group. The targets are both qualitative and quantitative, and their performance is assessed after the end of the year for which they were assigned.

### Remuneration of Members of the Management Board and the Supervisory Board for serving on the Management or Supervisory Boards of subsidiaries, jointly controlled entities and associates

Members of the PKN ORLEN Management Board in 2018 who were acting as Management or Supervisory Board Member of subsidiaries, jointly controlled entities and associates of the ORLEN Group did not receive any remuneration for such service, with the exception of Unipetrol a.s., where such payments were donated to the ORLEN's Foundation Dar Serca. As at December 31st 2018,



none of the Members of the PKN ORLEN Management Board sat on the Supervisory Board of Unipetrol a.s.

#### **Provisions of contracts with Members of the Management Board regarding non-competition and termination**

In the second half of 2018, pursuant to a resolution of the Annual General Meeting of PKN ORLEN passed on July 17th 2018, the contracts of the PKN ORLEN Management Board Members were amended with regard to the non-compete clause.

In accordance with the contracts, Members of PKN ORLEN's Management Board are required to refrain from any activities that are in competition with the Company's business for a period of six months after the contract termination. During that period, they are entitled to receive a compensation equal to six times their monthly base pay, payable in six equal monthly instalments. Provisions of the contracts regarding non-competition after termination as a Management Board Member come into force only after a Management Board Member has held their position for at least three months.

In addition, the contracts provide for a severance payment in the case of termination by the Company for reasons other than a breach of primary, essential obligations under the contract, provided that the position of Management Board Member is held for a period of at least 12 months. Such severance benefit amounts to three times the monthly base pay.

In accordance with the contracts, Members of the Management Boards of ORLEN Group companies are typically required to refrain from any activities that are in competition with the respective company's business for a period of six months after the contract termination. During that period, they are entitled to receive a compensation equal to three times or six times their monthly base pay, payable in six equal monthly instalments. Provisions of the contracts regarding non-competition after termination as a Management Board Member come into force only after a Management Board Member has held their position for at least six months. Severance payments for Members of the Management Boards of ORLEN Group companies are typically governed by the same rules as those applicable to Members of the PKN ORLEN Management Board.

Directors reporting directly to the PKN ORLEN Management Board are, as a general rule, bound by non-compete clauses for a period of six months after the contract termination. During this period they receive a salary equal to 50% of six-month base pay, payable in six equal monthly instalments. The severance pay for termination of contract by the Company is typically equal to six-fold monthly base pay.

#### **Diversity policy**

At PKN ORLEN, matters related to diversity management are governed by the following documents applicable at the Company:

- PKN ORLEN Work Rules;
- Core Values and Standards of Conduct of PKN ORLEN;
- Collective Bargaining Agreement of PKN ORLEN;
- ORLEN Group's Human Resources Management Policy;
- CSR Strategy for PKN ORLEN (where it pertains to development and diversity management);

- PKN ORLEN's Disability Employment Policy;
- PKN ORLEN's Policy for Supporting Employees in Difficult Personal Circumstances;
- Separate internal document governing the 'Family-Friendly Employer' programme.

Objectives of the diversity management include:

- equal treatment in employment and non-discrimination,
- respect for diversity,
- management of cultural differences,
- openness to recruitment of those socially excluded or marginalised in the labour market,
- supporting employee initiatives related to labour equality practices,
- remuneration and bonus policy,
- standards of employment and remuneration of seconded workers, i.e. expats and inpats,
- adapting the workplace to the needs of employees (e.g. people with disabilities, breastfeeding mothers),
- supporting employee groups in difficult circumstances,
- work-life balance programmes.

In addition, the diversity policy of PKN ORLEN is also implemented through:

- provision of training in diversity management,
- awareness raising campaign about disability in the workplace, including information and consultation meetings for employees of PKN ORLEN and other Group companies, and an expert consultation service,
- employee volunteering,
- considering diversity aspects in HR processes and tools (e.g. recruitment, training and development, remuneration) and in shaping the organisational culture,
- workshops for expats in cultural differences management,
- regularly surveying employees on job commitment and satisfaction,
- appointment of a team tasked with coordinating efforts to counteract workplace harassment and bullying (Anti-Harassment Committee appointed by the employer to consider grievances related to workplace harassment and bullying),
- appointment of the Ethics Officer for reporting breaches of the 'Core Values and Standards of Conduct of PKN ORLEN' (also regarding discrimination, harassment and bullying),
- appointment of the Human Capital Committee to give opinions, approve/submit for approval by the PKN ORLEN Management Board and monitor the observance of the 'Core Values and Standards of Conduct of PKN ORLEN', and in particular to examine material breaches, take corrective actions, issue guidelines and consider important ethics-related issues.

The Management Board and the Supervisory Board of PKN ORLEN include Members with educational background in law, economics and chemistry, and with diverse professional experience.

As at December 31st 2018, the Management Board consisted of one woman and six men, while the Supervisory Board consisted of five women and four men. The age structure of Management Board Members was as follows: 30–39 years: one person, 40–50 years: four persons, 60–70 years: two persons. The age structure of Supervisory Board Members was as follows: 30–39 years: three persons, 40–50: six persons.