Polski Koncern Naftowy ORLEN
Spółka Akcyjna

ORLEN GROUP

MANAGEMENT BOARD REPORT ON THE OPERATIONS

FOR THE YEAR ENDED 31 DECEMBER 2012

2012

Table of contents:

1. BASIC INFORMATION ON POLSKI KONCERN NAFTOWY ORLEN S.A. CAPITAL GROUP ("ORLEN GROUP")

1.1 ORLEN GROUP

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

The ORLEN Group's refining segment contains six refineries in Poland, Czech Republic and Lithuania, including one of the Europe's most modern refining and petrochemical complex located in Plock.

The ORLEN Group has the largest distribution network in Central Europe, containing at the end of 2012 2,699 fuel stations located in Poland, Germany, Czech Republic and Lithuania. Background for the retail network is the effective logistics infrastructure, consisting of over- and underground warehouse centres and pipelines networks.

The ORLEN Group's petrochemical segment is formed by the installations of Production Plant in Plock and the Unipetrol Capital Group ("Unipetrol Group"), Basell ORLEN Polyolefins Sp. z o.o. ("BOP") and ANWIL Capital Group ("ANWIL Group"). In 2011, PKN ORLEN launched one of the most modern installations worldwide for producing terephthalic acid ("PTA") - PX/PTA Complex – which made it one of the key suppliers of this product in the region.

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

Main development investments are focused on the new segments – exploration and extraction of hydrocarbons and production of electric energy. Following a positive decision issued by the Minister of Environment in February 2013 concerning the assignment of two subsequent concessions owned by ExxonMobil Exploration and Production Poland, the ORLEN Group holds in aggregate 10 concessions for inland and sea exploration of crude oil and natural gas. The current priority is to evaluate and exploit gas from non-conventional sources.
Also a project is implemented involving the construction of a gas and steam power plant in Wloclawek of the capacity of 463 MWe, scheduled to be commissioned at the end of 2015.

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

PKN ORLEN together with its subsidiaries is one of the largest employers on the Central European market. At the end of 2012 the ORLEN Group employed 21,956 people, including 4,445 people in PKN ORLEN.

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

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

Credo: ORLEN. FUELLING THE FUTURE

Values and rules of conduct

During the last years, in the area of business activities many significant changes occurred – technological progress, new sources of energy but also a financial crisis or new communications channels.
Based on numerous analyses and taking into account the above changes, the Management Board of PKN ORLEN adopted, on 4 September 2012, a document titled "Values and rules of conduct of PKN ORLEN". It is a manual concerning internal relations at PKN ORLEN, but also external relations – with business partners, local communities, natural environment and competition.
The document contains new mission and a set of values equivalent to the challenges faced currently by PKN ORLEN. The values are supposed to strengthen the position of PKN ORLEN and show the way to attain ambitious goals to the firm and its people.

The ethics belongs to everyday targets and tasks of all employees. In 2012, the Ethics Committee was appointed and is responsible mainly for: initiating the Group's activities in the area of corporate culture, monitoring and examining events of non-compliance, applying recovery measures in the area of "Values and Rules of Conduct of PKN ORLEN" but also initiating, presenting recommendations of advertising and educational actions in this respect.

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

Corporate Social Responsibility (CSR)

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

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

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

The ORLEN Group follows all the corporate governance principles stipulated in the "Code of Best Practice for WSE Listed Companies". Not only mandatory rules are implemented but also recommendations provided for in the above Code are followed, therefore the Group undertakes many activities improving communication with environment, taking effort to follow best market standards.

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

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

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

1.3 The Management Board of PKN ORLEN

Dariusz Jacek Krawiec
President of the Management Board,
Chief Executive Officer

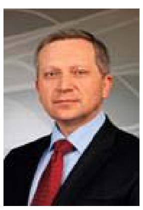
On 18 September 2008, Mr Dariusz Jacek Krawiec was appointed President of the Management Board and CEO of the Company. On 24 March 2011, for the first time in the history of PKN ORLEN, Mr Dariusz Jacek Krawiec was reappointed by the Supervisory Board for the Board's President for the next term of office.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

He graduated from Poznań University of Economics. In the years 1992-1997 he worked for Bank PEKAO S.A. and consulting firms Ernst & Young and Price Waterhouse. In 1998, he was with the UK branch of Japanese investment bank Nomura plc headquartered in London, where he was responsible for the Polish market. From 1998 to 2002, he served as President of the Management Board and CEO of Impexmetal S.A. In 2002, he became President of the Management Board of Elektrim S.A. From 2003 to 2004, he was managing director for Sindicatum Ltd London. From 2006 to 2008, he served as President of the Management Board of Action S.A. He has a wealth of experience working on corporate supervisory bodies. He has chaired the supervisory boards of Huta Aluminium "Konin" SA, Metalexfrance S.A. of Paris, S and I SA of Lausanne, ce-market.com S.A. He has also been member of the supervisory boards of Impexmetal S.A., Elektrim S.A., PTC Sp. z o.o., Elektrim Telekomunikacja Sp. z o.o., Elektrim Magadex S.A., Elektrim Volt S.A. and PTE AIG. Currently, he serves as Chairman of the Supervisory Board of Unipetrol a.s.

Sławomir Jędrzejczyk
Vice-President of the Management Board,
Chief Financial Officer

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

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



Piotr Chełmiński
Member of the Management Board,
Petrochemical Operations

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

Mr Piotr Chełmiński is a graduate of the Warsaw University of Agriculture. During his professional career he has accumulated years of experience holding various positions on the management boards of Polish and other foreign-owned companies, including listed companies. In the years 1995 – 1996 he served as Vice-President for sales, marketing and export of Okocimskie Zaklady Piwowarskie S.A. From 1996 to 1999 he worked for Eckes Granini GmbH & Co. KG as Regional Director for CEE region and as President of its subsidiary, Aronia S.A. During 1999 – 2001 he has been a Member of the Board of Directors, Browar Dojlidy Sp. z o.o. From 2001 to 2002 he held the position of the Member of the Board of Directors and Member of the Supervisory Board of Werner & Merz Polska Sp. z o.o. In 2001 – 2006 he served as Member of the Board of Directors and as Member of the Supervisory Board – direct operational supervision of Sales and Marketing, Kamis-Przyprawy S.A.

From 2006 to 2009 he served as Vice-President for Sales and Marketing, Gamet S.A. in Torun and as Member of the Board of Directors, Gamet Holdings S.A. Luxembourg. He was entrusted with the post of Chairman of Board of Directors and CEO at Unipetrol a.s. in December 2009. Currently, he serves as Chairman of the Supervisory Board of ANWIL S.A. and Member of the Supervisory Board of Basell ORLEN Polyolefins Sp. z o.o.

Krystian Pater
Member of the Management Board,
Refinery Operations

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

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

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

Marek Podstawa
Member of the Management Board,
Sales

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

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

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

1.4 Selected operational and financial data for the years 2008-2012

TABLE 1. Selected operational and financial data for the years 2008-2012.

Item	Unit	2012	2011	2010	2009	2008
I. MACROECONOMIC DATA (average value)						
Brent crude oil price	USD/bbl	111.7	111.3	79.5	61.7	97.2
Brent / URAL differential	USD/bbl	1.3	1.7	1.4	0.8	2.9
Model refining margin	USD/bbl	5.7	2.1	3.8	3.8	6.4
Model petrochemical margin	EUR/t	685	705	694	547	735
II. OPERATING DATA						
Crude oil throughput in ORLEN Group, of which:	'000 tonnes	27 939	27 785	28 083	27 357	28 310
Crude oil throughput in PKN ORLEN	'000 tonnes	15 191	14 547	14 452	14 526	14 218
Crude oil throughput in Unipetrol Group	'000 tonnes	3 927	3 942	4 353	4 110	4 533
Crude oil throughput in ORLEN Lietuva Group	'000 tonnes	8 533	9 007	8 985	8 407	9 241
Sales of products and goods	'000 tonnes	35 283	35 446	34 177	33 623	34 844
Refining sales	'000 tonnes	22 583	23 033	22 419	22 093	24 439
Retail sales	'000 tonnes	7 467	7 345	7 025	6 713	5 690
Petrochemical sales	'000 tonnes	5 233	5 068	4 733	4 817	4 715
CAPEX	PLN million	2 034	2 133	3 011	3 776	4 018
III. FINANCIAL DATA						
3.1. Consolidated statement of comprehensive income						
Sales revenue	PLN million	120 102	106 973	83 547	67 928	79 533
Cost of sales	PLN million	-112 094	-98 398	-75 567	-61 843	-73 999
Gross profit on sales	PLN million	8 008	8 575	7 980	6 085	5 534
Distribution expenses	PLN million	-3 872	-3 660	-3 394	-3 508	-3 324
General and administrative expenses	PLN million	-1 524	-1 468	-1 365	-1 505	-1 462
Orher operating expenses/revenues net	PLN million	-588	-1 381	-98	25	-2 351
Profit from operations*	PLN million	2 024	2 066	3 123	1 097	-1 603
Financial expenses/revenues net	PLN million	601	537	-305	72	-1 579
Share in profit from investments accounted for under equity method	PLN million	-1	189	252	272	267
Profit before tax	PLN million	2 624	2 792	3 070	1 441	-2 915
Income tax	PLN million	-454	-777	-615	-141	388
Net profit	PLN million	2 170	2 015	2 455	1 300	-2 527
3.2. Consolidation statement of financial position						
Non current assets, of which:	PLN million	26 811	28 599	30 431	29 655	29 281
Property, plant and equipment	PLN million	24 744	26 579	27 403	26 998	26 269
Intangible assets	PLN million	1 447	1 323	1 103	690	645
Current asstets, of which:	PLN million	25 820	30 132	20 719	19 433	17 695
Inventories	PLN million	15 011	16 297	11 295	10 620	9 089
Trade and other receivables	PLN million	8 165	8 105	6 337	5 659	6 748
Cash and cash equivalents	PLN million	2 211	5 409	2 821	2 941	1 344
Total asstets	PLN million	52 631	58 731	51 150	49 088	46 976
Total equity	PLN million	28 307	26 799	24 240	21 707	20 532
Long-term liabilities, of which:	PLN million	9 197	12 120	10 685	13 223	4 634
Interest bearing loans and borrowings	PLN million	7 678	10 538	9 124	11 611	2 611
Short-term liabilities, of which:	PLN million	15 127	19 812	16 225	14 158	21 810
Interest bearing loans and borrowings	PLN million	1 295	2 460	1 544	1 594	11 282
Trade and other liabilities	PLN million	12 656	15 093	13 436	11 495	8 377
Total equity and liabilities	PLN million	52 631	58 731	51 150	49 088	46 976
3.3. Consolidated statement of cash flows						
Net cash provided by operating activities	PLN million	3 089	761	6 110	5 162	3 617
Net cash (used in) investing activities**	PLN million	-2 875	1 497	-2 920	-2 527	-4 385
Net cash (used in) financing activities	PLN million	-3 411	332	-3 298	-1 035	612
Net decrease/increase in cash and cash equivalents	PLN million	-3 197	2 590	-108	1 600	-156
3.4. Key indicators						
Current ratio	x	1.71	1,52	1,28	1,37	0,81
Financial leverage	%	26.0	30.2	39.4	54.0	49.6
Net debt / (EBITDA + dividend received from Polkomtel)	x	1.58	1.62	1.38	2.52	11.72

*) results from operations in 2008, 2011 and 2012 include impairment allowances of respectively PLN 2,376 million, PLN 1,795 million and PLN 766 million.
**) cash flows from investing activities in 2011 result from the recognition of revenues from the sale of shares of Polkomtel S.A. of PLN 3,672 million.

1.5 The most important events in 2012 and until the publication of the Management Board Report

The most important events in 2012.

JANUARY

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

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

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

FEBRUARY

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

MARCH

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

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

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

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

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

MAY

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

NOVEMBER

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

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

DECEMBER

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

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

Moreover, PKN ORLEN signed an agreement with Whirlwind, under which the Company granted to Whirlwind a short-term loan of PLN 0.3 billion bearing arm's length interest rate. As at the day of publishing this report the loan was repaid in full.

The most important events in 2013 and until the publication of the Management Board Report.

LUTY	On 21 February 2013 the Ministry of Environment issued a positive opinion on the request for **assignment of two concession blocks** of ExxonMobil Exploration and Production Poland (ExxonMobil) to ORLEN Upstream. The Company is already starting preparations for the commencement of exploration work in the new areas. The assignment concerns two concessioned areas Wodynie-Lukow and Wolomin of the total area of 2,150 sq km.
MARZEC	On 19 March 2013 the contract was executed between PKN ORLEN and consortium of companies- ORLEN Projekt and Fisia Babcock Environment GmbH for **construction of Flue Gas Desulphurization ("FGD")** in Heat and Power Plant of the Production Plant in Plock. The estimated value of the contract is over PLN 410 million. As a result of implementation of new technological solutions, the SO_2 emission will decrease by 97%. Start up of the new installation is planned for the end of 2015. On 28 March 2013 **expired an agreement** between PKN ORLEN and Ashby Sp. z o.o. (that has been concluded on 28 March 2012) **regarding gathering and keeping of mandatory reserves of crude oil**. Therefore, and in accordance with applicable regulations regarding the maintenance of mandatory reserves in Poland, PKN ORLEN acquired crude oil owned by Ashby Sp. z o.o. The value of the transaction was approximately USD 366 million. The price of raw material was determined based on market quotations. The transfer of funds by PKN ORLEN as well as the transfer of ownership of the raw material to PKN ORLEN has been made on 28 March 2013. The acquisition price of crude oil has been hedged with a forward contact. The settlement of the hedging transaction increased the value of the acquired raw material by USD 37.9 million. As a result PKN ORLEN recognised the purchase of crude oil of USD 403.9 million in the first quarter of 2013. Additionally, within the duration of the contract regarding gathering and maintenance of crude oil reserves, Ashby Sp. z o.o. incurred charges to PKN ORLEN for inventory maintenance guarantees.

Key information concerning commercial agreements is provided in point 2.6 of this Management Board Report.

1.6 Awards and distinctions

JANUARY	PKN ORLEN was re-elected to an elite group of companies being members of **RESPECT Index** portfolio covering firms which are socially responsible. PKN ORLEN has been listed on the index since the moment of its creation, i.e. since 2009. STAR Brand, under which gasoline stations of **ORLEN Deutschland GmbH** operate moved up by three ranks and **took II place** in the survey of the German Institute of Service Quality concerning the quality of services rendered at gasolines stations in Germany. ANWIL S.A. was awarded the **AEO (Authorised Economic Operator) certificate**, which brings numerous advantages in foreign trade in commodities and is a confirmation for the business partners of the company that ANWIL S.A. is a reliable partner in business and a trustworthy company.
FEBRUARY	PKN ORLEN was for the third time awarded in the contest **"Environment-friendly Company"**, this time in the category "Enterprise". The "European Ecological Award" is one of four categories of the National Ecological Contest "Environment-friendly" organized under honorary patronage of the President of Poland. During the X edition of the **"Reliable Company"** ORLEN Laboratorium Sp. z.o.o. was awarded for the sixth time collected the certificate for timely payment of all its liabilities and respect for the ecology and consumers' rights. Since 2006 the Company has been enrolled on the index of reliable enterprises created by the "Reliable Company".
MARCH	PKN ORLEN was awarded for exceptional working conditions with certificate **Top Employers Polska 2012**. The survey was conducted by Corporate Research Foundation.
APRIL	PKN ORLEN fuel station - Meeting Point Stop Cafe in Gdansk was selected a winner in the first edition of the contest **"Gasoline station of the Year 2012"**, organized by Brog Marketing. Concurrently, the station in Gdansk was considered by the contest jury to be the best in Poland in the category "Brand Gasoline station of the fuel concern in the Premium segment". PKN ORLEN and ANWIL S.A. were awarded a prize in the VII edition of the **"Pillars of Polish Economy"** ranking. The winners were selected by the representatives of local governments who were assessing the involvement of companies in development of particular regions. PKN ORLEN was awarded a prize as the leader in the mazowieckie voivodship and ANWIL S.A. for its activities in the kujawsko-pomorskie voivodship.
MAY	For the eleventh time in a row, PKN ORLEN was awarded the title of **Reliable Brand in the category "Gasoline station"** in the biggest European consumer survey organized by the monthly "Reader's Digest". The survey was conducted in 15 European countries with participation of more than 27 thousands of respondents.
JUNE	PKN ORLEN was awarded **"Silver CSR Leaf"** for meeting high standards in respect of Corporate Social Responsibility. PKN ORLEN was shortlisted amongst 18 firms classified in the "Polityka" weekly's ranking. "Silver CSR Leaf", due to its high requirements, is a prestige distinction published for the first time together with the List 500. In the V edition of the competition **"Golden Issuer's Website"** organized by the Polish Association of Stock Exchange Issuers PKN ORLEN was awarded a special prize for quality and manner of maintaining investors' relationships with the use of modern methods of communications through Internet.
JULY	PKN ORLEN was re-elected to belong to an elite group of **RESPECT Index** companies, which is the first in the Central and Eastern Europe stock exchange index of the companies which are socially responsible.
SEPTEMBER	PKN ORLEN was awarded **Service Quality Emblem** 2012 in the category of fuel stations. The Company was considered to be one of **Top 100 Most Friendly Companies** in Poland. PKN ORLEN was awarded the title of **Responsible Business Leader** 2012 in the category of fuel and power sector in the contest organized by the Employers of Poland. The Company was awarded for its activities already for the second time in a row. The contest gives awards to the companies that, in its sector, are distinguished for special care in complying with responsible business standards and are willing to face challenges put forward by the dynamic economic development.

OCTOBER	PKN ORLEN was ranked first in the Platts ranking (250 Top Global Energy Company) in the category Refining&Marketing in the EMEA region (Europe, the Middle East and Africa- countries located in Europe, Middle East and Africa). The ranking outcome reflects the assessment of financial results of 250 firms in the refining and power sector. PKN ORLEN was awarded the prize for The Best Annual Report 2011 in the category of enterprises. The contest was organized by the Polish Accounting and Tax Institute. PKN ORLEN was honoured for multi-year participation in the Responsible Care programme. The event took place during the IX Ecological Forum of Chemical Branch.
NOVEMBER	PKN ORLEN was ranked second in the Polish nationwide competition "Improvement of Working Conditions" in the category "Technical and organizational solutions implied in practice". The prize was awarded for the program "Report safety threats" that was launched by the Health and Safety Office of PKN ORLEN in 2011. The competition was organized by the Ministry of Labour and Social Policy, Ministry of Economy and Polish Federation of Engineering Associations . PKN ORLEN was awarded by the Polish Ministry of National Education and "Głos Nauczycielski" social and cultural weekly with the title "Educational Initiative of the Year" for the specific educational programme "Chemistry Class". PKN ORLEN was for the second time awarded the title of "Reliable Employer" in the category of upstream industry. The ranking was aimed at distinguishing those firms that apply strategies in employment and social areas that are worth being followed. PKN ORLEN was awarded a prestige award of "Patron of Polish Sports" in the survey organised by CANAL+ and the Polish Sports Chamber. The initiative aimed to honour the entities actively supporting the development of Polish sport and was conducted under the patronage of the Polish Olympic Committee.
DECEMBER	PKN ORLEN was ranked I in "The most desired employers of 2012 in the opinion of experts and managers" ranking in the category of: power industry, fuels and gas. The survey was conducted by Antal International firm under the patronage of Business Centre Club. PKN ORLEN for the sixth time became the winner of the Most Valuable Polish Brands Ranking. The list distinguished also Bliska brand that was ranked on the 15 place. The organizer of the contest, prepared on the basis of financial criteria and consumers' opinion poll, was the daily "Rzeczpospolita". Website VERVA Street Racing was awarded the prize "Internet Users' Webstar" in the competition Webstarfestival. That was a nationwide competition resolved by Internet users, who promote the best websites operating in the Polish Internet. The winners of prestige contest PETROLawards 12 in the Czech Republic were two companies from the Unipetrol Capital Group: Benzina and Česka Rafinérska. One of them – in the category "Gasoline Station of 2012", the other one – in the category "Project of the Year" for re-construction of the railway loading ramp.

2. ORLEN GROUP ORGANISATION

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

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

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

The content of the Management Board Report is in line with § 92 section 3 i 4 of the Minister of Finance Regulation of 19 February 2009 on current and periodic information provided by issuers of securities and conditions for recognition as equivalent information required by the law of a non-Member state and contains the required elements specified in w § 91 section 5-6 for the issuers carrying out production, construction, commercial or services-related activity.

The provisions stipulated in Article 55 section 2 subparagraph 5, in conjunction with Article 49 sections 2 and 3 and with Article 63d of the Accounting Act of 29 September 1994 shall also apply.

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

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

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

For further details on the agreement signed with the entity authorized to conduct audit of financial statements see note 42 to the Consolidated Financial Statements for the year 2012.

2.3 Capital and organisational relations in the ORLEN Group

The ORLEN Group comprises PKN ORLEN as the Parent Company and the entities located in Poland, Germany, Czech Republic, Malta, Sweden, Netherlands, Slovakia, Switzerland, Estonia and Latvia.

As at 31 December 2012, the Parent Company held, directly or indirectly, shares in 88 companies, of which in:
- 76 subsidiaries,
- 7 jointly controlled companies,
- 5 associated companies.

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

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

TABLE 2. Changes in respect of capital relations in the ORLEN Group in 2012.

SHARES OF THE COMPANY	TRANSACTION DATE	NUBMER OF SHARES ACQUIRED/ DISPOSED OF	SHARE IN THE CAPITAL AFTER THE TRANSACTION
ACQUISITION OF SHARES BY PKN ORLEN:			
IKS SOLINO S.A.	31 January 2012	16 226	99.02%
	3 September 2012	18 828	100.00%
ANWIL S.A.	9 March 2012	13 975	95.25%
	6 June 2012	3 414	95.27%
	14 September 2012	575 334	99.54%
	17 October 2012	24 829	99.72%
	31 October 2012	37 764	100.00%

Rafineria Nafty Jedlicze S.A.	9 March 2012	676 481	98.62%
	23 August 2012	70 938	99.53%
	17 September 2012	1 574	99.55%
	4 October 2012	35 196	100.00%
ORLEN Projekt S.A.	1-3 October 2012	7 020	97.80%
	10 October 2012	35	98.03%
	16 October 2012	197	99.35%
	20 November 2012	43	99.63%
Petrolot Sp. z o.o.	21 December 2012	49	100.00%
ACQUISITION OF SHARES BY ORLEN ASFALT Sp. z o.o. :			
Asfalt Česká republika s.r.o.	22 October 2012	1	100.00%
DISPOSAL OF SHARES BY PKN ORLEN:			
Śląskie Centrum Logistyki S.A.	18 December 2012	10	-

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

2.4 The rules of the ORLEN Group's organisation and management and changes throughout the year 2012

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

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

The performance of the above activities is possible thanks to the full implementation of the so called ORLEN Group's Constitution in 2012, which includes the agreement for cooperation within the ORLEN Group together with the regulations of the ORLEN Group in 27 companies.

The regulations of the ORLEN Group sets the internal relations within the Capital Group – it sanctions the uniform corporate governance and ensures the achievement of the ORLEN Group's interest in accordance with the so called integrity principle. The integrity principle is implemented by a particular company through cooperation with PKN ORLEN and other companies of the ORLEN Group in order to implement the ORLEN Group's strategy, introduction of the organisational standards as well as operational and segment cooperation.

The main advantages of implementation of the ORLEN Group's Constitution include further improvement of the segment management efficiency through harmonisation of principles of information provision and ensuring the effective monitoring of key business decisions as well as harmonisation of organisational standards.

Within the Parent Company in 2012 the following organizational scheme was applicable:

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

AREAS OF BUSINESS ACTIVITY OF THE MANAGEMENT BOARD OF PKN ORLEN

PRESIDENT OF THE MANAGEMENT BOARD, CHIEF EXECUTIVE OFFICER	VICE-PRESIDENT OF THE MANAGEMENT BOARD, CHIEF FINANCIAL OFFICER	MEMBER OF THE MANAGEMENT BOARD, PETROCHEMISTRY	MEMBER OF THE MANAGEMENT BOARD, SALES	MEMBER OF THE MANAGEMENT BOARD, REFINERY
Human Resources	Planning and reporting	Petrochemical production	Wholesale of refinery products	Refinery production
Strategy and Project Management	Business controlling	Sale of petrochemical products	Retail sale	Efficiency of refinery production
Procurement	Supply chain management	Health and Safety	Logistics	
Internal Audit and Corporate Risk Management	Finance management	Environmental Protection	Efficiency and sale development	
Marketing and Corporate Communication	Taxes	Development and effectiveness		
Trade of crude oil	Investor relations	Implementation of investments		
Trade of gas	Capital investments	Power engineering		
Legal Counselor	IT			
Protection of information, critical infrastructure security and defense matters				

Major changes in the ORLEN Group's organisation and management in 2012 concerned:

PKN ORLEN

On 24 July 2012, the Gas Trading Office was created in the CEO, President of the Management Board division, which is responsible for the supplies of gas to the production plant, implementation of gas projects as part of the adopted development strategy and strengthening the ORLEN Group's position at the gas market.

Also, the scope of responsibility of the Audit Office was changed and the powers of the said Office were expanded to include the possibility of carrying out audits in the ORLEN Group companies. This constitutes the element of the further integration process and audit service centralisation.

On 4 September 2012, the Sale Effectiveness and Development Office of the ORLEN Group was created, which implements the development initiatives initiated in the retail sale and wholesale division and the optimisation projects in respect of the fuels logistics infrastructure.

Following 1 October 2012, the organisation structure of the area of the Retail Sale Executive Director was changed. It involved the determination of the new division of responsibilities concerning sale at fuel stations, sale support and fuel sale development.

Unipetrol Group

The rules for management of the companies being members of the Unipetrol Group comply with the segment management model adopted in the ORLEN Group. During the year 2012, personal changes occurred on key positions in the company. At the meeting held on 28 March 2012, Mr Piotr Wielowieyski was appointed by the Supervisory Board as the Vice-President of the Management Board of Unipetrol a.s., to be in charge of the Strategies and M&A area. At the meeting held on 5 June 2012, Mr Marek Świtajewski was appointed as the Management Board Member of Unipetrol a.s. and, commencing on 12 September 2012, as the Vice-President of the Management Board in charge of the Refinery area.

On 5 December 2012, the Supervisory Board of Unipetrol a.s. appointed Mr Piotr Chełmiński as the President of the Management Board for another term of office and Mr Martin Durčák and Mr Artur Paździor as the Management Board Members in charge of Petrochemistry and Retail Sale areas, respectively.

AB ORLEN Lietuva Capital Group ("ORLEN Lietuva Group")

The management rules in the ORLEN Lietuva Group remained unchanged throughout 2012 and related mainly to the management of the operating activities in the refining and retail segment. In 2012, personal changes were implemented in the Management Board of AB ORLEN Lietuva. On 15 June 2012, Ms Vita Petrošienė resigned from the position of the Management Board Member of AB ORLEN Lietuva. On 29 June 2012, the General Meeting of Shareholders designated Mr Tomasz Bukowski and Mr Piotr Gorzeński, responsible for sales and logistics, as the Management Board Members. In addition, on 10 October 2012, Mr Waldemar Winkler was appointed as the new Management Board Member in charge of Finance and replaced Mr Jarosław Szaliński, who resigned on 1 November 2012.

Support functions centralisation processes

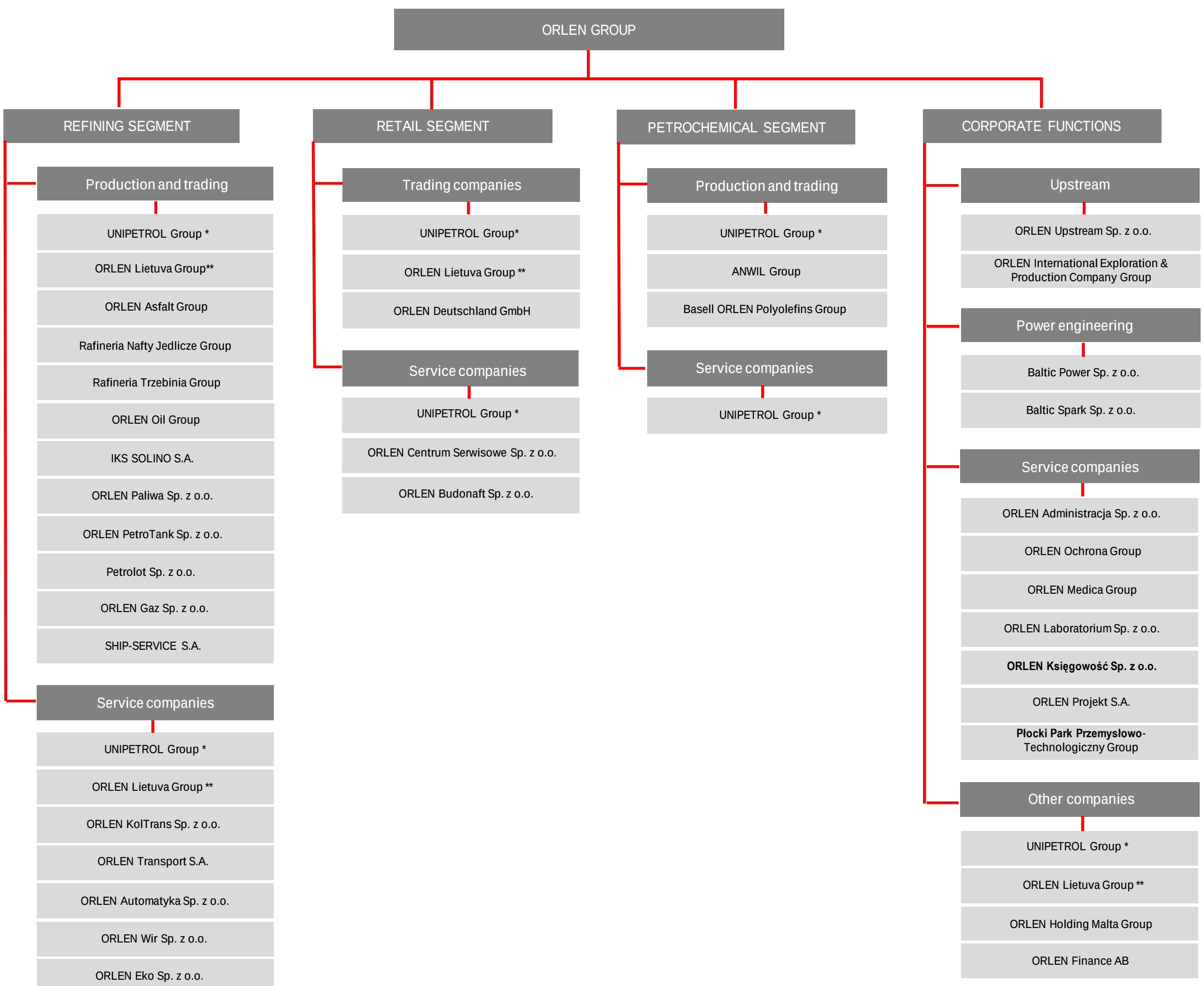
In 2012, projects including further centralisation of accounting services and payroll and personnel processes in the companies being members of the ORLEN Group were continued. The above processes ensure uniform service standards within the same IT system. Personnel and payroll processes of 30 subsidiaries migrated into the structure of ORLEN Księgowość Sp. z o.o. until the end of 2012. In 2012 5 new companies were covered by accounting services, together at the end of 2012 ORLEN Księgowość kept accounting books of 20 ORLEN Group companies.

2.5 Scope of activities of the ORLEN Group consolidated entities

ORLEN Group companies operate within a wide range of business activities including:

– production activities – crude oil processing as well as production of refining, petrochemical and chemical products and semi-products,
– commercial activities – retail sale and wholesale of fuels and other refining and petrochemical products,
– service activities – crude oil and fuels storage, road and railway transport, maintenance and repair services, laboratory, security, design, medical, administrative, insurance and finance services,
– activities connected with exploration and extraction of hydrocarbon deposits and with production, transport, distribution and trade in electric energy.

SCHEME 2. Assignment of the ORLEN Group companies to operating segments and corporate functions.



*) Companies belonging to the Unipetrol Group:
– rafinery: production and trading companies: Paramo a.s. Group, Ceska Rafinerska a.s., Unipetrol Slovensko s.r.o., MOGUL SLOVAKIA s.r.o.; service companies: Unipetrol Doprava s.r.o.,
– retail: trading companies: Benzina s.r.o.; service companies: Petrotrans s.r.o.,
– petrochemistry: production and trading companies: Butadien Kralupy a.s., Unipetrol Deutschland GmbH, Unipetrol RPA s.r.o.; service companies: Polymer Institute Brno s.r.o., Vyzkumny ustav anorganicke chemie a.s.,
– corporate functions: Unipetrol a.s., Unipetrol Services s.r.o., HC Verva Litvinov a.s.

**) Companies belonging to ORLEN Lietuva Group:
– rafinery: production and trading companies: AB ORLEN Lietuva, Capital Group UAB Mezeikiu naftos prekybos namai; service companies: UAB PSLAUGOS TAU, UAB EMAS
– retail: AB Ventus-Nafta,
– corporate functions: UAB Mazeikiu naftos sveikatos priezиuros centras.

2.5.1 Companies of largest importance in respect of the turnover

PKN ORLEN

PKN ORLEN was established by way of notarial deed of 29 June 1993 as a result of transformation of a state-owned enterprise into a joint-stock company. The company was entered in the register under the name of Mazowieckie Zakłady Rafineryjne i Petrochemiczne "Petrochemia Płock" S.A. On 7 September 1999, Centrala Produktów Naftowych Spółka Akcyjna was incorporated.

The core objects of PKN ORLEN's business include crude oil processing, refining and petrochemical products manufacture as well as wholesale and retail sale of the company's products.

TABLE 3. Basic financial and operating data of PKN ORLEN (in accordance with those recognised for the purposes of the ORLEN Group consolidation).

ITEM	UNIT	2012	2011	CHANGE	CHANGE %
1	2	3	4	5=(3-4)	6=(3-4)/4
Sales revenues	'000 PLN	88 348 971	79 037 122	9 311 849	11.8%
Sales volume	'000 tonnes	27 394	27 969	-575	-2.1%
Profit/(loss) from operations	'000 PLN	1 810 083	3 173 938	-1 363 855	-43.0%
Net profit/(loss)	'000 PLN	2 127 798	1 386 166	741 632	53.5%
Equity	'000 PLN	22 920 006	20 846 723	2 073 283	9.9%
Total assets	'000 PLN	41 406 969	45 869 082	-4 462 113	-9.7%
Employment as at 31 December	persons	4 445	4 445	0	0.0%

In 2011, the operating result of PKN ORLEN was decreased by PLN (-) 70,696 thousand due to the update of impairment allowances of PKN ORLEN assets, mainly as a result of tests for impairment in accordance with IAS 36 – impairment of assets. Detailed information is presented in note 15 of the Consolidated Financial Statements for 2012.

AB ORLEN Lietuva (together with its own Capital Group)

AB ORLEN Lietuva is the parent company of ORLEN Lietuva Group and was registered with the Lithuanian Registry Court on 24 January 1991 as AB Mozeikiu Nafta. On 15 December 2006 PKN ORLEN purchased a majority block of shares from Yukos International UK B.V. and on 29 April 2009 it became its sole owner after having purchased the company's shares from the Government of the Republic of Lithuania. Following 1 September 2009, the company has been operating under the business name of AB ORLEN Lietuva.

The core objects of AB ORLEN Lietuva's business include crude oil processing, manufacture of refining products and wholesale and retail sale of the company's products on the local market and in land and sea export, using Klaipedos Nafta terminal.

TABLE 4. Basic financial and operating data of ORLEN Lietuva Group (in accordance with those recognised for the purposes of the ORLEN Group consolidation).

ITEM	UNIT	2012	2011	CHANGE	CHANGE %
1	2	3	4	5=(3-4)	6=(3-4)/4
Sales revenues	'000 PLN	26 130 907	24 210 730	1 920 177	7.9%
Sales volume	'000 tonnes	8 684	9 038	-354	-3.9%
Profit/(loss) from operations	'000 PLN	206 554	-232 688	439 242	-188.8%
Net profit/(loss)	'000 PLN	115 219	-288 509	403 728	-139.9%
Equity	'000 PLN	4 348 633	4 654 560	-305 927	-6.6%
Total assets	'000 PLN	8 343 237	8 849 296	-506 059	-5.7%
Employment as at 31 December	persons	2 284	2 552	-268	-10.5%

The operating result of the ORLEN Lietuva Group in 2011 was decreased by PLN (-) 118,222 thousands due to the update of impairment allowances of assets of the ORLEN Lietuva Group, mainly as a result of tests for impairment in accordance with IAS 36 – impairment of assets. Detailed information is presented in note 15 of the Consolidated Financial Statements for 2012.

Unipetrol a.s. (together with its own Capital Group)

Unipetrol a.s. is the parent company of Unipetrol Group which was established in 1994 as a result of restructuring of the petroleum sector in the Czech Republic. It was composed of the following petrochemical companies: Kaucuk, Chemopetrol, Benzina, Ceska Rafinerska, Unipetrol Trade, Spolana, Paramo, Unipetrol Rafinerie and Unipetrol a.s. In 2005 PKN ORLEN purchased 62,99% of shares in Unipetrol a.s.

The core objects of Unipetrol Group's business include crude oil processing as well as manufacture and distribution of refinery, petrochemical and chemical products.

TABLE 5. Basic financial and operating data of the Unipetrol Group (in accordance with those recognised for the purposes of the ORLEN Group consolidation).

ITEM	UNIT	2012	2011	CHANGE	CHANGE %
1	2	3	4	5=(3-4)	6=(3-4)/4
Sales revenues	'000 PLN	17 857 110	16 298 962	1 558 148	9.6%
Sales volume	'000 tonnes	5 534	5 109	425	8.3%
Profit/(loss) from operations	'000 PLN	-611 723	-964 575	352 852	-36.6%
Net profit/(loss)	'000 PLN	-518 992	-978 876	459 884	-47.0%
Equity	'000 PLN	4 792 056	5 559 525	-767 469	-13.8%
Total assets	'000 PLN	8 269 152	9 784 985	-1 515 833	-15.5%
Employment as at 31 December	persons	4 062	4 275	-213	-5.0%

The operating result of the Unipetrol Group in 2012 and 2011 was decreased respectively by PLN (-) 688,225 thousand and PLN (-) 810,793 thousand due to the update of impairment allowances of assets of the Unipetrol Group mainly as a result of tests for impairment in accordance with IAS 36 – impairment of assets. Detailed information is presented in note 15 of the Consolidated Financial Statements for 2012.

ORLEN Deutschland GmbH

ORLEN Deutschland GmbH was established as a result of purchase by PKN ORLEN from Deutsche BP AG a chain of fuel stations in northern and eastern Germany in December 2002. As at 31 December 2012, the company's share capital was fully owned by PKN ORLEN.

ORLEN Deutschland GmbH conducts retail sale and wholesale of liquid fuels in Germany.

TABLE 6. Basic financial and operating data of ORLEN Deutschland GmbH (in accordance with those recognised for the purposes of the ORLEN Group consolidation).

ITEM	UNIT	2012	2011	CHANGE	CHANGE %
1	2	3	4	5=(3-4)	6=(3-4)/4
Sales revenues	'000 PLN	16 526 742	14 550 978	1 975 764	13.6%
Sales volume	'000 tonnes	2 484	2 332	152	6.5%
Profit/(loss) from operations	'000 PLN	113 588	107 958	5 630	5.2%
Net profit/(loss)	'000 PLN	71 004	90 362	-19 358	-21.4%
Equity	'000 PLN	504 063	552 331	-48 268	-8.7%
Total assets	'000 PLN	1 661 027	1 790 831	-129 804	-7.2%
Employment as at 31 December	persons	134	138	-4	-2.9%

ORLEN Paliwa Sp. z o.o.

ORLEN Paliwa Sp. z o.o. was established on 13 June 1996 under the name of PetroCentrum Sp. z o.o. In 2000 the company's name was changed to ORLEN PetroCentrum. As a part of consolidation of the Regional Market Operators, on 31 October 2008 the company took over the distribution companies ORLEN PetroZachód Sp. z o.o., ORLEN Morena Sp. z o.o. and ORLEN PetroProfit Sp. z o.o., operating independently until that time.
On 27 November 2012, the company's name was changed to ORLEN Paliwa Sp. z o.o.
As at 31 December 2012, the company's entire share capital was owned by PKN ORLEN.

ORLEN Paliwa Sp. z o.o. is PKN ORLEN's Market Operator, offering the wholesale of liquid fuels produced by PKN ORLEN.

TABLE 7. Basic financial and operating data of ORLEN Paliwa Sp. z o.o. (in accordance with those recognised for the purposes of the ORLEN Group consolidation).

ITEM	UNIT	2012	2011	CHANGE	CHANGE %
1	2	3	4	5=(3-4)	6=(3-4)/4
Sales revenues	'000 PLN	9 033 353	8 328 688	704 665	8.5%
Sales volume	'000 tonnes	1 755	1 816	-61	-3.4%
Profit/(loss) from operations	'000 PLN	5 521	4 019	1 502	37.4%
Net profit/(loss)	'000 PLN	8 495	7 039	1 456	20.7%
Equity	'000 PLN	66 451	66 318	133	0.2%
Total assets	'000 PLN	593 736	709 053	-115 317	-16.3%
Employment as at 31 December	persons	99	104	-5	-4.8%

ANWIL S.A. (together with its own Capital Group)

ANWIL S.A. was established on 15 March 1993 as a result of transformation of a state-owned enterprise into a jointstock company fully owned by the state. As at 31 December 2012, the company's share capital was fully owned by PKN ORLEN.

The core objects of ANWIL S.A.'s business include manufacture of nitrogenous fertilizers and plastics (PVC, compound granulates and PVC sheets) as well as chemicals for food processing industry and agriculture (ammonia, chlorine, nitric acid, industrial salt and caustic soda).

TABLE 8. Basic financial and operating data of the ANWIL Capital Group (in accordance with those recognised for the purposes of the ORLEN Group consolidation).

ITEM	UNIT	2012	2011	CHANGE	CHANGE %
1	2	3	4	5=(3-4)	6=(3-4)/4
Sales revenues	'000 PLN	3 358 104	3 270 124	87 980	2.7%
Sales volume	'000 tonnes	1 821	1 838	-17	-0.9%
Profit/(loss) from operations	'000 PLN	-312 121	-377 535	65 414	-17.3%
Net profit/(loss)	'000 PLN	-235 162	-335 408	100 246	-29.9%
Equity	'000 PLN	1 445 788	1 681 565	-235 777	-14.0%
Total assets	'000 PLN	2 165 463	2 427 045	-261 582	-10.8%
Employment as at 31 December	persons	3 148	3 190	-42	-1.3%

The operating result of the ANWIL Group in 2012 and 2011 was decreased respectively by PLN (-) 564,600 thousand and PLN (-) 732,683 thousand due to the update of impairment allowances of assets of the ANWIL Group mainly as a result of tests for impairment in accordance with IAS 36 – impairment of assets. Impairment allowance from 2012 was reversed as a part of consolidation procedures in relation to ANWIL assets classification, at the level of the ORLEN Group, to the petrochemical segment and carrying out tests within this segment. Detailed information is presented in note 15 of the Consolidated Financial Statements for 2012.

ORLEN PetroTank Sp. z o.o.

ORLEN PetroTank Sp. z o.o. was established on 3 April 1996. As at 31 December 2012, the company's share capital was fully owned by PKN ORLEN.

The object of the company's business is the wholesale of liquid fuels, warehousing services provided to PKN ORLEN and transport services.

TABLE 9. Basic financial and operating data of the ORLEN Petro Tank Sp. o.o. (in accordance with those recognised for the purposes of the ORLEN Group consolidation).

ITEM	UNIT	2012	2011	CHANGE	CHANGE %
1	2	3	4	5=(3-4)	6=(3-4)/4
Sales revenues	'000 PLN	3 296 320	3 122 991	173 329	5.6%
Sales volume	'000 tonnes	636	671	-35	-5.2%
Profit/(loss) from operations	'000 PLN	6 314	5 183	1 131	21.8%
Net profit/(loss)	'000 PLN	7 870	6 095	1 775	29.1%

Equity	'000 PLN	47 188	49 318	-2 130	-4.3%
Total assets	'000 PLN	257 617	303 687	-46 070	-15.2%
Employment as at 31 December	persons	85	88	-3	-3.4%

ORLEN Gaz Sp. z o.o.

ORLEN Gaz Sp. z o.o. was registered on 15 December 1995 under the business name of Petroenergogaz Sp. z o.o. On 23 October 2002, the company's business name was changed to ORLEN Gaz Sp. z o.o. As at 31 December 2012, the company's share capital was fully owned by PKN ORLEN.

ORLEN Gaz Sp. z o.o. conducts the wholesale of liquid gas and also distributes gas in cylinders and performs industrial installations for liquid gas.

TABLE 10. Basic financial and operating data of ORLEN Gaz Sp. z o.o. (in accordance with those recognised for the purposes of the ORLEN Group consolidation).

ITEM	UNIT	2012	2011	CHANGE	CHANGE %
1	2	3	4	5=(3-4)	6=(3-4)/4
Sales revenues	'000 PLN	2 218 902	1 766 605	452 297	25.6%
Sales volume	'000 tonnes	739	617	122	19.8%
Profit/(loss) from operations	'000 PLN	23 034	18 369	4 665	25.4%
Net profit/(loss)	'000 PLN	16 796	6 103	10 693	175.2%
Equity	'000 PLN	104 576	87 793	16 783	19.1%
Total assets	'000 PLN	327 495	334 195	-6 700	-2.0%
Employment as at 31 December	persons	162	166	-4	-2.4%

ORLEN Asfalt Sp. z o.o.

ORLEN Asfalt Sp. z o.o. was registered on 21 July 2003 as a result of transformation of Bitrex Sp. z o.o. As at 31 December 2012, the company's share capital was owned by:
- PKN ORLEN 82,46%,
- Rafineria Trzebinia S.A. 17,54%.

The objects of the company's business include: production and sale of road, modified, multitype and industrial asphalts and asphalt products.

TABLE 11. Basic financial and operating data of ORLEN Asfalt Sp. z o.o. (in accordance with those recognised for the purposes of the ORLEN Group consolidation).

ITEM	UNIT	2012	2011	CHANGE	CHANGE %
1	2	3	4	5=(3-4)	6=(3-4)/4
Sales revenues	'000 PLN	1 758 441	1 568 241	190 200	12.1%
Sales volume	'000 tonnes	808	804	4	0.5%
Profit/(loss) from operations	'000 PLN	68 956	54 409	14 547	26.7%
Net profit/(loss)	'000 PLN	53 431	43 818	9 613	21.9%
Equity	'000 PLN	175 865	149 997	25 868	17.2%
Total assets	'000 PLN	259 588	285 961	-26 373	-9.2%
Employment as at 31 December	persons	159	151	8	5.3%

Basell ORLEN Polyolefins Sp. z o.o. (together with its own Capital Group)

Basell ORLEN Polyolefins Sp. z o.o. is a joint venture company, which was registered on 19 December 2002. As at 31 December 2012, the company's share capital was equally split by PKN ORLEN and Basell Europe Holdings B.V.
Basell ORLEN Polyolefins Sp. z o.o. specialises in polymers production and sale.

TABLE 12. Basic financial and operating data of Basell ORLEN Polyolefins Sp. z o.o. (in accordance with those recognised for the purposes of the ORLEN Group consolidation).

ITEM *	UNIT	2012	2011	CHANGE	CHANGE %
1	2	3	4	5=(3-4)	6=(3-4)/4
Sales revenues	'000 PLN	1 729 594	1 747 653	-18 059	-1.0%
Sales volume	'000 tonnes	328	346	-18	-5.2%
Profit/(loss) from operations	'000 PLN	24 371	73 745	-49 374	-67.0%
Net profit/(loss)	'000 PLN	30 302	21 666	8 636	39.9%
Equity	'000 PLN	568 665	540 195	28 470	5.3%
Total assets	'000 PLN	1 298 190	1 294 292	3 898	0.3%
Employment as at 31 December	persons	415	412	3	0.7%

*) due to the company being consolidated using proportional method, operating and financial data presented above cover 50% of the values presented by Basell ORLEN Polyolefins Sp. z o.o. in the financial statements.

2.5.2 Other selected companies of the ORLEN Group

TABLE 13. The scope of business of other companies in ORLEN Group.

COMPANY'S NAME	THE SCOPE OF BUSINESS
Production and trading companies	
ORLEN Oil Sp. z o.o. (together with its own Capital Group)	production, distribution and sale of grease oils, lubricants, oil bases as well as car care products and maintenance liquids
Rafineria Nafty Jedlicze S.A. (together with its own Capital Group)	crude oil processing, waste oils regeneration, manufacture and sale of oil bases, heating oils and organic solvents
Rafineria Trzebinia S.A. (together with its own Capital Group)	crude oil processing, manufacture and sale of biofuels and oils, provision of logistics and warehousing services
Inowrocławskie Kopalnie Soli SOLINO S.A.	oil and fuels warehousing, packaging of salt and salt products, brine extraction
Trading companies	
Petrolot Sp. z o.o.	distribution of aviation and automotive fuels, fuels warehousing, storing, filling, and dispatching services
Service companies	
ORLEN KolTrans Sp. z o.o.	rail transport of goods, rail servicing of points of loading and discharge, product shipping, repairs and upgrade of railway rolling stock
ORLEN Transport S.A.	transport of fuels, liquid gas and heavy chemicals
ORLEN Automatyka Sp. z o.o.	maintenance and overhaul services, assembly services, operation of automatic control engineering equipment, devices and systems
ORLEN Wir Sp. z o.o.	day-to-day and major overhauls of compressors, centrifuges, locomotive engines and engine-generators, upgrades of compressors and turbines structures as well as technical advisory
ORLEN Eko Sp. z o.o.	waste management with the use of waste recovery and disposal installation, including among others hazardous waste, provision of safety and hygiene services, fire precaution and environment protection services, rescue and fire equipment maintenance
Upstream activity	
ORLEN Upstream Sp. z o.o.	prospecting for and discovery of hydrocarbons, upstream of crude oil and natural gas, prospecting for, exploration and exploitation of crude oil and natural gas deposits

2.6 Specification of significant contracts until the publication date of the Management Board's Report

Specification of significant contracts published in current announcements. A "significant contract", within the meaning of the Minister of Finance Regulation, should be understood as a contract or sum of contracts, whose total value for the period of 12 months exceeds 10% of PKN ORLEN's equity.

CONTRACTS FOR RAW MATERIAL SUPPLY

TO THE BENEFIT OF PKN ORLEN:

- On 31 August 2012 the spot contract was executed between PKN ORLEN and Vitol S.A., for supply of crude oil to PKN ORLEN. The estimated net value of the contract amounts to approx. USD 81 million (that is approximately PLN 270 million at the average NBP exchange rate for USD/PLN as at 31 August 2012).

  The estimated total value of the contracts executed between PKN ORLEN and PKN ORLEN's subsidiaries on one side and companies being members of the Vitol group from 11 February 2012 until 31 August 2012 amounts to approximately PLN 2,514 million.
- On 31 August 2012 the spot contract was executed between PKN ORLEN and Gunvor S.A. for supply of crude oil to PKN ORLEN. The estimated net value of the contract amounts to approximately USD 81 million (that is approximately. PLN 270 million at the average NBP exchange rate for USD/PLN as at 31 August 2012).

  The estimated total value of the contracts executed between PKN ORLEN and Gunvor from 1 February 2012 until 31 August 2012 amounts to approximately USD 715 million (that is approximately PLN 2,362 million at the average NBP exchange rates for USD/PLN as at the execution dates of individual contracts).
- On 6 September 2012 the spot contract was executed between PKN ORLEN and Statoil ASA, for supply of crude oil to PKN ORLEN. The estimated net value of the contract amounts to approximately USD 69 million (that is approximately PLN 226 million at the average NBP exchange rate for USD/PLN as at 6 September 2012).

  The estimated total value of the contracts executed between PKN ORLEN and Statoil from 4 February 2012 until 6 September 2012 amounts to approximately USD 715 million (that is approximately PLN 2,367 million at the average NBP exchange rates for USD/PLN as at the execution dates of individual contracts).
- On 21 December 2012 the Annex to the Contract of 1 December 2009 was executed between PKN ORLEN and Mercuria Energy Trading S.A., for the supply of 3.6 million tonnes of REBCO crude oil annually by the "Druzhba" pipeline to PKN ORLEN. The Annex is in force and effect from 1 January 2013 until 31 December 2015. In the cases described in the Annex, crude oil may be supplied by sea to Gdansk. The expected value of supplies within the term of the Annex amounts to approximately USD 8,500 million (that is approximately PLN 26,000 million at the average NBP exchange rate for USD/PLN as at 21 December 2012).

  The estimated total value of the contracts executed between PKN ORLEN and Mercuria Energy within the last 12 months amounts to approximately USD 8,900 million (that is approximately PLN 27,400 million at the average NBP exchange rates for USD/PLN as at the execution dates of individual contracts).
- On 24 December 2012 the annual contract was executed between PKN ORLEN and Shell Energy Europe Limited, for the supply of natural gas for PKN ORLEN from 1 January 2013 until 1 January 2014. The estimated net value of the contract amounts to approximately PLN 302 million.

  The estimated total value of the contracts executed between PKN ORLEN and PKN ORLEN's subsidiaries on one side and companies being members of the Shell group from 5 May 2012 until 28 December 2012 amounts to approximately PLN 2,481 million.
- On 1 February 2013 the contract was executed with Rosneft Oil Company, for the supply of 6.0 million tonnes of REBCO crude oil annually by the "Druzhba" pipeline to PKN ORLEN. The contract is in force and effect from 1 February 2013 until 31 January 2016. In the cases described in the Contract, crude oil may be supplied by sea to Gdansk. The expected value of supplies within the term of the Contract amounts to approximately USD 15,000 million (that is approximately PLN 46,000 million at the average NBP exchange rate for USD/PLN as at 31 January 2013).
- On 1 February 2013 PKN ORLEN executed a long-term contract for crude oil supply with the Russian oil and gas company, Rosneft Oil Company. The contract is in force and effect from 1 February 2013 until 31 January 2016 and provides for the supply of nearly 18 million tonnes of REBCO crude oil by "Druzhba" pipeline and for the possibility of crude oil being alternatively supplied by sea to Gdansk.

TO THE BENEFIT OF ORLEN LIETUVA:

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

  The estimated total value of the contracts executed between PKN ORLEN and STASCO from 2 September 2011 until 23 January 2012 amounts to approximately USD 634 million (that is approximately PLN 2,104 million at the average NBP exchange rates for USD/PLN as at the execution dates of individual contracts).
- On 31 January 2012 the spot contract was executed between PKN ORLEN and Gunvor S.A. for supply of crude oil to AB ORLEN Lietuva. The estimated net value of the contract amounts to approximately USD 80 million (that is approximately PLN 257 million at the average NBP exchange rate for USD/PLN as at 31 January 2012).

  The estimated total value of the contracts executed between PKN ORLEN and Gunvor from 22 March 2011 until 31 January 2012 amounts to approximately USD 730 million (that is approximately PLN 2,249 million at the average NBP exchange rates for USD/PLN as at the execution dates of individual contracts).
- On 21 June 2012 the spot contract was executed between PKN ORLEN and Glencore Energy UK Ltd, for the supply of crude oil to AB ORLEN Lietuva. The estimated net value of the contract amounts to approximately USD 70 million (that is approximately PLN 236 million at the average NBP exchange rate for USD/PLN as at 21 June 2012).

  The estimated total value of the contracts executed between PKN ORLEN and Glencore from 23 November 2011 until 21 June 2012 amounts to approximately USD 725 million (that is approximately PLN 2,346 million at the average NBP exchange rates for USD/PLN as at the execution dates of individual contracts).
- On 28 June 2012 the spot contract was executed between PKN ORLEN and TOTSA Total Oil Trading S.A., for the supply of crude oil to AB ORLEN Lietuva. The estimated net value of the contract amounts to approximately USD 70 million (that is approximately PLN 240 million at the average NBP exchange rate for USD/PLN as at 28 June 2012).

  The estimated total value of the contracts executed between PKN ORLEN and PKN ORLEN's subsidiaries on one side and companies being members of the Total Group from 27 October 2011 until 29 June 2012 amounts to approximately PLN 2,784 million.
- On 3 October 2012 the spot contract was executed between PKN ORLEN and Glencore Energy UK Ltd, for the supply of crude oil to AB ORLEN Lietuva. The estimated net value of the contract amounts to approximately USD 80 million (that is approximately PLN 256 million at

the average NBP exchange rate for USD/PLN as at 3 October 2012).

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

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

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

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

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

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

  The estimated total value of the contracts executed between PKN ORLEN and Glencore from 4 October 2012 until 17 December 2012 amounts to approximately USD 796 million (that is approximately PLN 2,525 million at the average NBP exchange rates for USD/PLN as at the execution dates of individual contracts).

TO THE BENEFIT OF RAFINERIA TRZEBINIA GROUP:

- On 19 December 2012 the annex to the Contract executed on 15 May 2008 was executed between Rafineria Trzebinia S.A. and Polskie Górnictwo Naftowe i Gazownictwo S.A. for the supply of crude oil to Rafineria Trzebinia S.A. The Annex provides for increase in the volume of raw materials supplies and change in the existing formula, based on which the raw material price is determined. The estimated net value of the contract for 5 years, after the Annex execution, amounts to approximately PLN 4,900 million. The annex is in force and effect for the non-fixed term, commencing on 1 January 2013.

CONTRACTS FOR GOODS SUPPLY

TO THE BENEFIT OF ORLEN DEUTSCHLAND:

- On 7 February 2012 the contract was executed between ORLEN Deutschland GmbH and Lekkerland Deutschland GmbH & Co., for the supply of non-fuel products for the fuel stations of ORLEN Deutschland GmbH from 1 February 2012 until 31 January 2015. The estimated net value of the contract throughout its term amounts to approximately EUR 657 million (that is approximately PLN 2,747 million, at the average NBP exchange rate for EUR/PLN as at 7 February 2012).

- On 4 May 2012 the contract was executed between ORLEN Deutschland GmbH and BP Europe SE, with its registered office in Bochum, for the supply of fuels by BP Europe for fuel stations of ORLEN Deutschland GmbH from 1 January 2012 until 31 December 2012. The estimated net value of the contract amounts to approximately EUR 1,124 million (approximately PLN 4,707 million at the average NBP exchange rate for EUR/PLN as at 4 May 2012).

  The total value of the contracts executed between PKN ORLEN and PKN ORLEN's subsidiaries on one side and companies being members of the BP group from 4 January 2012 until 4 May 2012 amounts to approximately PLN 5,418 million.

- On 4 May 2012 the contract was executed between ORLEN Deutschland GmbH and Shell Deutschland Oil GmbH with its registered office in Hamburg, for the supply of fuels to fuel stations operated by ORLEN Deutschland GmbH from 1 January 2012 until 31 December 2012. The estimated contract value amounts to approximately EUR 721 million (that is approximately PLN 3,020 million, at the average NBP exchange rate for EUR/PLN as at 4 May 2012).

  The total value of the contracts executed between PKN ORLEN and PKN ORLEN's subsidiaries on one side and companies being members of the Shell group from 24 January 2012 until 4 May 2012 amounts to approximately PLN 3,440 million.

CONTRACTS FOR THE SALE OF PRODUCTS

EXECUTED BY PKN ORLEN:

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

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

- On 5 January 2012 the annual contract was executed between PKN ORLEN and Lukoil Polska Sp. z o.o. for the sale by PKN ORLEN of gasoline and diesel oil from 1 January 2012 until 31 December 2012. The estimated net contract value amounts to PLN 2,129 million.

  The total value of the contracts executed between PKN ORLEN and PKN ORLEN's subsidiaries on one side and companies being members of the Lukoil group from 6 January 2011 until 5 January 2012 amounts to approximately PLN 4,030 million.

- On 6 June 2012 the contract was executed between PKN ORLEN and OW Supply&Trading, for the sale by PKN ORLEN of heavy heating oil from 17 May 2012 until 17 June 2012. The estimated net value of the contract throughout its term amounts to PLN 195 million.

  The total value of the contracts executed between PKN ORLEN and PKN ORLEN's subsidiaries on one side and companies being members of the WRIST group within the last 12 months amounts to approximately PLN 2,572 million.

- On 8 January 2013 the annual contract was executed between PKN ORLEN and BP Europa SE, for the sale by PKN ORLEN of gasoline and diesel oil from 1 January 2013 until 31 December 2013. The estimated net contract value amounts to PLN 6,750 million.

  The total value of the contracts executed between PKN ORLEN and PKN ORLEN's subsidiaries on one side and companies being members of the BP group from 5 May 2012 until 8 January 2013 amounts to approximately PLN 8,550 million.

- On 8 January 2013 the annual contract was executed between PKN ORLEN and Lukoil Polska Sp. z o.o., for the sale by PKN ORLEN of gasoline and diesel oil from 1 January 2013 until 31 December 2013. The estimated net contract value amounts to PLN 1,550 million.

  The total value of the contracts executed between PKN ORLEN and PKN ORLEN's subsidiaries on one side and companies being members of the Lukoil group from 24 November 2012 until 8 January 2013 amounts to approximately PLN 3,440 million.

- On 8 January 2013 the annual contract was executed with Shell Polska Sp. z o.o., for the sale by PKN ORLEN of gasoline and diesel oil from

1 January 2013 until 31 December 2013. The estimated net contract value amounts to PLN 2,300 million.

EXECUTED BY ORLEN LIETUVA GROUP:

- On 24 January 2012 the annual contract was executed between SIA ORLEN Latvija and SIA Lukoil Baltija R. for the sale by SIA ORLEN Latvija of diesel oil and gasoline from 1 January 2012 until 31 December 2012. The estimated total net contract value amounts to USD 151 million (that is approximately PLN 498 million at the average NBP exchange rate for USD/PLN as at 24 January 2012).

  The total value of the contracts executed between PKN ORLEN and PKN ORLEN's subsidiaries on one side and companies being members of the Lukoil group from 6 January 2012 until 24 January 2012 amounts to approximately PLN 2,123 million.
- On 24 January 2012 annual contracts were executed between SIA ORLEN Latvija and SIA Latvija Statoil and OÜ ORLEN Eesti and AS Eesti Statoil for the sale by SIA ORLEN Latvija and OÜ ORLEN Eesti of diesel oil, gasoline and Jet fuel from 1 January 2012 until 31 December 2012. The estimated total net value of such contracts amounts to USD 463 million (that is approximately PLN 1,527 million at the average NBP exchange rate for USD/PLN as at 24 January 2012).

  The total value of the contracts executed between PKN ORLEN and PKN ORLEN's subsidiaries on one side and companies being members of the Statoil group from 22 November 2011 until 24 January 2012 amounts to approximately PLN 2,904 million.
- On 10 February 2012 the annual contract was executed between AB ORLEN Lietuva and Cargill International S.A. for the sale by AB ORLEN Lietuva of gasoline from 1 January 2012 until 31 December 2012. The estimated net contract value amounts to USD 691 million (that is approximately PLN 2,191 million at the average NBP exchange rate for USD/PLN as at 10 February 2012).

  The total value of the contracts executed between PKN ORLEN and PKN ORLEN's subsidiaries on one side and companies being members of the Cargill group from 9 February 2011 until 10 February 2012 amounts to approximately PLN 2,270 million.
- On 10 February 2012 the annual contract was executed between AB ORLEN Lietuva and MAERSK A/S for the sale by AB ORLEN Lietuva of the heavy heating oil from 1 January 2012 until 31 December 2012. The estimated net contract value amounts to USD 1,141 million (that is approximately PLN 3,617 million at the average NBP exchange rate for USD/PLN as at 10 February 2012).

  The total value of the contracts executed between PKN ORLEN and PKN ORLEN's subsidiaries on one side and MAERSK A/S from 9 February 2011 until 10 February 2012 amounts to approximately PLN 3,619 million.
- On 10 February 2012 two annual contracts were executed between AB ORLEN Lietuva and Vitol S.A. for the sale by AB ORLEN Lietuva of diesel oil and gasoline from 1 January 2012 until 31 December 2012. The estimated total net value of such contracts amounts to USD 1,665 million (that is approximately PLN 5,277 million at the average NBP exchange rate for USD/PLN as at 10 February 2012).

  The total value of the contracts executed between PKN ORLEN and PKN ORLEN's subsidiaries on one side and companies being members of the Vitol group from 9 February 2011 until 10 February 2012 amounts to approximately PLN 7,303 million.
- On 10 January 2013 the annual contract was executed between AB ORLEN Lietuva and Statoil Fuel & Retail Lietuva, UAB, for the sale by AB ORLEN Lietuva of diesel oil and gasoline from 1 January 2013 until 31 December 2013. The estimated net contract value amounts to USD 330 million (that is approximately PLN 1,026 million at the average NBP exchange rate for USD/PLN as at 10 January 2013).

  The total value of the contracts executed between PKN ORLEN and PKN ORLEN's subsidiaries on one side and companies being members of the Statoil Fuel & Retail group from 4 February 2012 until 10 January 2013 amounts to approximately PLN 2,470 million.
- On 24 January 2013 three spot contracts were executed between AB ORLEN Lietuva and Lukoil International Trading And Supply Company, for the sale by AB ORLEN Lietuva of diesel oil. The total estimated net value of such contracts amounts to approximately 94 million USD (that is approximately PLN 295 million at the average NBP exchange rate for USD/PLN as at 24 January 2013).

  The estimated total value of the contracts executed between PKN ORLEN and PKN ORLEN's subsidiaries on one side and companies being members of the Lukoil group from 9 January 2013 until 24 January 2013 amounts to approximately PLN 2,455 million.
- On 31 January 2013 the annual contract was executed between AB ORLEN Lietuva and Souz Petroleum SA, for the sale by AB ORLEN Lietuva of the heavy heating oil from 1 January 2013 until 31 December 2013. The estimated net contract value amounts to USD 964 million (that is approximately PLN 2,976 million at the average NBP exchange rate for USD/PLN as at 31 January 2013).

  The total value of the contracts executed between PKN ORLEN and PKN ORLEN's subsidiaries on one side and Souz Petroleum on the other side within the last 12 months amounts to approximately PLN 3,301 million.
- On 31 January 2013 the annual contract was executed between AB ORLEN Lietuva and Trafigura Pte Ltd, for the sale by AB ORLEN Lietuva of gasoline from 1 January 2013 until 31 December 2013. The estimated net contract value amounts to USD 1,960 million (that is approximately PLN 6,051 million at the average NBP exchange rate for USD/PLN as at 31 January 2013).

  The total value of the contracts executed between PKN ORLEN and PKN ORLEN's subsidiaries on one side and TRAFIGURA BEHEER Group on the other side within the last 12 months amounts to approximately PLN 6,316 million.
- On 6 February 2013 the annual contract was executed between AB ORLEN Lietuva and VITOL S.A., for the sale by AB ORLEN Lietuva of diesel oil from 1 January 2013 until 31 December 2013. The estimated net contract value amounts to USD 1,464 million (that is approximately PLN 4,520 million at the average NBP exchange rate for USD/PLN as at 6 February 2013).

  The total value of the contracts executed between PKN ORLEN and PKN ORLEN's subsidiaries on one side and Vitol Holding Group on the other side within the last 12 months amounts to approximately PLN 6,308 million.

OTHER CONTRACTS

- On 4 December 2012 the contract was executed between PKN ORLEN and a consortium of companies - General Electric International Inc. acting via General Electric International S.A. and SNC-LAVALIN POLSKA Sp. z o.o. for the construction of the power plant in Wloclawek. The estimated net contract value amounts to approximately PLN 1,100 million.

  At the same time, on 4 December 2012 the contract was executed between PKN ORLEN and General Electric International Inc. for servicing of the gas and steam power plant in Wloclawek. The contract will be in force and effect for 12 years from the commencement of the power plant operation. The estimated net value of the contract throughout its term amounts to PLN 200 million.
- On 19 March 2013 the contract was executed between PKN ORLEN and consortium of companies- ORLEN Projekt and Fisia Babcock Environment GmbH for construction of Flue Gas Desulphurization ("FGD") in Heat and Power Plant of the Production Plant in Plock. The estimated value of the contract is over PLN 410 million. As a result of implementation of new technological solutions, the SO_2 emission will decrease by 97%. Start up of the new installation is planned for the end of 2015.

2.7 Significant proceedings in front of court, body appropriate for arbitration proceedings or in front of public administration bodies

2.7.1 Proceedings in which the ORLEN Group entities act as a defendant

Proceedings with the total value exceeding 10% of the equity

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

On 21 October 2010 the Court of Arbitration in Prague overruled the entire claim of Agrofert Holding a.s. against PKN ORLEN regarding the payment of PLN 3,172,709 thousand translated using exchange rate as at 31 December 2012 (CZK 19,464,473 thousand) with interest and obliged Agrofert Holding a.s. to cover the cost of proceedings born by PKN ORLEN. The claim regarded the payment of a compensation for losses related among others to unfair competition and illegal violation of reputation of Agrofert Holding a.s.
The Court of Arbitration ruling dated 21 October 2010 ended the last of four arbitration proceedings initiated by Agrofert Holding a.s. related to purchase of UNIPETROL a.s. shares by PKN ORLEN.
On 3 October 2011 PKN ORLEN received from the court in Prague (Czech Republic) claim which overruled the sentence of arbitration court of the above mentioned case.

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

On 10 January 2013 there was the hearing in front of the court in Prague. During the hearing the rules of the proceeding have been arranged. The District Court in Prague set the next hearing for 23-25 April 2013.

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

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

– Tax proceedings

As at 31 December 2012 there are ongoing tax proceedings on Rafineria Trzebinia S.A. concerning excise tax settlements for the period May-September 2004.
As a result of the Customs Office proceeding, the excise tax liability for the period May – September 2004 was set at the amount of approximately PLN 100,000 thousand. The Management Board of Rafineria Trzebinia filed an appeal against the discussed decisions. In December 2005 the Director of the Customs Chamber in Cracow (Director of the CC) kept the first instance authority's decisions in force. Rafineria Trzebinia appealed against above listed decisions. According to the sentence dated 12 November 2008 the Voivodship Administrative Court (VAC) inclined to the appeal of Rafineria Trzebinia and overruled the decision of Director of the CC.

May – August 2004

On 25 September 2009 the Head of the Customs Office in Cracow (first instance authority) issued decisions for the period May - August 2004 increasing the tax liability of approximately PLN 80,000 thousand. On 14 October 2009 Rafineria Trzebinia S.A. appealed to the Director of the Customs Chamber in Cracow regarding the above mentioned decision. On 22 January 2010 the Director of the Customs Chamber in Cracow dismissed entirely the first instance authority's decisions and decided to revoke them to reexamination.
On 23 March 2011 the Head of the Customs Office suspended proceedings. Rafineria Trzebnia appealed against decisions of the Director of the Customs Chamber to the VAC. On 20 April 2011 the VAC overruled the complaint and the decision of the Head of the Customs Office as a whole and revoke the proceedings to another reexamination.
On 29 June 2011 company filed an annulment claim to the Supreme Administrative Court (SAC) of the VAC's sentence in scope of excise duty related to the period of May – August 2004. As at 20 March 2013 SAC overruled the annulment claim. At the date of publication of the foregoing Management Board Report proceedings before the Head of the Customs Office are suspended.

September 2004

On 16 January 2009 the Director of the Customs Chamber in Cracow filed an annulment to the Supreme Administrative Court (SAC) in Warsaw in regards of excise tax liability for September 2004. The annulment was overruled by SAC on 25 August 2009. The proceeding returned to the Customs Chamber stage.
On 24 November 2010 Head of the Customs Office in Cracow reissued a decision determining the amount of excise tax liability for September 2004 of PLN 37,612 thousand. On 15 December 2010 Rafineria Trzebinia S.A. raised a complaint to the Director of the Customs Chamber in Cracow regarding the above mentioned decision.
On 9 May 2011 the Director of the Customs Chamber in Cracow issued a decision regarding the excise tax liability for September 2004 keeping the first instance authority's decisions in force. On 19 May 2011 Rafineria Trzebinia S.A. appealed against the above mentioned decision to the VAC in Cracow and filed a supplement to the appeal on 13 June 2011.

On 25 January 2012 the VAC in Cracow overruled the appeal of Rafineria Trzebinia S.A. and issued a sentence sustaining the decision of the Head of the Customs Office in Cracow regarding the excise tax liability for September 2004. On 27 February 2012 Rafineria Trzebinia S.A. received a legal justification of the verdict and on 28 March 2012 filed an annulment of the sentence regarding the above mentioned decision.
The District Court V Department of Land and Mortgage Register, at the request of the Head of the Customs Office, performed compulsory bail mortgage entries of the total amount of PLN 111,334 thousand on Rafineria Trzebinia real estate by way of securing the claim resulting from the decision from September 2004.
An annulment claim has not been examined yet.

Rafineria Trzebinia S.A. created a provision recognized as cost of 2011 to cover the potential negative financial impact regarding the realization of excise tax liabilities.

– Anti-trust proceedings

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

The President of the OCCP conducted anti-trust proceeding against ORLEN Oil sp. z o.o. in relation to a potential violation of Competition and Consumer Protection Act by concluding an agreement for setting the resale pricing of Platinum product line with authorized distributors. On 31 December 2012 the President of the OCCP issued a decision, delivered to the ORLEN Oil Sp. z o.o. representative on 10 January 2013 imposing a fine of PLN 1,994 thousand. On 24 January 2013 ORLEN Oil Sp. z o.o. appealed from this decision to the Court of Competition and Consumer Protection. ORLEN Oil Sp. z o.o. recognized a provision as cost of 2012 to cover the potential negative financial impact regarding the ongoing proceedings.

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

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

Court proceedings in which PKN ORLEN acts as a defendant:

The subject of the court proceedings concerns settlement of the contentious system fee for the period from 5 July 2001 to 30 June 2002. The obligation to settle power transfer fee results from the electricity sale agreement between ENERGA – OPERATOR S.A. and PKN ORLEN which was signed without determining contentious issues concerning system fee. The case was regarded as a civil case so contentious system fee should be judged by an appropriate court.
In 2003 ENERGA – OPERATOR S.A. called on PKN ORLEN to compromise agreement and then filed a law suit against PKN ORLEN. In 2004 the Court issued a decision obliging PKN ORLEN to pay a liability connected with the so-called system fee to ENERGA – OPERATOR S.A. of PLN 46,232 thousand. In its objection to the precept PKN ORLEN filed for entire dismissal of the suit.
On 25 June 2008 the District Court pronounced its verdict and dismissed the suit of ENERGA – OPERATOR S.A. entirely as well as sentenced the reimbursement of court proceeding costs of PLN 31 thousand in favour of PKN ORLEN. In September 2008 ENERGA – OPERATOR S.A. appealed against the above sentence On 10 September 2009 after the examination of ENERGA - OPERATOR S.A. appeal, the Court of Appeals in Warsaw announced a change in the sentence of the District Court in Warsaw dated 25 June 2008. Payment of PLN 46,232 thousand increased by interest and refund of proceedings' costs was adjudged to the benefit of ENERGA - OPERATOR S.A. On 30 September 2009 PKN ORLEN made the payment. On 4 February 2010 the Company submitted an annulment. The annulment was accepted for recognition by the Supreme Court. On 28 January 2011 the Supreme Court after conducting annulment proceeding overruled the previous verdict and decided to revoke the claim to reexamination by the Court of Appeal. In March 2011 ENERGA – OPERATOR S.A. repaid part of the claimed amount of PLN 30,163 thousand. On 4 August 2011, the Court of Appeals in Warsaw revoked the first instance authority sentence and submitted the case to reexamination by the District Court in Warsaw. On 28 November 2011 ENERGA – OPERATOR S.A. paid to PKN ORLEN the amount of PLN 45,716 thousand, as a partial return of the original amount paid by PKN ORLEN S.A due to the sentence of Court of Appeals in Warsaw dated 10 September 2009.
The hearings were conducted on 30 April 2012 and 19 November 2012. The District Court decided that an expert has to give an opinion regarding the case. Once the opinion is issued, the new hearing date will be announced.

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

In 2004 the District Court in Warsaw summoned PKN ORLEN as a co-defendant in a court case PSE – Operator S.A. (legal successor of PGE Polska Grupa Energetyczna S.A., former Polskie Sieci Elektroenergetyczne) against ENERGA – OPERATOR S.A.
In March 2008 the District Court in Warsaw pronounced its verdict according to which ENERGA – OPERATOR S.A. is to pay PSE the amount of PLN 62,514 thousand with interest and the amount of PLN 143 thousand as a refund of proceedings costs. ENERGA - OPERATOR S.A. appealed against the above verdict. Based on the legal opinion of an independent expert PKN ORLEN did not appeal. In its sentence dated 19 March 2009 the Court of Appeals declined the appeal of ENERGA-OPERATOR S.A. against the verdict of the first instance Court that sentenced the specified amount. The defendant submitted an annulment which on 5 February 2010 was accepted for recognition by the Supreme Court.

In its sentence dated 26 March 2010 the Supreme Court repealed the sentence and revoked it to reexamination by the Court of Appeals in Warsaw.
On 21 September 2011 the Court of Appeals pronounced its verdict, according to which claims of PSE – Operator S.A. were overruled, the plantiff was requested to refund proceedings costs to the defendant and return PLN 122,000 thousand to ENERGA - OPERATOR S.A.
The Companies PSE Operator S.A. and ENERGA - OPERATOR S.A. submitted cassations to Supreme Court.
On 11 January 2013 the Supreme Court issued a sentence, in which revokes the appeal of ENERGA OPERATOR S.A., partially agrees to the appeal of PSE Operator, revokes the previous sentence and passes the case back to the Appeal Court for reexamination, which should include the statement of the cassation costs.
The Court ruling does not result in liabilities directly on the side of PKN ORLEN, as PKN ORLEN acts only as an outside intervener in the case, but it may influence other court decisions in ENERGA OPERATOR S.A.'s claims against PKN ORLEN described above.

– Compensation due to compulsory buy-out of non-controlling interest in PARAMO a.s.

The Company UNIPETROL a.s. is a party in a proceeding initiated in 2009 by former non-controlling shareholders of PARAMO a.s. and concerns change in compensation received due to losses incurred on squeeze out performed by UNIPETROL a.s. in 2009. The claim concerns the difference between officially approved price of PARAMO a.s. shares as at the date to buy – out amouting to CZK 977 per share, and the requested by shareholders price ranging from CZK 1800 to CZK 3200 per share. The total amount of the claim is approximately no more than PLN 49,552 thousand at average exchange rate as at 31 December 2012 (representing approximately CZK 304,000 thousand). UNIPETROL a.s. considers the above described claims of former shareholders of PARAMO a.s. as ungrounded.
The Court confirmed, that PARAMO a.s. shareholders metting's resolution regarding the share buyout is fully valid and effective. Two plaintiffs appealed from the sentence to the Supreme Court in the Czech Republic. The claim will be considered only if the Supreme Court recognizes an important law issue in the case.

– I.P. – 95 s.ro. compensation claim against UNIPETROL RPA s.r.o.

On 23 May 2012, UNIPETROL RPA s.r.o. received from the Regional Court in Ostrava a claim brought by I.P.-95 s.r.o. for compensation in the total amount of approximately PLN 291,535 thousand, translated using the exchange rate from 31 December 2012 (equivalent of CZK 1,788,559 thousand). The claim is related to the filing by UNIPETROL RPA s.r.o. motion for bankruptcy of I.P.-95 s.r.o. in November 2009. UNIPETROL RPA s.r.o. is one of the eight defendants against which the claim was brought.
According to the UNIPETROL RPA s.r.o the I.P.-95 s.r.o.'s claim is groundless. The case is being heard in the Regional Court in Ostrava. The parties are waiting for the date of the first hearing.

2.7.2 Court proceedings in which entities of the Capital Group act as plaintiff

– Arbitration proceedings against Yukos International UK B.V.

On 15 July 2009 PKN ORLEN submitted in the Court of Arbitration by the International Chamber of Commerce in London the request for arbitration proceedings against Yukos International UK B.V., seated in the Netherlands, in connection with purchase transaction of AB ORLEN Lietuva (previously AB Mazeikiu Nafta) shares. Claims of PKN ORLEN concern inconsistency of Yukos International's statements with the actual state of AB ORLEN Lietuva at the closing date of the purchase of AB ORLEN Lietuva shares by PKN ORLEN. Demands of PKN ORLEN concern reimbursement of the amount of approximately PLN 774,900 thousand at exchange rate as at 31 December 2012 (representing USD 250,000 thousand), deposited in the escrow account as a part of the payment for AB ORLEN Lietuva shares in order to secure the potential claims of PKN ORLEN towards Yukos International.
On 14 September 2009 Yukos International submitted a response to PKN ORLEN's request for arbitration proceedings. In its response Yukos International appealed to dismiss all PKN ORLEN's claims and adjudge it with proceeding costs refund.
On the first seating of the arbitration court in London, PKN ORLEN and Yukos International agreed i.a. proceedings schedule and extent of competence of the Arbitration Court. On 3 May 2010, according to the schedule PKN ORLEN issued a law suit in which it demands from Yukos International a reimbursement of approximately PLN 774,900 thousand at exchange rate as at 31 December 2012 (representing USD 250,000 thousand) with interest and costs of proceedings. On 31 December 2010 Yukos International submitted a response to the law suit, in which PKN ORLEN's claim was considered as unjustified and appealed for dismissal of all claims and for refund of proceeding costs. On 11 July 2011 PKN ORLEN pleaded the surrebutter in which replied to Yukos International arguments. Between 28 November and 8 December 2011 an evidentiary

seating in front of the Court of Arbitration was held in London, during which representatives of PKN ORLEN and Yukos International summed up the opinions of the parties, witnesses have been heared and experts have been appointed by the parties.
At the closing of the seating the Court of Arbitration obliged the parties to submit final pleadings and proceeding costs refund in March and April 2012.
On 29 February 2012 PKN ORLEN submitted final pleading. Yukos International submitted as well the pleading. On 30 March 2012 PKN ORLEN and Yukos International submitted the response to the above-mentioned pleadings. On 13 and 27 April 2012 the parties submitted motions for the proceeding cost refund. After the submission of above mentioned pleadings, PKN ORLEN is expecting for the final decision of the Court of Arbitration.

– Compensations due to property damages

Rafineria Trzebinia S.A. acts as a plaintiff in the proceedings held by District Court in Cracow concerning abuses associated with the realization of investment in installation for the estherification of biodiesel oil, on which Rafineria Trzebinia S.A. claims to incur a loss of approximately PLN 79,000 thousand. The indictment in this case was raised in December 2010. The Company issued a motion to the court requesting to oblige the defendant to repair the incurred damages. The claim is being heard in first instance court. On 12 February 2013 the Court discharged the proceedings. The Company complained about the Court's decision, the complaint has not been recognised by the court yet.

AB Orlen Lietuva is a plaintiff in the compensation proceeding against RESORT MARITIME SA, The London Steamship Owners' Mutual Insurance Association Limited, Sigma Tankers Inc., Cardiff Maritime Inc., Heidenreich Marine, Heidenreich Maritime Inc. and Heidmar Inc. due to losses incurred during the accident in Butinge Terminal (the tanker ship hit a terminal buoy) on 29 December 2005. The total compensation claim amounts to approximately PLN 71,040 thousand at exchange rate as at 31 December 2012 (representing approximately LTL 60,000 thousand). The proceedings is held in I instance in front of district court in Klajpeda.

– Tax proceedings

UNIPETROL RPA s.r.o., acting as a legal successor of CHEMOPETROL a.s., was a party in a tax proceeding related to validity of investment tax relief for 2005. UNIPETROL RPA s.r.o. claims the return of income tax paid for 2006 and 2005 by CHEMOPETROL a.s. The claim concerns unused investment relief attributable to CHEMOPETROL a.s. The total value of claim amounts to approximately PLN 52,975 thousand translated using exchange rate as at 31 December 2012 (representing approximately CZK 325,000 thousand).

– Arbitration proceedings against Basell Europe Holding B.V.

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

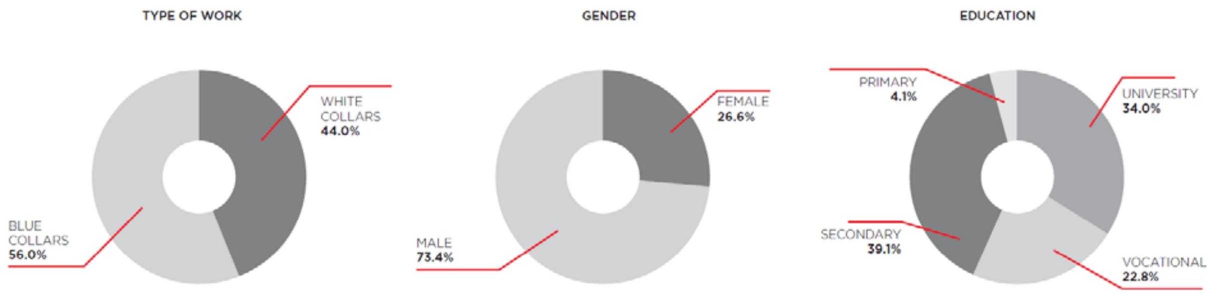
2.8 Significant transactions concluded on other than arms-length terms

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

2.9 Employment, policy and personnel programmes implemented within the ORLEN Group

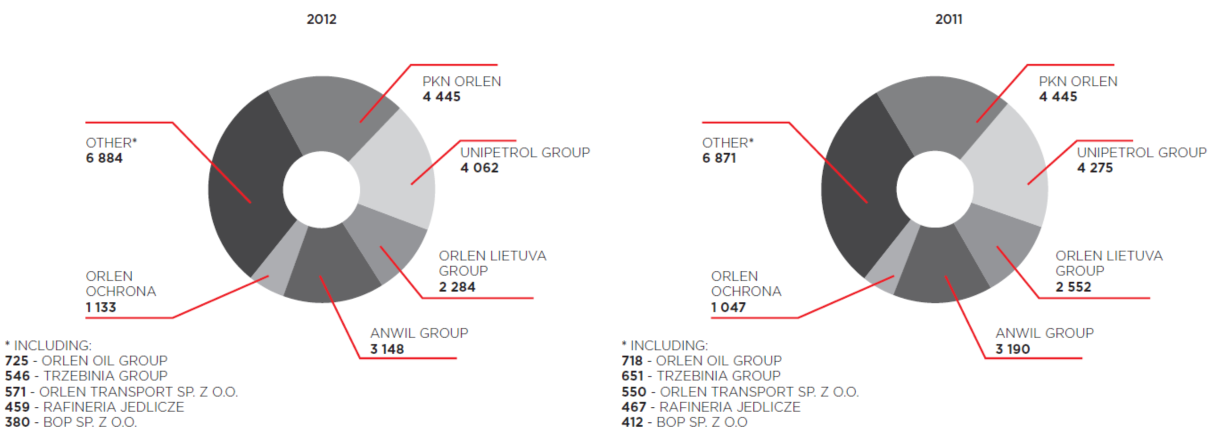
In 2012, the employment policy in the ORLEN Group was focused on two key aspects. The first was related to restructuring processes within ORLEN Lietuva Group, Unipetrol Group and Trzebinia Group. As a result of restructuring processes carried out in the above units, the employment in the ORLEN Group decreased by 586 persons (y/y). Another element is the acquisition of relevant human resources in connection with the development of individual companies, including the intensified activities in the upstream segment in ORLEN Upstream as well as the increased share in the domestic (acquisition of new contacts by ORLEN Transport Sp. z o.o. and ORLEN Wir Sp. z o.o.) and foreign market (establishment of ORLEN Apsauga UAB in Lithuania).

DIAGRAM 1. Employment structure in the ORLEN Group in professional groups in the year 2012.



As at the end of 2012 in ORLEN Group the total employment amounted to 21,956 persons. The employment in the biggest entities of ORLEN Group is disclosed on the below diagram.

DIAGRAM 2. Employment as at the end of 2012 and 2011 in ORLEN Group companies.



Recruitment policy

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

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

Personnel policy („HR")

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

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

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

HR functions development

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

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

Development and trainings

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

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

Student and internship programmes

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

Apart from traineeship or internship programmes, the following educational and informative activities were targeted at pupils and students in 2012:

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

Social dialogue and benefits

The rules of social dialogue applicable in PKN ORLEN are based on the internal regulations and on commonly applicable provisions of law. The role of an open social dialogue and its basic institutional forms is important in the course of the complex HR processes in the ORLEN Group companies, enabling to build constructive and firm solutions in cooperation with the employees' representatives.

Being a responsible employer, the ORLEN Group provides its employees with social support in the form of various benefits and allowances, e.g. granting additional funds for holiday or stay in health resorts, rehabilitation, child care, recreation and sport activities, and offering cultural and educational activities, non-reimbursable allowances, returnable housing loans, and purchase of Christmas food and toys or gift retail certificates for the employees' kids.

Awards and certificates

Personnel policy and practices were surveyed by independent organisations. Basic benefits, additional benefits, working conditions, trainings and development, professional career development and the company's organisational culture management were analysed. The surveys and assessments resulted in the following distinctions:

- "Top Employers 2012" certificate – awarded by the Corporate Research Foundation
- I place in "The most desired employers of 2012 in the opinion of experts and managers" ranking in the category of: power industry, fuels and gas – III edition of Antal International survey
- the title of the "Reliable Employer in the category – upstream industry" awarded by the Chapter of the III edition of the Reliable Employer Competition.

2.10 Remunerations of management and supervisory bodies

TABLE 14. Remuneration paid to the Company's Management Board Members fulfilling their function in 2012 and in previous years (in PLN thousand).

ITEM	2012	2011
Remuneration of Members of the Company's Management Board, including:		
- remuneration and other benefits	6 454	6 498
Dariusz Krawiec	1 666	1 524
Sławomir Jędrzejczyk	1 404	1 404
Piotr Chełmiński 1)	951	-
Wojciech Kotlarek 2)	-	549
Krystian Pater	1 104	1 015
Grażyna Piotrowska-Oliwa 3)	240	555
Marek Podstawa 4)	871	-
Marek Serafin 5)	-	1 381
Piotr Wielowieyski 6)	218	70
- bonuses for prior year	4 186	5 454
Dariusz Krawiec	1 440	1 440
Sławomir Jędrzejczyk	1 320	1 320
Wojciech Kotlarek	-	756
Krystian Pater	910	798
Grażyna Piotrowska-Oliwa	516	-
Marek Serafin	-	1 140
Remuneration of Members of the Company's Management Board holding functions in prior years, including:	862	-
Wojciech Kotlarek	292	-
Marek Serafin 7)	570	-
Total:	11 502	11 952

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

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

TABLE 15. Bonuses potentially due to the Company's Management Board Members for a given year to be paid in the next year (PLN thousands).

ITEM	2012	2011
Dariusz Krawiec	1 440	1 440
Sławomir Jędrzejczyk	1 320	1 320
Piotr Chełmiński	918	-
Wojciech Kotlarek	-	374
Krystian Pater	1 020	910

Marek Podstawa	801	-
Grażyna Piotrowska-Oliwa	219	516
Marek Serafin	-	900
Total:	5 718	5 460

The amount of bonuses was estimated assuming full accomplishment of the bonus goals by the Management Board Members for 2012.

TABLE 16. Remuneration of other key executive personnel of the ORLEN Group (PLN thousands).

ITEM	2012	2011
Remuneration and other benefits of members of key executive personnel:		
- other key executive personnel of the Company	31 023	32 762
- key executive personnel of the subsidiaries of the ORLEN Group	151 416	146 253
Total:	182 439	179 015

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

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

Following January 2012, the Rules for MBO bonuses to key executive personnel members in the ORLEN Group have been restated. Implemented changes were implemented in order to increase flexibility and motivate capability of a system.

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

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

TABLE 17. Remuneration of the Members of the Supervisory Board of PKN ORLEN (PLN thousands).

	2012	2011
Remuneration of the Company's Supervisory Board members, including:		
Cezary Banasiński [1)]	145	-
Paweł Białek [2)]	88	-
Grzegorz Borowiec	149	143
Artur Gabor	150	143
Michał Gołębiowski [3)]	145	-
Marek Karabuła [4)]	36	143
Krzysztof Kołach [5)]	4	143
Maciej Mataczyński	191	184

Leszek Pawłowicz	153	146
Angelina Sarota	149	143
Piotr Wielowieyski [6)]	8	133
Janusz Zieliński [7)]	4	144
Total:	1 222	1 322

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

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

According to agreements with Members of PKN ORLEN Management Board, Management Board Members are obliged to obey a non-competition clause for 6 or 12 months, starting from the date of termination or expiration of the contract. In the period Members of the Management Board are entitled to receive remuneration in amount of six or twelve basic monthly remuneration, paid in equal monthly installments. Furthermore, contracts include remuneration payments in case of dissolution of the contract because of dismissal from the position held. Remuneration amounts, then, to six or twelve basic monthly remuneration.
In case of other companies of the ORLEN Group's Members of the Management Board by standards are obliged to obey a non-completion clause for 6 months, starting from the date of termination or expiration of the contract. In the period Members of the Management Board are entitled to receive remuneration in amount of 50% of six basic monthly remuneration, paid in six equal monthly installments. Furthermore, remuneration payments in amount of three or six basic monthly remuneration are due in case of dissolution of the contract because of dismissal from the position held.

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

3. ORLEN GROUP ACTIVITIES

3.1 Introduction

The ORLEN Group's refining assets represent 80% of the total production capacity in Poland, Czech Republic, Lithuania, Latvia and Estonia. ORLEN Group manages the complex of 6 refineries located in Poland (Plock, Trzebinia, Jedlicze), in Lithuania (Mazeikiu) and in the Czech Republic (Litvinow, Kralupy).
ORLEN Group is also leader in fuel sales in Poland and in Lithuania with strong position in the Czech Republic, Slovakia and Ukraine.

The core products sold by the ORLEN Group include:
– refining segment products: gasoline, diesel oils, light heating oil, Jet A-1 fuel, liquid gas, heavy heating oil,
– petrochemical segment products: ethylene, propylene, polyethylene, polypropylene, terephthalic acid, benzene, butadiene, acetone, phenol, glycols, toluene, orthoxylene, paraxylene, PVC, PVC granulate, ammonium nitrate, caustic soda, soda lye.

SCHEME 3. Core refinery assets in the region.

Refinery Type	Refineries in ORLEN Group	The closest competitor refineries
Supersite – strategic, large scale competitive assets often integrated with petrochemical operations.	▪ Plock	▪ none
(Gold) – very high quality, complex assets with the potential to make very good returns, often in an advantaged location.	▪ none	▪ Schwedt ▪ Leuna ▪ Bratislava ▪ Duna
(Silver) - less complex assets capable of making adequate returns. Owners would like to upgrade them to Gold sites but have few economic opportunities.	▪ Mazeikiu ▪ Litvinov	▪ Gdansk ▪ Schwechat ▪ Bayernoil
(Niche) - sites which support petrochemical operations, manufacture speciality products, or have niche markets.	▪ Kralupy	▪ Ingolstadt
(Speciality) - Sites where the majority of production is speciality products such as lubricants or bitumen.	▪ Paramo	▪ none

3.2 ORLEN Group activities in the refining segment

3.2.1 Market trends, ORLEN Group's position and competitors

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

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

As compared to 2011, the ORLEN Group increased the oil processing by 1% (y/y) up to 27.9 million tonnes, the use of processing capacity and fuels yield increased by 1 percentage point (y/y) up to the level of: 90% and 77%, respectively.

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

The southern refineries (Trzebinia, Jedlicze) specialise in providing services related to fuel storage and distribution, bio-component production, oil bases, heating oils and waste oil regeneration.

The Mazeikiu Refinery is the only one refinery in the Baltic States' market (Lithuania, Latvia and Estonia). In 2012 the crude oil processing volume amounted to 8.5 million tonnes. The current production capacity of the Lithuanian refinery materially exceeds the local market demand, therefore AB ORLEN Lietuva may send significant part of products to the European markets and by sea, to the American market.

The crude oil processing in Unipetrol Group since the II half of 2012 is realised solely by refineries in Kralupy and Litvinow in relation to discontinue of processing by Paramo a.s. refinery (Pardubice). In 2012 they processed in aggregate 3.9 million tonnes of crude oil. The Czech market is balanced mainly with its domestic production. Only in the case of aviation fuel, despite a permanent presence of the domestic production, a growing market is being complemented by import.

The main source of raw material supply is the northern and southern lines of "Druhzba" pipeline (Plock and Litvinov, Kralupy) and pipeline IKL (Kralupy). The supplies of crude oil to the Mazeikiu refinery are performed by sea via Butinge terminal.

Trends in fuel consumption on markets operated by the ORLEN Group are presented in point 3.6.3 of the foregoing Management Board Report.

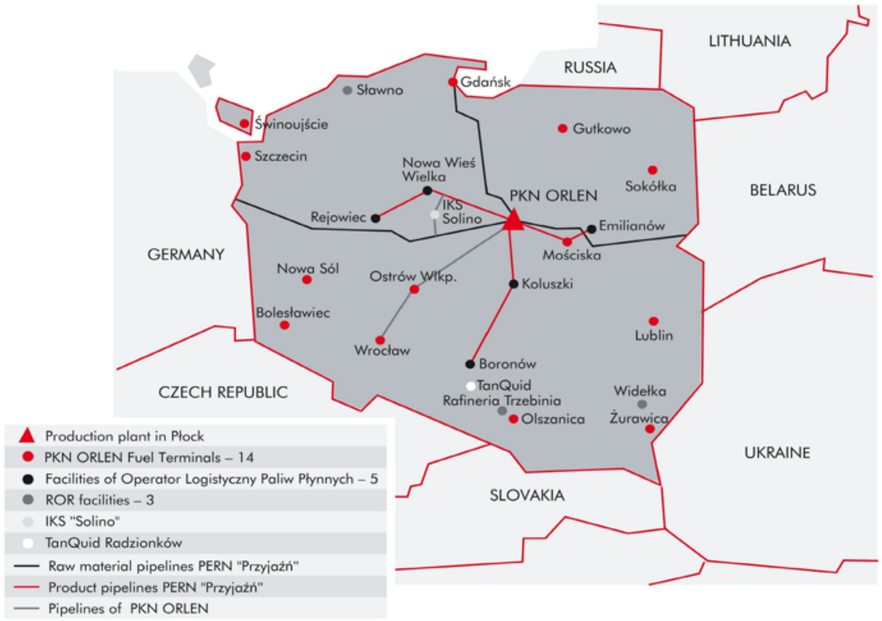
The biggest competitors of the ORLEN Group in the region include the following refineries:

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

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

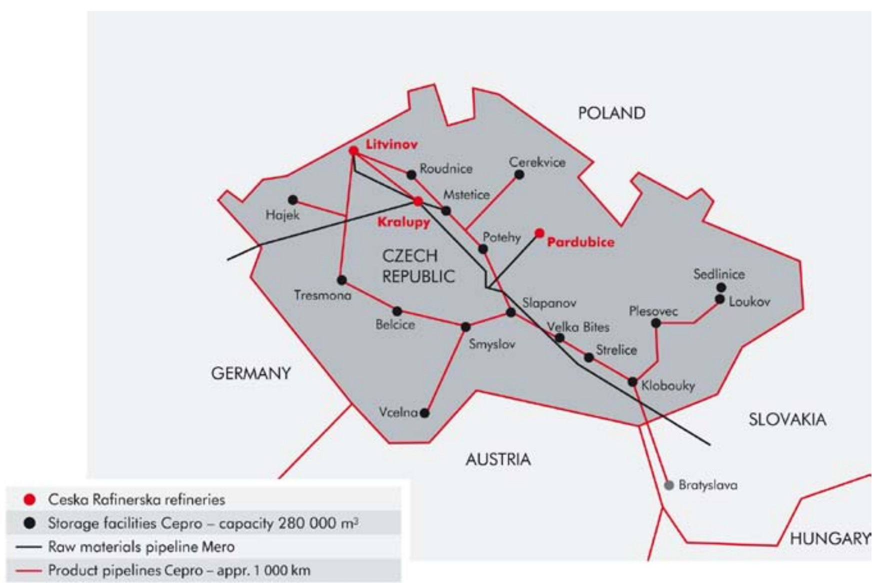
In 2012 the pipeline transport was the basic form of raw material and product transmission for the ORLEN Group. The overall length of pipelines used, including own and leased ones, in Poland, Czech Republic and Lithuania amounted to more than 2.1 thousand km.
On the Polish market PKN ORLEN use 570 km of pipelines owned by Przedsiębiorstwo Eksploatacji Rurociągów Naftowych "Przyjaźń" and its own transportation infrastructure Plock Ostrow Wielkopolski – Wroclaw with a length of 379 km.
For operational purposes of receipt, storage, dispatch and loading of fuels in 2012 ORLEN Group used in aggregate 25 objects in Poland (own fuel terminals and third parties centres). Total storage capacity within own infrastructure and based on concluded agreements amounted to approximately 7 million m^3 at the end of 2012.

SCHEME 4. Logistics infrastructure of ORLEN Group in Poland.



In 2012, on the Czech market, the ORLEN Group used 1,100 km of pipelines, 12 warehouse and distribution centres belonging to the state-owned CEPRO and 2 warehouses leased from third parties.

SCHEME 5. Logistics infrastructure used by the ORLEN Group in the Czech Republic.



In 2012, ORLEN Lietuva refinery continued not to use the "Druzhba" pipeline, which has been out of use since 2006. Within the territory of Lithuania, there is located the section of Samara – Ventspils product pipeline owned by AB ORLEN Lietuva.
In 2012, ORLEN Lietuva signed the long-term contract with Klajpedos Nafta, securing the warehouse capacities for the company's operating needs. The fuels terminal structure was also changed – co-operation with the terminal in Jonava for the benefit of the terminal in Kaunas.

SCHEME 6. Logistics infrastructure, used by the ORLEN Group in Lithuania.

3.2.2 Research and technological development

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

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

In 2012 the research and development work relating to further enhancement of production processes' effectiveness was continued in the ORLEN Lietuva Group refinery. A cyclical overhaul turnaround was used for implementation of 54 large projects, out of which the most important one involved the exchange of cyclones in the reactor on the Fluid Catalytic Cracking installation, which in combination with the internal optimisation of such installation's operation, will affect the increase in fuels yield and reduction in steam and catalyst use. Also, the new cooling system was started up on K-601 column of the Vacuum Distillation Unit installation, which will contribute to the increase in the level of light products yield in summer season and thus will affect the reduced production of the vacuum residue.
Implementation of a number of effectiveness initiatives, including, among others, the assembly of energy-saving flare burners on the installations, reduction of reaction pressure at the production of the arctic diesel oil on the diesel oil desulphurisation installations, upgrade of heat exchangers on the installations and the assembly of soot blowers, directly affected the improvement of the installation energy intensity index.
The construction of the technologically advanced Visbreaker Vacuum Flasher installation was continued, which will ensure larger processing and higher light fractions yields. Moreover, the work over the projects affecting the increase in the products quality, including the Isometrisation Installation, which will increase the octane number of produced gasolines and the Mildhydrocracker Hydrocracking Installation affecting the increased diesel oil production.

The research and development activities of the Unipetrol Group in the refining segment were carried out in cooperation with Výzkumný ústav anorganické chemie a.s. (VUAnCh). The implemented projects aimed to improve and optimise the production processes. The most important work in the above scope included carrying out of the analysis of the possibility of alternative fractions, available from the lubricating agents or vegetable oils, being used on the Fluid Catalytic Cracking installation, and the examination of the possibility of alternative use of cleared oil from such installation.

Subsequent projects related to the analyses of the technological processes and procedure aimed to increase the properties of base oils, collect information on the current state or work and research concerning the potential use of the vacuum distillate from the Hydrocracking and Visbreaking installations as well as the technical data to carry out the pilot test of catalysts in Unipetrol RPA.
ORLEN Oil Sp. z o.o. carried out the research and development work relating to the development of new technologies and update of the currently used technologies in the segment of oils for automotive and industry. A series of comparative tests was carried out in respect of oils for passenger car engines in classes 5W-30, 5W-40 and 10W-40 as regards Fuel Economy and Friction Losses, the technology of oils for passenger car gears in class 75W-80 was developed and the research relating to the development of synthetic oil for air compressors was completed. In the Industry and Trade Oils segment 10 oil technologies were developed and implemented for processing, hardening and for industrial gas engines. 6 new technologies were implemented in the Lubricating Grease segment. Moreover, the programme of obtaining approvals from passenger cars and heavy goods vehicles manufacturers for the Company's products was continued. In 2012, the programme of long-term cooperation with scientific research units was implemented in respect of quality assessments of new products from the user's perspective, development of new technologies and analytical and laboratory cooperation. ORLEN Oil Sp. z o.o. entered into cooperation involving expert support and specialist research with the Poznan University of Technology, Czestochowa University of Technology and GIG Katowice.

In 2012, the research and development programme concerning the use of the atmospheric residue on the vacuum crude oil distillation installation was completed in Rafineria Trzebinia S.A. The received fractions are characterised by high viscosity index and may be used for oil bases production. Moreover, the company carried out work at the adjustment of the installation technological regime to medium distillates production and at reduction of light and heavy fractions yields. In the area of biocomponents, work was carried out at increasing the efficiency of the esters and glycerol production installation. These activities aimed to increase the installation yields, increase the energy effectiveness of the esters drying section as well as to optimise the refining reactor parameters. As part of work continued in 2012, the work relating to the paraffin products production installation was carried out. The construction drawings for that installation and its adaptation to the existing infrastructure were completed. Alongside engineering work, the development work was carried out in respect of new products composed on such installation, including paraffins and waxes used in tyre, gum, candle and agricultural industry.

In 2012, the research and development project was implemented in Rafineria Nafty Jedlicze S.A., which aimed to prepare the effective used oil purification process, due to the observed deterioration of properties of waste oils referred to regeneration. The attempt was made at identifying the pollution and developing the criteria for waste oil segregation.
In 2012, the technical and economic assumptions were prepared for the project involving the upgrade of the Used Oils Distillation installation ("UOD") in respect of the energy intensity improvement. In cooperation with a subsidiary, RAF-Bit Sp. z o.o., the company developed the new operation planning and production calculation system based on SAP platform, working with the standard SAP modules (MM, SD, CO). Moreover, the work over the Metalworking project was continued and connected, among others, with the development of the method of assessment of used oils chemical composition and the criteria for such oils being qualified for production, research in respect of technology of production of oil bases from waste oils and the development of the experimental technology of production of light fraction from the domestic oil.

The ORLEN Group satisfies the requirements of the REACH Programme (Registration, Evaluation and Authorisation of Chemicals) as according to resolution (UE) 1907/2006 of European Parliament and European Union Council, which is designated to replace selected chemical substances with their safer substitutes. As a part of a programme, producers of chemical substances are obliged to register chemicals used in the production process and to present the information on their characteristics. As at 31 December 2012, the base of the European Chemicals Agency contained 231 substances for which the ORLEN Group submitted the registry documents, including 79 substances registered by PKN ORLEN.

3.2.3 Basic products and merchandise

The sales of the refining segment was lower in 2012 by (-) 2.0% (y/y) and amounted to 22,583 thousand tonnes, which represents 64.0% of total sales of the ORLEN Group. The decreased sales of light and middle distillates was due to deterioration of the market trends in relation to fuel consumption and increase of numbers of companies acting in the so called shadow economy. Fuels included in light and medium distillates covered 66.8% of sales of ORLEN Group segment. In relation to light distillates, sales of LPG increased significantly and was achieved due to continued prosperity on the LPG market. High level of sales of heavy fractions was a result of higher sales of oils and heavy heating oil.

TABLE 18. Assortment structure of sales of the ORLEN Group (in PLN thousands/thousands of tonnes).

SALES	2012		2011		CHANGE %	
	VALUE	VOLUME	VALUE	VOLUME		
1	2	3	4	5	6=(2-4)/4	7=(3-5)/5
Refining Segment						
Light distillates[1)]	17 239 314	5 124	15 620 177	5 297	10.4%	-3.3%
Medium distillates[2)]	33 780 664	9 957	31 598 963	10 298	6.9%	-3.3%
Heavy fractions[3)]	9 602 317	4 555	8 354 655	4 487	14.9%	1.5%
Other[4)]	5 252 605	2 947	2 901 813	2 951	81.0%	-0.1%
Total	65 874 900	22 583	58 475 608	23 033	12.7%	-2.0%

1) Gasolines, LPG.
2) Diesel oil, light heating oil, Jet A-1.

3) Heavy heating oil, asphalt, oils.
4) Other – covers sales of other products, merchandise and materials of the segment, includes also revenues from sales of mandatory reserves for total amount of PLN 2,433,988 thousand and revenues from sales of services of the segment. Other volume- contains mainly brine, industrial salt and vacuum distillates

In 2012 and 2011 no leading external customers were identified in the ORLEN Group, whose share in total sales revenues would exceed 10%.

DIAGRAM 3. Assortment structure of sales revenue of the ORLEN Group in 2012 – 2011.

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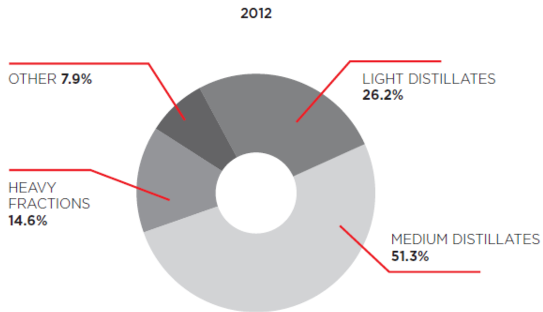
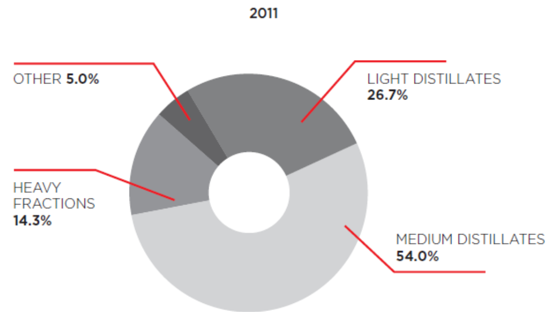




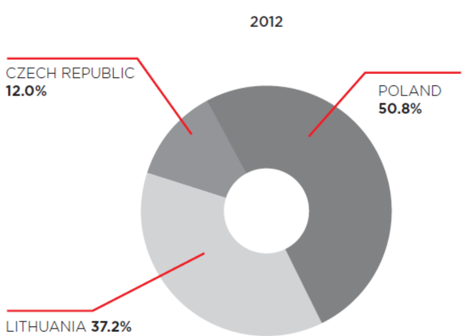
3.2.4 Markets

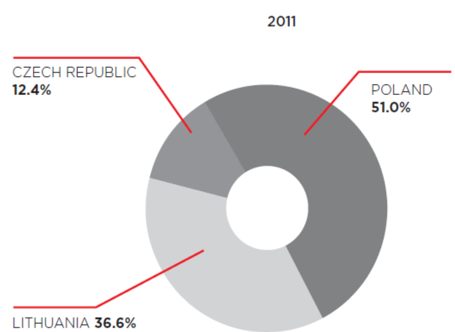
Wholesale activities of the ORLEN Group are carried out through units selling refining products in Poland, as well as foreign companies such as Unipetrol Slovensko s.r.o., Unipetrol RPA s.r.o. and Paramo a.s. (Czech Republic), and AB ORLEN Lietuva and UAB Mezeikiu naftos prekybos namai (Lithuania). In 2012, the ORLEN Group's wholesale of the refining products mainly covered the territory of Poland, the Czech Republic, Germany, Slovakia, Lithuania, Latvia, Estonia and Ukraine and by sea, mostly to the US, Canadian and African markets, as well as loading terminals in the Western Europe.

TABLE 19. Assortment structure of sales volume on domestic markets of the ORLEN Group (in thousands of tonnes).

SALES	2012	2011	CHANGE	CHANGE %
1	2	3	4=(2-3)	5=(2-3)/3
Markets				
Poland	11 479	11 741	-262	-2.2%
Lithuania	8 402	8 440	-38	-0.5%
Czech Republic	2 702	2 852	-150	-5.3%
Total	22 583	23 033	-450	-2.0%

DIAGRAM 4. Structure of sales volume of the ORLEN Group on target markets.





Polish market

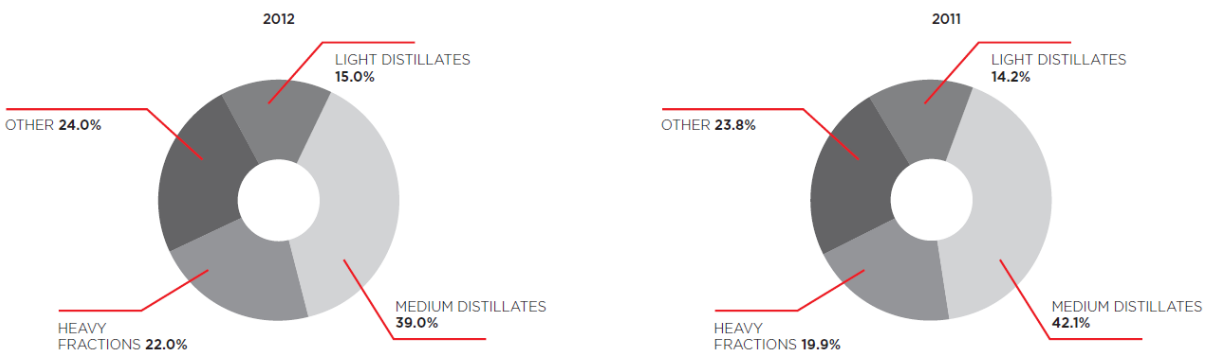
In 2012, the deterioration of the majority of macroeconomic indicators and the situation on the fuel market was observed in Poland, as compared to 2011. The GBP dynamics was lower than expected, according to the information of the Energy Market Agency, also, the gasolines consumption dropped by (-) 5.2% (y/y). The long-standing upward trend in respect of diesel oil consumption broke down and the diesel oil sale

dropped by (-) 8.8% (y/y). The drop in consumption was due to the deteriorating economic situation in construction and transport industry and the takeover of part of volume by the companies operating in the so called "shadow economy". Also, the fuels import diminished significantly in the traditional and official distribution channels.
The above factors influenced significantly the decrease of sales of medium distillates by (-) 9.5% (y/y) in relation to diesel oil and light heating oil. Year 2012 was in turn the year of further increase of Jet A-1 sales, which reflects the strengthening of ORLEN Group position in this fuel segment.
Significant increase in sales of LPG, with decreasing sales in gasoline resulting from decrease in consumption, contributed to improved sales of light distillated by 2.7% (y/y). Prosperity on LPG market was an effect of search for cheaper substitutes of fuels by the customers in situation of increasing retail prices of liquid fuels.
Increase in sales of heavy fractions resulted from active trading policy of ORLEN Oil Sp. z o.o., which influences the sales of oils and increased sales of heavy heating oil due to technical problems with vacuum pillar on TTD II installation in PKN ORLEN .

TABLE 20. Assortment structure of sales volume on the Polish market (in thousands of tonnes).

SALES	2012	2011	CHANGE	CHANGE %
1	2	3	4=(2-3)	5=(2-3)/3
Polish market				
Light distillates	1 717	1 672	45	2.7%
Medium distillates	4 474	4 942	-468	-9.5%
Heavy fractions	2 520	2 339	181	7.7%
Other	2 768	2 788	-20	-0.7%
Total	11 479	11 741	-262	-2.2%

DIAGRAM 5. Sales volume structure in 2012 and 2011 in Refining Segment on the Polish market.



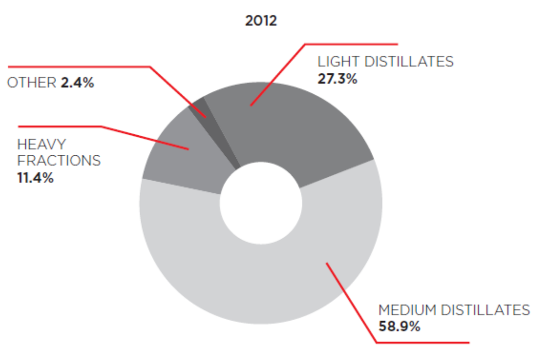
Czech market

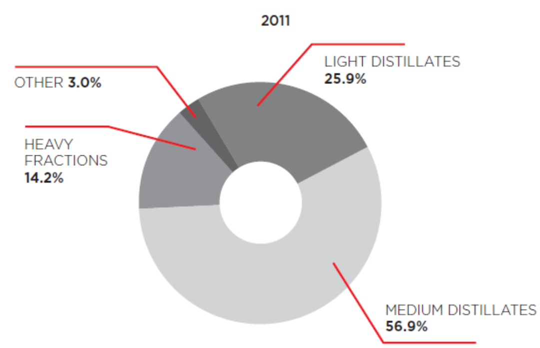
In 2012, the Czech fuel market was adversely affected by the macroeconomic environment. The business struggle was escalated by illegal fuels import from Germany, Slovenia and Austria. The share of the so called "shadow economy" in import to the Czech Republic was assessed to amount to 20-25% of the entire volume of the Czech foreign purchase. The unfavourable market situation was additionally deteriorated by the price war in the retail segment, which contributed to significant decrease in margins and sales volume. These factors deepened the downward trend, progressing for several years, in respect of gasolines consumption and resulted in the decrease of such fuel consumption by (-) 5.8% (y/y). Diesel oil consumption increased insignificantly by 0.3% (y/y).
Despite the difficult market environment, the sales volume of light and medium distillates was completed on the previous year level. Slight decrease in medium distillates sales, apart from being impacted by market factors, is also due to completion of production by Paramo refinery following the II quarter of 2012. From then on the infrastructure in Pardubice is used solely as the warehousing terminal.
In 2012, the cooperation with key fuel companies, independent wholesalers and retail chains was tightened. Unipetrol a.s. concluded contracts for the exclusive fuel supply with all hypermarket chains operating on the Czech market. Export to the markets of neighbouring countries, in particular Slovakia, was also developed. In the IV quarter of 2012, fuels from the refinery in Livinov commenced to be supplied to the chain of fuel stations of the ORLEN Group in Germany. The available warehousing and distribution network was also expanded, adding warehouses in Domazlice, Horovice and Pardubice and the terminal in Nové Zámky in Slovakia to the terminals in the refineries and Cepro network used until then.

TABLE 21. Assortment structure of sales volume on the Czech market (in thousands of tonnes).

SALES	2012	2011	CHANGE	CHANGE %
1	2	3	4=(2-3)	5=(2-3)/3
Czech market				
Light distillates	738	738	0	0.0%
Medium distillates	1 592	1 622	-30	-1.8%
Heavy fractions	308	406	-98	-24.1%
Other	64	86	-22	-25.6%
Total	2 702	2 852	-150	-5.3%

DIAGRAM 6. Structure of sales volume in 2012 and 2011 in Refining Segment on the Czech market.





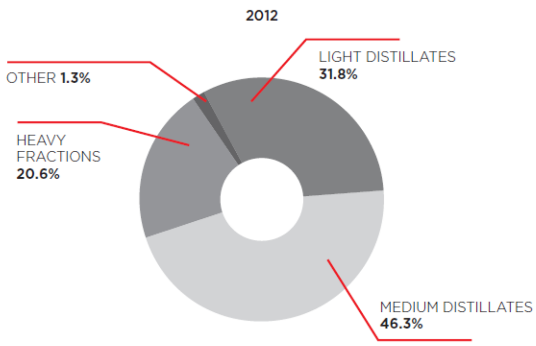
Markets serviced by ORLEN Lietuva

The traditional sales channels include inland markets: Lithuanian, Latvian, Estonian, and Ukrainian, where approximately 40% of the refinery production is located as well as seaborne markets, where approximately 60% of production is sold.
On inland markets, the ORLEN Lietuva Group maintains the established position of the largest supplier of the highest quality fuel products. The year 2012 was another difficult year in terms of sales of gasolines, consumption of which on the Lithuanian market decreased by (-) 9.8% (y/y). Positive trends were observed in respect of diesel oil consumption, which increased by 6.6% (y/y).
In 2012, ORLEN Lietuva achieved a similar sales volume level (y/y), despite the adverse effect of the periodical overhaul turnaround. The increase by 2.1 pp. (y/y) of light distillates share in the sale structure, with the diminishing light distillates share, resulted primarily from market trends concerning fuels consumption.
ORLEN Lietuva, apart from operating on Baltic countries and seaborne markets, developed the sales of gasolines, diesel oil and Jet A-1 on the Ukrainian market. As in previous years, ORLEN Lietuva sold on seaborne markets 92 US gasoline, diesel oil and heavy heating oil, which were finally placed on American, Canadian and African markets and in the loading centres of western Europe. In the end of 2012 short-term contracts were executed (sea and inland) for the year 2013, ensuring the sustainable sales at the level of approximately 70% of the refining production.

TABLE 22. Assortment structure of sales volume on the Lithuanian market (in thousands of tonnes).

SALES	2012	2011	CHANGE	CHANGE %
1	2	3	4=(2-3)	5=(2-3)/3
ORLEN Lietuva market				
Light distillates	2 669	2 887	-218	-7.6%
Medium distillates	3 891	3 734	157	4.2%
Heavy fractions	1 727	1 742	-15	-0.9%
Other	115	77	38	49.4%
Total	8 402	8 440	-38	-0.5%

DIAGRAM 7. Structure of sales volume in 2012 and 2011 in Refining Segment on the ORLEN Lietuva Group market.



3.2.5 Sources of supply

In 2012 three contracts to supply oil to the Plock refinery (executed with Mercuria Energy Trading S.A. and Souz Petrolium S.A.) were in force. Each contract provides the possibility to re-negotiate prices annually; in case of no agreement on this matter, the contract may be terminated. The contracts are fixed-term contracts which ensures safety and continuity of raw material supply to the refinery plant and contain supply guarantee clauses based on financial guarantees. In February 2013, PKN ORLEN executed another long-term contract with a Russian oil and gas company, Rosneft Oil Company. The contract is in force and effect until 31 January 2016 and provides for the supply of nearly 18 million tonnes of REBCO crude oil through "Druzhba" pipeline as well as the possibility of the alternative supply by sea to Gdansk. Contract with Rosneft Oil Company and the applicable contracts with Mercuria Energy Trading and Souz Petrolium ensure PKN ORLEN almost 80% of crude oil supplies under long-term contracts.

Additionally, PKN ORLEN supplies crude oil to three ORLEN Group refineries located in Litvinov and Kralupy in the Czech Republic and in Mazeikiu in Lithuania. In 2012 crude oil supplies to all destinations were performed as scheduled.

Under the contracts signed in 2012, raw material was mainly supplied to the Plock refinery by companies operating on the Russian crude oil market and traders operating on the international crude oil market. Consequently, the REBCO crude oil, which PKN ORLEN acquired in 2012, was supplied to Plock mostly from Russia and to a small extent from Norway.

The refineries in the Czech Republic are provided both with the REBCO crude oil and crude oils with low sulphur content transported by sea. In 2012 crude oil was supplied from Russia, Azerbaijan, Kazakhstan and Algeria.

Since July 2006 the raw material has been supplied to the Mazeikiu refinery only by sea, through the Buthinga harbour. In 2012 the crude oil acquired for this refinery came exclusively from Russia.

The above crude oil supply destinations did not materially change as compared to 2011.

In 2012, the share of Mercuria Energy Trading S.A. and Souz Petrolium S.A. in crude oil supplies exceeded 10% of the ORLEN Group sales revenues for each company individually and amounted to 27.9% of the total sales revenues.

3.3 ORLEN Group operations in the retail segment

3.3.1 Market trends, ORLEN Group's position and market environment

The year 2012 was another one when further consolidation of retail sale was observed. Companies, whose market shares were low and who lacked other refinery assets increasing the effectiveness of conducted operations and balancing the impact of low fuel margins, withdrew from the market.
In 2012, retail chains operators continued to optimise sale processes. Results of fuel and non-fuel operations were maximised through adjustment to changes in infrastructure, partnership with FMCG store chains and implementation of new store formats complying with the consumers' expectations. Moreover, operators launched new assets onto the market, including unmanned fuel stations and stations for heavy goods vehicle.
The retail market in the Central and Eastern Europe, similarly to the wholesale market, is strongly determined by the consumption level materially affected by the observed economic slowdown, increase in fuel prices as a result of high crude oil prices and increase of the so called "shadow economy" causing the imbalance.
The structure of fuel stations chains has also changed recently. In Central and Eastern Europe, approximately 24.5 thousand fuel stations are currently operating on the markets of the ORLEN Group's business operations. Their number has not changed for several years, however, the number of independent stations, which commence to cooperate with large international chains, is decreasing. Moreover, the stable growth of

the share of hypermarket fuel stations sale (approximately 530 stations within the area of the ORLEN Group's operations) is to be witnessed in Central and Eastern Europe, what exerts additional pressure on traditional operators' activities. It is also expected that the market shares of the so called "non-branded players" will continue to diminish due to the enacted regulations.

The ORLEN Group is a definite fuel market leader in the region, possessing the chain of nearly 2,700 fuel stations operating in the premium and economical segments on Polish, German, Czech and Lithuanian markets.

SCHEME 7. The number of fuel stations on the ORLEN Group target markets.

In Poland, fuel stations operate under the ORLEN brand in the Premium segment and under the BLISKA brand in economical segment, while in the Czech Republic they operate under the brands of Benzina Plus and Benzina respectively and in Lithuania under the brands of ORLEN Lietuva and Ventus. On the German market, fuel stations operate primarily in the economical segment under the STAR brand.

On the Polish market, the ORLEN Group managed the chain of 1,767 fuel stations as at the end of 2012. Loyalty programs and effective non-fuel sale management contributed to the increase in the share in the Polish market of the fuels retail sale by 2 p.p. to the level exceeding 34%. The major market participants include also the international companies such as BP, Shell and Statoil and the Lotos Group.
In 2012, a lot of attention was given to the activities dedicated to the standards of service at fuel stations. They were granted the consumers' award "2012 Service Quality" ORLEN – Leader in the category of fuel stations". ORLEN Meeting Point Stop fuel station in Gdansk won the competition of the Gasoline Station of the Year 2012 organised by Brog Marketing. Consistent implementation of the retail chain development strategy allowed to increase PKN ORLEN's share among 7 largest fuel companies in Poland (associated in POPIHN) up to the level of nearly 50%.

The retail market in Germany is one of the largest and most developed in Europe. Main competitors of ORLEN Deutschland, operating on the German market with the chain of 559 fuel stations, include the international chains such as: Aral, Shell, Esso, Total and Agip. ORLEN Deutschland with the STAR brand is the second company after JET operating in the economical segment. In 2012, the share of the ORLEN Group in the entire German retail market increased by approximately 1 p.p. up to nearly 6%.

The ORLEN Group is the leader on the Czech retail market with 338 fuel stations and the approximate market share of 14%. The main competitors include OMV, Shell, Euro Oil and Lukoil as well as the stations located at hypermarkets. In 2012, Benzina chain continued work over the unmanned fuel stations development (Expres 24) and promotion of Stop Cafe and Stop Cafe Bistro.

The ORLEN Group in Lithuania owns 35 stations and as at the end of 2012 achieved approximately 4% share in the retail sale market. The main competitors in this segment include Lukoil, Statoil and Neste.

3.3.2 Core products, merchandise and services

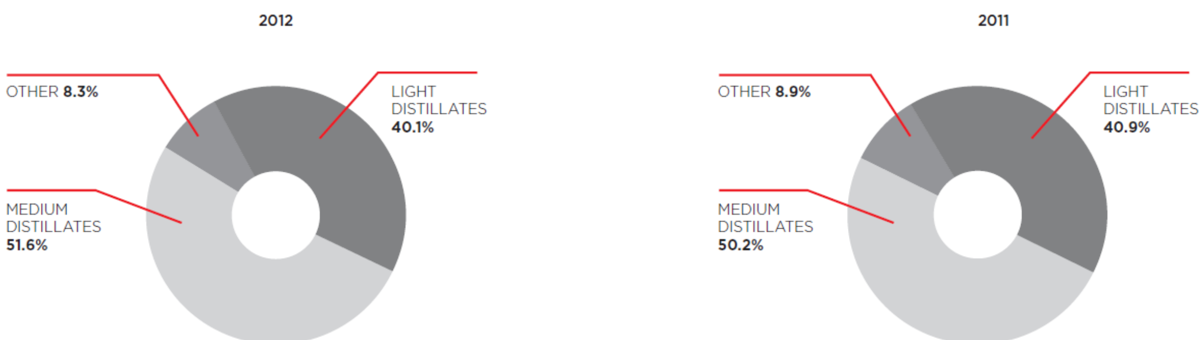
The retail segment sales volume increased in 2012 by 1.7% (y/y) and amounted to 7,467 thousand tonnes. The most significant growth by 2.7% (y/y) was observed in the middle sale distillates sale, primarily as a result of high sales dynamics on the German market.
An important element supporting the segment development was the implementation of the OPENDRIVE fleet programme, what had impact on new international fleet cards acceptance in all chains operating as part of the ORLEN Group.

TABLE 23. Assortment structure of value and sales volume of ORLEN Group (in PLN thousands/thousands of tonnes).

SALES	2012		2011		CHANGE %	
	VALUE	VOLUME	VALUE	VOLUME		
1	2	3	4	5	6=(2-4)/4	7=(3-5)/5
Retail Segment						
Light distillates [1)]	15 289 032	2 881	13 922 875	2 880	9.8%	0.0%
Medium distillates [2)]	19 687 965	4 586	17 079 608	4 465	15.3%	2.7%
Other [3)]	3 164 306	0	3 035 017	0	4.3%	-
Total	38 141 303	7 467	34 037 500	7 345	12.1%	1.7%

1) Gasoline, LPG.
2) Diesel Oil, Light heating oil sold by ORLEN Deutschland
3) Other – includes sales revenues of non-fuel merchandises and services..

DIAGRAM 8. Assortment structure of sales of the ORLEN Group in 2012 – 2011.



3.3.3 Sale markets

Polish market

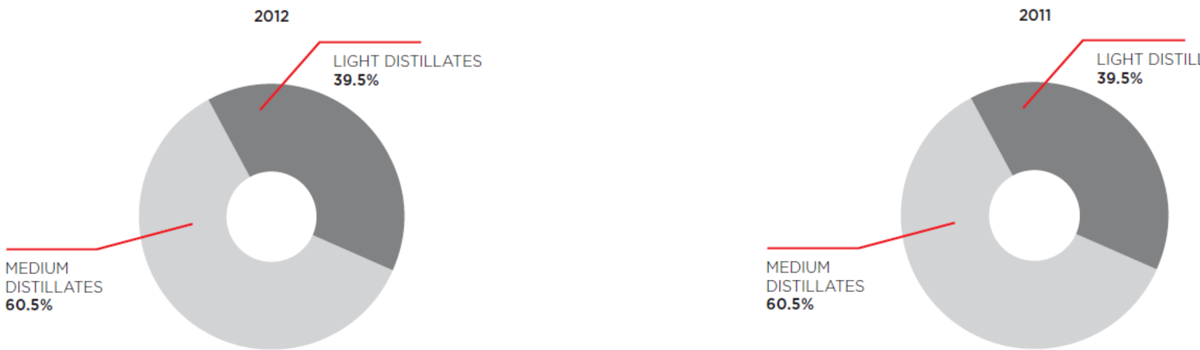
In 2012, the retail chain was expanded by further 11 facilities and comprised 1 767 fuel stations as at the end of 2012. During the year, the brand of 41 fuel stations was changed, for 4 stations the business model was also changed from DOFO to CODO and 35 fuel stations ceased to be used.
The majority of stations (1 077) are premium stations operating under the ORLEN brand. Another 489 facilities are the economical stations operating under the BLISKA brand. The remaining 201 stations operated in the so called simplified format and will be included into one of the above groups or during the future development and investment activities removed from the chain. Franchise stations represent approximately 25% of the chain.

The fuels sales volume in 2012, despite the intensified activities undertaken by competitors and the decreasing fuels consumption, was achieved on the level similar to the one from the previous year and amounted to 4 501 thousand tonnes.
The increased station effectiveness was visible – average monthly sales at own stations exceeded the level of 3.7 million litres and was higher by approximately 2% as compared with 2011. Expanding the possibilities of using fleet cards in paying for highways as well as the fleet website functionality development had a substantial impact on reaching new groups of business customers.

Sales revenues of non-fuel goods and services increased by 2% (y/y). The average non-fuel sales per one PKN ORLEN own station increased by approximately 4% (y/y), with the decline of such sale at other chain stations of the largest fuel companies on the Polish market associated in POPiHN by approximately (-) 3% (y/y).

The year 2012 witnessed further development of food services in PKN ORLEN chain, which also started to appear at franchise stations. The number of Stop Cafe and Stop Cafe Bistro points amounted to 546 and 267 respectively as at the end of 2012, which means the increase (y/y) by 115 and 45 locations. The basic food offer was also implemented on approximately 150 BLISKA stations.

DIAGRAM 9. Structure of PKN ORLEN's sales volume on the Polish market in 2012 and 2011.

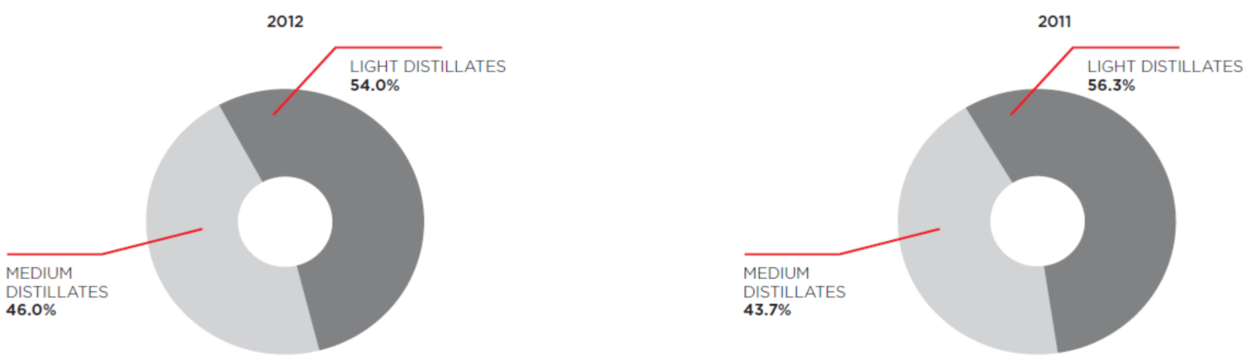


German market

As at 31 December 2012 ORLEN Deutschland GmbH managed the chain of 559 stations, out of which 538 in the economical STAR segment, 20 CITTI and Famila stations located at supermarkets and 1 ORLEN station located in Hamburg.

In 2012, in conditions of declining consumption trends on the German market, ORLEN Deutschland GmbH achieved increase in the fuels sales by 6.5% (y/y) up to the level of 2,484 thousand tonnes. This resulted primarily from the increased sale of medium distillates by more than 10.9% (y/y). Development of the STAR chain included also continued increase in the non-fuel sales and increase in stores turnover by 11% (y/y). Very good results achieved by the stations acquired in 2010 from OMV and systematically included in the chain in 2011 also exerted positive impact on the chain results.

DIAGRAM 10. Structure of ORLEN Deutschland's sales volume on the German market in 2012 and 2011 (without sale of light heating oil).



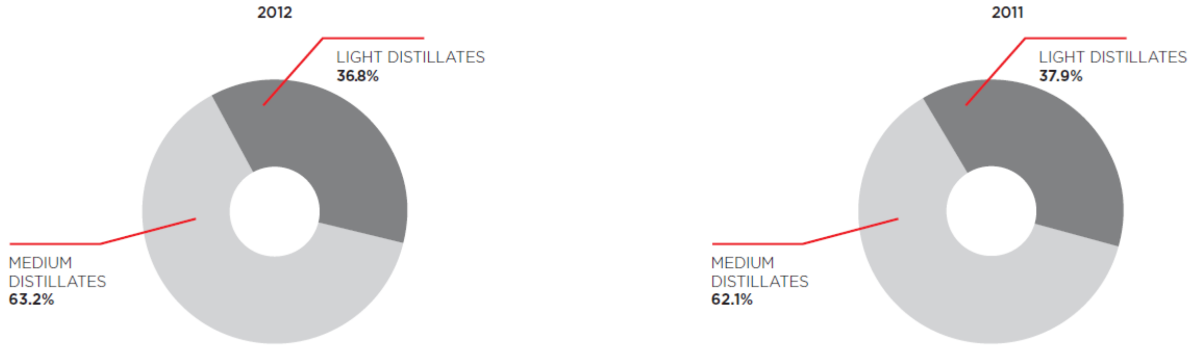
Czech market

As at 31 December 2012, Benzina s.r.o. managed the chain of 338 facilities operating in the Czech Republic under two main brands: Benzina Plus in the premium segment and Benzina in the economical segment. The chain additionally includes 2 unmanned stations (Expres 24), while further increase in the number of stations operating in such format is planned.

The year 2012 was another one when the decrease in the fuel consumption was observed on the Czech market, primarily due to the gasolines sale breakdown. High fuels prices and diminishing earnings in the public sector adversely affected the consumption level. So called "shadow economy" had also negative impact in respect of fuels trading area.
Consequently, the retail sales volume in 2012 decreased by 4.6% as compared with the previous year and amounted to 432 thousand tonnes.

In 2012, Benzina s.r.o. concentrated on catering services development. The brands of Stop Cafe and Stop Cafe Bistro were successfully introduced onto the Czech market – as at the end of 2012, 92 high potential fuel stations operated with the abovementioned catering formats. Such development direction contributed to the increase in the catering service revenues by nearly 11% (y/y).

DIAGRAM 11. Structure of Benzina's sales volume on the Czech market in 2012 and 2011.

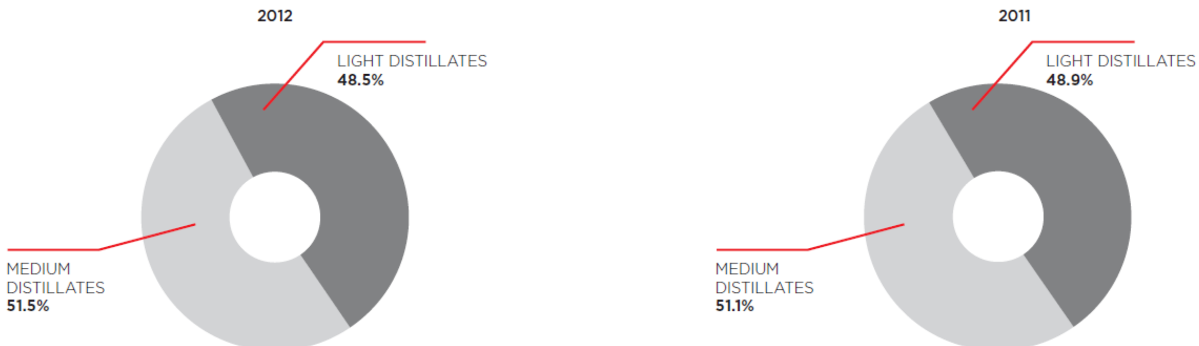


Lithuanian market

The retail chain in Lithuania comprised, as at 31 December 2012, 35 stations, including 26 own and 9 franchise stations. The stations operated under the ORLEN brand in the Premium segment and under the Ventus brand in the economical segment.

AB Ventus Nafta from the ORLEN Lietuva Group achieved in 2012 a similar level of the sales volume as in the previous year, amounting to 50 thousand tonnes. VERVA diesel oil is more and more popular among customers and its sales volume in 2012 increased by 15% (y/y). Consistent implementation of the strategy for the non-fuel sales contributed to the increase in the stores turnover by 3% (y/y).

DIAGRAM 12. Structure of AB Ventus Nafta's sales volume on the Lithuanian market in 2012 and 2011.



3.3.4 Sources of supply

The majority of motor fuels sold on the Polish, Czech and Lithuanian markets are produced in the refining segment. The ORLEN Group also purchases, for reselling purposes, primarily imported ready-made fuels from other domestic sellers and foreign companies. Motor fuels sold by ORLEN Deutschland are purchased from the leading wholesalers operating on this market, including also from the Unipetrol Group.

3.4 ORLEN Group's operations in petrochemical segment

3.4.1 Market trends, ORLEN Group's position and competitors

Market trends in the petrochemical industry are global. Until the year 2020, it is expected that the demand for petrochemical products will continue to grow even more, especially in Asia. Also, the trend involving the construction of new petrochemical plants in the Middle East countries is visible, based primarily on the use of natural gas (specifically ethane) as a raw material for production. This is connected with the competitive costs of natural gas being a by-product of the crude oil extraction.
The year 2012 was the period when the growing speculation on raw materials markets and economic slowdown resulted in the increased fluctuation of petrochemical margins. Globalisation of markets including in particular polymers, benzene and PTA causes that the only limitation for trading of above products are the transportation costs.

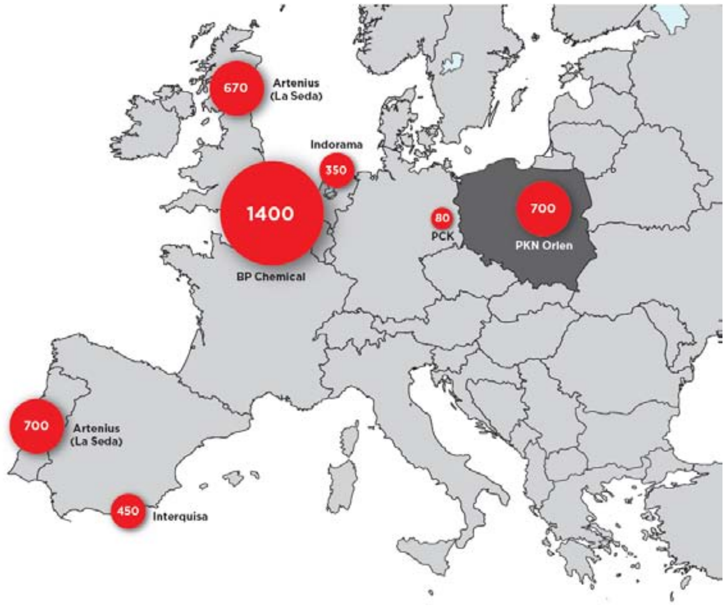
Consequently, economic conditions for non-innovative manufacturers and whose margins are based primarily on the operations scale, deteriorated. This is also connected with the declining importance of commodity-type products – margins for mass petrochemical products in 2012 were lower in comparison with specialised products.

The ORLEN Group's petrochemical segment comprises a selected production installations of PKN ORLEN and Unipetrol Group, as well as Basell ORLEN Polyolefins Sp. z o.o. and ANWIL Group. The ORLEN Group is the only producer of monomers, polymers and the majority of petrochemicals in Poland and Czech Republic.

The key installation of PKN ORLEN's petrochemical segment is the Olefins installation of the maximum production capacities of approximately 700 thousand tonnes of ethylene and 380 thousand tonnes of propylene. Monomers produced by PKN ORLEN constitute the input for the polymers installations in Basell ORLEN Polyolefins Sp. z o.o. and the polyvinyl chloride installation in the ANWIL Group. Other products are placed on both Polish market and exported (Czech Republic, Denmark, Germany and Lithuania).
Full integration of the refining and petrochemical installations in PKN ORLEN as well as the pipeline infrastructure connecting PKN ORLEN and the ANWIL Group and BOP are the significant element of the competitive advantage in this segment.

In 2011, the PX/PTA Complex (terephthalic acid) was started up, representing one of the most modern plants of such type in Europe.

SCHEME 8. Capacity of biggest PTA plants in Europe.



Unipetrol Group is one of the largest petrochemicals producers in the Czech Republic. The key segment installations are Polyolefin and Olefin installations located in Litvinov, of the annual production capacities of approximately 600 and 540 thousand tonnes, respectively. The share of the Unipetrol Group in the production of high-density polyethylene and polypropylene amounts to 5% and 3% of the production capacities in Europe, respectively. On the Czech market, the Unipetrol Group is the only ethylene producer, while its competitors in respect of propylene production are OMV and PCK Raffinerie GmbH.

The ANWIL Group is both one of the largest chemical companies in Central Europe and the leading polyvinyl chloride (PVC) producer as well as one of the major sodium hydroxide and artificial fertilisers producers in Poland. The production potential of the ANWIL Group amounts to 1,160 thousand tonnes of nitrogen fertilisers, approximately 560 thousand tonnes of PVC and granulates, approximately 360 thousand tonnes of sodium hydroxide and approximately 50 thousand tonnes of caprolactam. The ANWIL Group products are not only placed on the local markets but also exported.
On the nitrogen fertilisers market, the ANWIL Group competes with Azoty Tarnów Group and Zakłady Azotowe Puławy as well as with the fertilisers importers. As regards unprocessed PVC, foreign companies, mainly from Germany and Hungary as well as INEOS Group Limited on the domestic market strongly compete with the ANWIL Group. In respect of sodium hydroxide, the largest competitors of the ANWIL Group include Zakłady Chemiczne Rokita S.A., Zachem Bydgoszcz S.A., Borsodchem from Hungary, Karpatnieftiechim from the Ukraine and Czech Spolchemie and Slovak Novaky. The main competitors in respect of caprolactam production include DSM, BASF and DOMO.

Basell ORLEN Polyolefins Sp. z o.o. specialises in polymers production and owns polyethylene and polypropylene production installations of the annual total production capacities of 820 thousand tonnes. Products of Basell ORLEN Polyolefins Sp. z o.o. are distributed on both domestic and foreign markets, where they are widely used at production of packaging, foils, textile and linen products as well as car spare parts and pipes.

3.4.2 Technological research and development

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

Research and development activities of the Unipetrol Group in respect of monomers were carried out in cooperation with VUAnCh and, in respect of polymers, with Polymer Institute Brno s.r.o.
During 2012, VUAnCh handled several research projects relating mainly to optimisation of production processes in Unipetrol RPA. The most important work involved the survey of impact of input quality on the Olefins Installation operation and yields, assessment of technical and economic properties of liquid gas with high olefins content as the input for the Olefins Installation. Additionally, projects concerning the use of benzene installation production capacities for aromatic refinery fractions utilisation were carried out, together with the assessments of current analytical methods specifying the impurities content in propylene used in polymerisation and the choice of optimum manners of propylene purification. As part of continued projects, VUAnCH conducted research on the possibility of regeneration and reuse of catalyst in other technological processes.
Research conducted by Polymer Institute Brno s.r.o. in respect of polymers concerned the development of the new polyethylene type (blow-molding PE) obtained thanks to the new catalyst recipe, which allows to obtain the polymer of the higher melting point. Also, the polyethylene composition for the pipes production was optimised (Liten PL10). Further improvement was possible thanks to modification of technological process with the use of the new catalyst. Moreover, in 2012, the survey of two types of silica gel was carried out, which increases the catalyst activity by 40%. Further, Polymer Institute Brno s.r.o. conducted work concerning the modification of polymerisation process on polypropylene installations in Unipetrol RPA.

In respect of projects relating to the ANWIL Group technological processes development, the industrial scale tests were carried out in respect of implementation of the technology of continuous initiators dosing - CID on PVC installations, which technology is offered by Akzo Nobel and which implementation will result in material savings in electrical energy consumption thanks to liquidation of high-power cooling aggregates. The tests proved successful and confirmed the good quality of the product. In 2012, potential implementation costs were calculated to determine the product effectiveness. Additionally, work was commenced on the project involving the upgrade of Chlorine and Soda Lye Production Plant aimed to significantly reduce the heating energy consumption.
The most important research and development work in the environmental protection area concerned the development of the sewage airtight sealing concept in the Vinyl Chloride Production Plant, which concept will significantly reduce the emission of chlorine derivatives to the atmosphere. As part of the continued project involving the water recovery from sewage from PVC suspension centrifuges, within 6 months in 2012 the filtration tests were carried out once again given the change of type of membranes offered by the supplier. The tests proved successful and the project is at the stage of preparation of detailed data, necessary to make a decision on the investment implementation.

3.4.3 Core products, goods and services

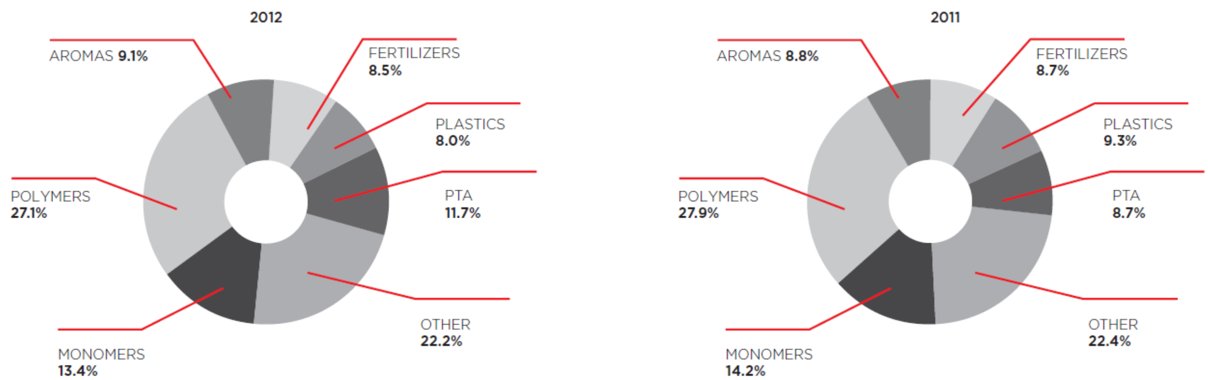
In 2012, the sales volume of petrochemical segment of the ORLEN Group, despite the turnaround of the petrochemical section of the production plant in Plock, which was performed in the III quarter of 2012, increased by 3.3% as compared to 2011. The above result was achieved primarily thanks to higher sale of the terephthalic acid from the PX/PTA Complex and the increased sale of polymers in Unipetrol RPA.

TABLE 24. Assortment structure of sales of ORLEN Group (in PLN thousands/thousands of tonnes).

SALES	2012		2011		CHANGE %	
	VALUE	VOLUME	VALUE	VOLUME		
1	2	3	4	5	6=(2-4)/4	7=(3-5)/5
Petrochemical Segment						
Monomers1)	2 137 423	484	2 033 615	499	5.1%	-3.0%
Polymers2)	4 328 113	854	3 991 723	819	8.4%	4.3%
Aromas3)	1 461 036	372	1 259 805	395	16,0%	-5,8%
Fertilizers4)	1 356 233	1 317	1 241 073	1 290	9.3%	2.1%
Plastics5)	1 284 021	369	1 329 757	397	-3.4%	-7.1%
PTA	1 875 273	484	1 238 788	336	51.4%	44.0%
Other6)	3 527 069	1 353	3 218 423	1 332	9,6%	1,6%
Total	15 969 168	5 233	14 313 184	5 068	11.6%	3.3%

1) Ethylene, propylene.
2) Polyethylene, polypropylene.
3) Benzene, toluene, paraxylene, ortoxylene.
4) Canwil, ammonium sulphate, ammonium nitrate, other fertilizers.
5) PVC, PVC granulate.
6) Other include mainly acetone, ammonia, butadiene, phenol, technical gases, glycols, caprolactam, soda lye and sulphur.

DIAGRAM 13. Structure of sales revenues in ORLEN Group in 2012-2011.



3.4.4 Sale markets

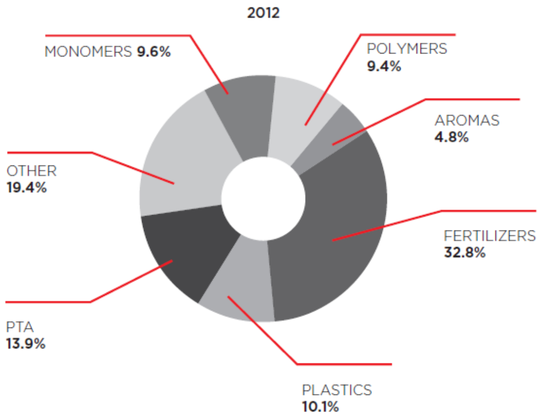
Polish market

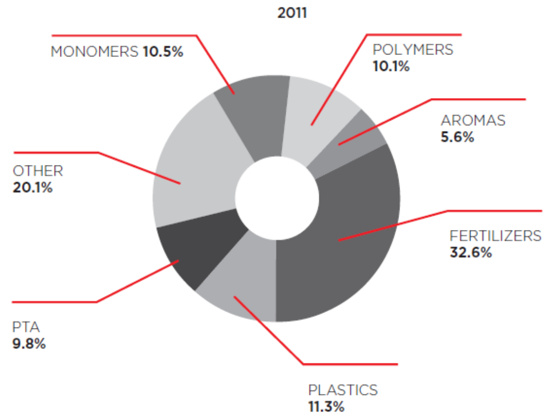
Petrochemical sales volume of the ORLEN Group companies located on the Polish market increased in 2012 by 2.0% (y/y). Such increase was achieved primarily in the area of the PTA sale, which amounted in 2012 to 484 thousand tonnes and increased by 44.0% (y/y) thanks to the operation of the PTA Complex throughout the entire 2012 and thanks to further intensification of sale on Turkish and Russian markets and entering the Middle East markets.
The lower sales volume of monomers and polymers as compared with 2011 was due to the planned periodical turnaround of petrochemical installations in the III quarter 2012.
Decreased sales of aromas was the net effect of lower sales of toluene due to using this product as input to PTA production and higher sales of benzene.The increased benzene sales volume was achieved thanks to the additional amounts of such product, coming from the new Paraxylene installations, having been placed on the market and to the possibility of stock accumulation and as a result the elimination of effects of the installation turnaround in the III quarter of 2012.
The improved economic situation on the fertilisers market, which was observed primarily in the I half of 2012, impacted higher sale, as compared to the previous year.
The decreased plastics sales is primarily due to the deteriorated economic situation in the I half of 2012 and the turnaround in the III quarter of 2012 described above.
Decreased sales of other products is mainly an effect of lower sales of butadiene due to turnaround of production installation in III quarter of 2012.

TABLE 25. Assortment structure of sales volume on Polish market (in thousands of tonnes).

SALES	2012	2011	CHANGE	CHANGE %
1	2	3	4=(2-3)	5=(2-3)/3
Polish market				
Monomers	335	358	-23	-6.4%
Polymers	329	346	-17	-4.9%
Aromas	167	191	-24	-12.6%
Fertilizers	1 142	1 115	27	2.4%
Plastics	353	385	-32	-8.3%
PTA	484	336	148	44.0%
Other	677	688	-11	-1.6%
Total	3 487	3 419	68	2.0%

DIAGRAM 14. Assortment structure of sales volume in petrochemical segment in 2012 and 2011 on the Polish market.





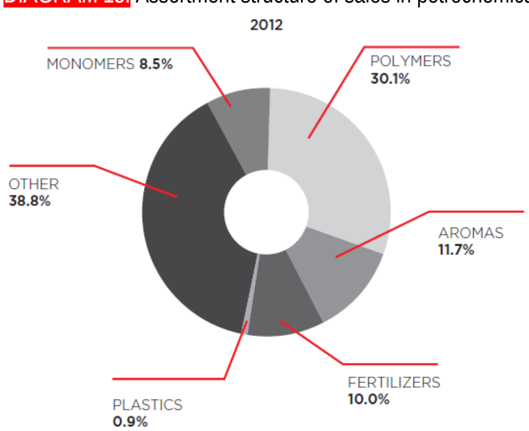
Czech market

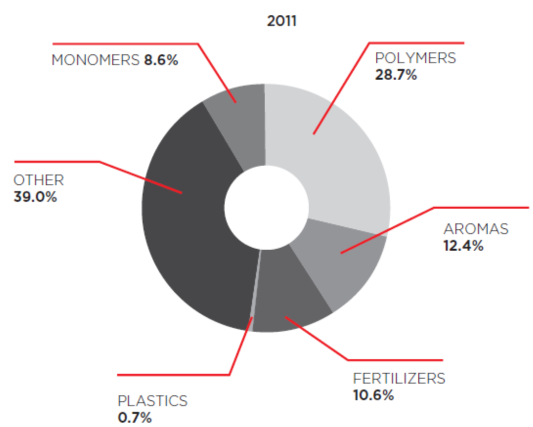
The sales volume of the Unipetrol Group increased in 2012 by 5.9%, as compared to 2011. Such result was achieved primarily thanks to the increased polymers sale by Unipetrol RPA by 11.0% (y/y), resulting from the greater product supply due to lack of cyclical installation turnaround in 2011. At the same time the structure of sales improved by 1.4 p.p. (y/y) as a result of the increased polymers share in petrochemical sales of Unipetrol Group up to 30.0%.
No adverse effect of the turnaround in 2011 resulted also in the increase in the sales volume of monomers and other products by 5.7% (y/y) and 5.0% (y/y), respectively.

TABLE 26. Assortment structure of sales volume on Czech market (in thousands of tonnes).

SALES	2012	2011	CHANGE	CHANGE%
1	2	3	4=(2-3)	5=(2-3)/3
Czech market				
Monomers	149	141	8	5.7%
Polymers	525	473	52	11.0%
Aromas	205	204	1	0.5%
Fertilizers	175	175	0	0.0%
Plastics	16	12	4	33.3%
Other	676	644	32	5.0%
Total	1 746	1 649	97	5.9%

DIAGRAM 15. Assortment structure of sales in petrochemical segment in 2012 and 2011 on the Czech market.





3.4.5 Sources of supply

Strong integration of the refining and petrochemical segments in PKN ORLEN and the Unipetrol Group provides a competitive advantage in respect of raw materials supply. The gasoline for pyrolysis, transferred from the refining segment, constitutes the main production input for the petrochemical segment for olefins installations. Paraxylene, produced on petrochemical installations in PKN ORLEN constitutes the basic input for terephthalic acid production, while PKN ORLEN is the major supplier of olefins for Basell ORLEN Polyolefins Sp. z o.o. and ANWIL S.A.

3.5 New areas of the ORLEN Group's operations

3.5.1 Power industry

Along with the relatively quick development of the Polish economy, the demand for electric power is increasing. At present, the per capita power consumption in Poland is lower than in the European Union by more than 50% on average. The forecasts of the power consumption in Poland point to the significant increase in the demand for electric power, what means the need to expand of installed capacities, as compared to their current level.
It is estimated that the increasing profitability may turn out to be one of the most important advantages of this segment thanks to the growing demand and power prices. The additional advantages include the possibilities of obtaining of origin certificates for the high-efficiency cogeneration and support of renewable energy by the "green certificates" mechanism.

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

The Heat and Power Plant ("HPP") of PKN ORLEN in Plock is the largest professional productive unit in Poland, of the electric capacity of 345 MWe and heat capacity of 1970 MWt, which is used for supplying power to production installations. Heat capacities secure the needs of a complex of installations in the Production Plant and are used for the external recipients purposes. The Heat and Power Plant achieves high efficiency indices at the level of approximately 86% and may use various types of fuel for power and heat production: heating oil, refining gas and natural gas.
In 2012, the implementation of the Power and Ecology Investments Programme was continued, which aim is to comply with the rigorous industrial emission standards to be in force and effect following 1 January 2016. As part of the Programme, the construction of the new Boiler number 8 was completed in the HPP in Plock, which complies with the most rigorous standards in respect of sulphur dioxide, nitric oxides and dusts emission and which operation, due to very high power efficiency, contributes to the improvement of the efficiency of the heating energy production in Heat and Power Plant. Moreover, the process of selecting the contractor for the waste gases denitriging installation was completed. Also the work aimed to select the contractor for waste gases desulphurisation installation was conducted and finalized on 19 March 2013 with the choice of consortium of companies: ORLEN Projekt and Fisia Babcock Environment GmbH.

Energy capacity of the Heat and Power Plant in the Unipetrol Group amounts to 110 MWe, the heat capacity amounts to 1000 MWt.

The Heat and Power Plant in Mazeikiu operates on a lesser scale than the remaining plants in the ORLEN Group. The unit is powered by natural gas and its electric and heat capacities are 160 MWe and 140 MWt, respectively.

The main element of the power strategy of the ORLEN Group for years 2013-2017 constitutes currently the construction of the gas and steam power plant in Wloclawek. The project involves the construction of the unit with the capacity of 463 MWe. The largest advantages of such type of units are higher efficiency and operation flexibility in comparison with the conventional electric power production systems based on coal fuel. Technologies applied in CCGT (Combined Cycle Gas Turbine) units emit also lower amounts of harmful substances, such as nitrogen oxides, sulphur dioxide and greenhouse gases.
On 4 December 2012, the contract for the power plant construction was executed with General Electric and SNC Lavalin consortium and the long-term service contract was executed with General Electric. Moreover, in 2012 the intent letter was executed with Wloclawek authorities in respect of possible heat power supplies for the city. The planned start-up of the unit is to take place at the end of 2015.
The power plant will have close technologic connection with ANWIL S.A. in terms of the supply of electric power and technological steam. Thanks to such connections, the highly-efficient power plant will replace the Heat and Power Plant existing in ANWIL S.A., which will ultimately constitute the reserve source. The project significantly increases the power supply security in ANWIL S.A. Thanks to technological steam production, the production of electricity in the power plant will be performed in high-efficiency cogeneration, which materially affects both, the project's economic result and the environmental impact.

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

In order to increase the power efficiency in the ORLEN Group and adjust the assets in order to comply with the environmental standards, in 2012 the concept work was carried out in Unipetrol, Rafineria Trzebinia and ORLEN Lietuva. The decisions on commencement of upgrading or expanding the above units will be made at the turn of 2013 and 2014.

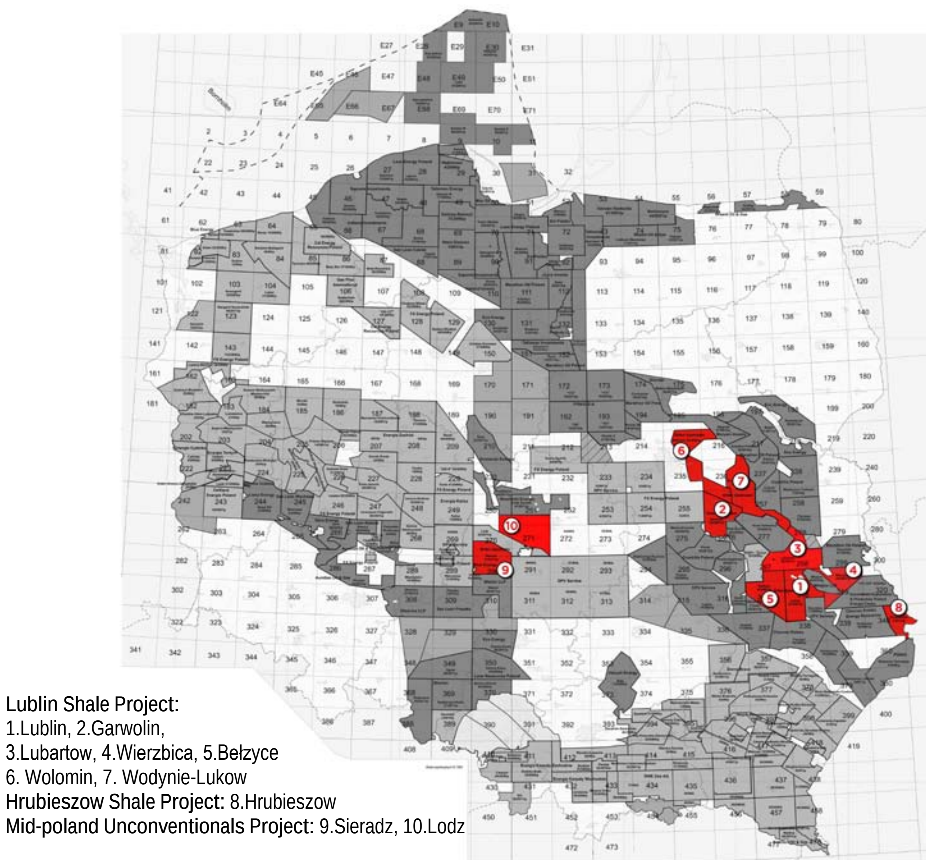
In accordance with the adopted power strategy, the ORLEN Group considers also the investments in the renewable energy sources as the addition to the conventional power production. As part of such project, the possibilities of investment in the sea wind farms are analysed. In 2012, the first permit for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

3.5.2 Upstream

Poland may be one of ten countries with the possibly largest shale gas deposits in the world. Polish shale gas is located from the coast, between Słupsk and Gdansk, in the direction of Warsaw, as far as Lublin and Zamosc are located.

The potential of Polish shale gas in noticed by foreign investors. Until the end of 2012, 115 concessions for exploration in unconventional deposits were issues. The area covered by unconventional deposits exploration covers approximately 30% of the Poland area, i.e. approximately 90 000 km^2.

SCHEME 9. Potential areas of shale gas presence.



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

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

Unconventional projects

As part of the Lublin Shale project focused on unconventional deposits, the ORLEN Group continued to carry out drilling and research works in 2012. Core samples were collected from 2 drillings performed at the turn of 2011 and 2012, which were subject to thorough analyses. Their results allowed to decide on performance of horizontal drillings.

In 2012, the first vertical exploratory drilling was made under the Garwolin concession. Rock core samples were collected from the drilling, which are currently analysed.
Also, the first horizontal drilling was performed under Wierzbica license, the drilling sites for three new drillings were prepared and the second horizontal drilling was commenced under Lubartow license. Moreover, preparations to carry out fracturing and trials on horizontal drillings performed on the area of Wierzbica and Lubartow licenses were conducted.
Apart from the performance of further drilling work, ORLEN Upstream plans to obtain the additional seismic data on Garwolin, Lubartow and Wierzbica blocks.

As a part of Hrubieszow Shale and Mid-Poland Unconventionals projects, in 2012 work relating to collection and analyses of the archive data regarding 2D and drilling seismic data was carried out, also, the geological database was continued to be created.

Conventional projects

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

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

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

3.6 Description of basic risks and threats of conducted operations

3.6.1 Credit risk

Within its trading activity the ORLEN Group sells products and services with deferred payment term, which may result in the risk that customers will not pay for the ORLEN Group's receivables from sales of products and services. In order to minimize credit risk and working capital the ORLEN Group manages the risk by credit limit policies governing granting of credit limits to customers and establishment of pledges of appropriate types. Each deferred payment term customer is individually assessed with regard to credit risk. A portion of trade receivables is insured within an organized trade credit insurance program. Trade receivables are monitored on a regular basis. In the event of occurrence of overdue receivables, sale is withheld and debt recovery procedures implemented as described by the obliging procedures.

The established payment term of receivables connected with the ordinary course of sales amounts to 14 – 30 days.

Based on the analysis of receivables the customers were divided into two groups:

- I group – customers with good or very good history of cooperation in the current year;
- II group – other customers.

The concentration of risk connected with trade receivables is limited due to large number of customers with trade credit dispersed in various sectors of the Polish, German, Czech and Lithuanian economy.

Credit risk associated with cash and deposits is assessed by the ORLEN Group as low. All entities in which the ORLEN Group's free cash is deposited, are operating in financial sector. They include domestic banks and branches of foreign banks which have the highest short-term credit credibility (82% of deposited cash) or good credibility (18% of deposited cash).

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

The measure of credit risk is the maximum exposure to credit risk for each class of financial instruments. Maximum credit risk exposure in relation to particular financial assets by category is equal to their carrying amount. In order to minimize the risk as at 31 December 2012 and as at 31 December 2011 the ORLEN Group received bank and issuance guarantees of PLN 1,626,382 thousand and PLN 1,665,742 thousand, respectively. Additionally, the ORLEN Group receives from its customers securities such as blockade of cash on bank accounts, mortgage and bills of exchange.

The ORLEN Group is exposed to credit risk associated with granted guarantees to contractors. The maximum level of exposure arising from guarantees is the maximum amount that the ORLEN Group would be obliged to pay for the guarantee payment in case a request was issued by the business partner. The value of guarantees regarding liabilities to third parties granted during ongoing operations as at 31 December 2012 and as at 31 December 2011 amounted to PLN 456,952 thousand and PLN 498,229 thousand, respectively. These concern mainly: contract performance guarantees, customs and deposits guarantees, payment guarantees. Based on the forecasts for the end of the reporting period, the ORLEN Group concluded that the probability of such payments can be described as low.

Detailed information regarding credit risk is presented in note 35.7.1 of the Consolidated Financial Statements for 2012.

3.6.2 Liquidity risk

The ORLEN Group is exposed to liquidity risk resulting from the relation between current assets and short-term liabilities. As at 31 December 2012 and as at 31 December 2011 current assets to short-term liabilities ratio (current ratio) amounted to 1.7 and 1.5, respectively.

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

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

As at 31 December 2012 and as at 31 December 2011 the maximum possible indebtedness due to loans amounted to PLN 18,573,410 thousand and PLN 20,899,193 thousand, respectively. As at 31 December 2012 and as at 31 December 2011 PLN 10,804,527 thousand and PLN 7,562,831 thousand, respectively, remained unused.

Detailed information regarding liquidity risk is presented in note 35.7.2 of the Consolidated Financial Statements for 2012.

3.6.3 Market risks

The ORLEN Group applies consistent hedging policy to foreign exchange risk, interest rate risk and commodity risk. ORLEN Group manages the market risks arising from the above mentioned factors on the basis of market risk management policy, which sets out the principles of measurement of individual exposure parameters and the time horizon of risk hedging and hedging instruments. The PKN ORLEN market risk management policy is realized by designated organization units under the supervision of the Financial Risk Committee of PKN ORLEN, the Management Board of PKN ORLEN and the Supervisory Board of PKN ORLEN. Financial Risk Committee in PKN ORLEN is responsible for supervising and coordination of financial risk management in the ORLEN Group. In order to ensure efficiency and safety of the operational process, PKN ORLEN Finance Management Office extracted three areas responsible for finance transactions (Front Office), measurement and analysis of risk (Middle Office), reporting and settlement of transactions (Back Office).
Management Boards of particular Companies under the supervision of Supervisory Boards are responsible for risk managements in particular Companies of the ORLEN Group. PKN ORLEN, which has received relevant powers of attorney under contracts with ORLEN Group Companies, is responsible for conducting hedging transactions on behalf of particular ORLEN Group Companies, which are subject to coherent Group hedging policy. Efficiency and realization of the hedging transactions are monitored by the ORLEN Group Companies and presented through Finance Management Office to the PKN ORLEN Financial Risk Committee and PKN ORLEN Management Board.
The objective of market risk management is to reduce the unfavorable effects of changes in market risk factors on the cash flow and financial results in the short and medium term.
Market risk management is conducted using hedging strategies based on derivative instruments. Derivatives are used solely to reduce the risk of changes in fair value and risk of changes in cash flows. ORLEN Group applies only those instruments which can be measured internally, using standard valuation models for given instrument. As far as market valuation of the instruments is concerned, the ORLEN Group relies on information obtained from market leading banks, brokers and information services. Transactions are concluded only with reliable partners, authorized to participate in transactions through the application of appropriate procedures and signing the relevant documentation.

The major market risks arising for the ORLEN Group are as follows:

- currency risk

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

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

Detailed information regarding currency risk are presented in note 35.7.3.1 of the Consolidated Financial Statements for 2012.

- interest rate risk

The ORLEN Group is exposed to risk of volatility of cash flows due to interest rates resulting from borrowings, bank loans and debt securities based on floating interest rates as well as derivative transactions hedging risk of cash flows.

Detailed information regarding interest rate risk are presented in note 35.7.3.2 of the Consolidated Financial Statements for 2012.

- operations and unforeseen accident risk

The ORLEN Group is exposed to operations and unforeseen accident losses. As a part of risk management, in order to minimize any adverse effects of such risks, the ORLEN Group adopted professional and tailored to individual needs insurance programme. For that purpose, captive entity was formed – ORLEN Insurance Ltd. based in Malta. Captive operations are based on the Parent Company's and ORLEN Group entities' best knowledge about their operations, assets and potential risks areas, which exceed the range of information hold by insurance companies. Additionally, the ORLEN Group based on its knowledge can impact and control risks areas through prevention measures.
Insurance coverage under ORLEN Insurance Ltd. polices is reinsured by the biggest international insurance and reinsurance companies under the program led by AIG Europe and Allianz, and where the biggest world insurance companies such as AIG, Allianz, HDI, Munich Re, ACE and polish companies PZU and TUiR Warta are involved. Program itself provides coverage for all risks losses, including machinery breakdown together with insuring the loss of gross margin, not only in ORLEN Group entities but also within their major suppliers and customers.
In addition to comprehensive assets insurance, the ORLEN Group holds other insurances to ensure minimizing the adverse impact of damages i.e. third party insurance or property insurance in transport.

- risk of raw materials and refining products prices

The ORLEN Group's operating activities include the following risks:

- price change of crude oil processed;
- the obligation to maintain reserves of crude oil and fuels;
- Brent/ Ural differential fluctuations (difference between quotations of these crude oil types);
- price changes of refining and petrochemical products, which depend on the quotations of crude oil and products on international markets.

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

For detailed information on the raw materials and oil products' prices risk see note 35.7.3.3 to the Consolidated Financial Statements for 2012.

- risk related to the raw materials supply

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

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

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

- risk of changes in legislation

The risk arising out of changes in legislation concerns mainly the following areas of the ORLEN Group's operations:

- provisions of law on biofuels,
- quantity limits of granted CO_2 emissions rights,
- provisions of law on colour energy certificates,
- gathering and keeping of mandatory reserves.

Biofuels

Biofuels-related issues are regulated by the following provisions:

- the Biocomponents and Liquid Biofuels Act of 25 August 2006, regulating the rules for placing biocomponents and liquid biofuels on the market and determination and achievement of the National Index Target (NIT),
- the Fuels Quality Monitoring and Controlling Act of 25 August 2006, specifying the reduction factor of the NIT level for the years 2012 and 2013 in the amount of 0.85,
- Regulation of the Council of Ministers of 15 June 2007 on the National Index Targets for the years 2008 – 2013 – specifying the level of the National Index Target ("NIT") for particular years.

Since 2008 the obligation to satisfy the National Indicative Target (NIT) has been imposed on the fuel producers, which determines the minimum share of biocomponents and other renewable fuels calculated at the heating value in the general quantity of liquid fuels and biofuels used up in transport during the calendar year.

TABLE 27. NIT value 2008-2012.

ITEM	J.M.	2008	2009	2010	2011	2012
NIT value	%	3.45	4.60	5.75	6.20	6.65

Currently works upon the change of Directives 2009/30/WE and 2009/28/WE (so called ILUC - Indirect Land Use Change) are carried out, which determines the realization of the half of the set 10 % share of renewable fuels used in transport in 2020.

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

CO_2 emission rights

Issues related to the CO_2 emission rights are regulated in the following legal acts:

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

Under the applicable legal regulations arising out of the Kyoto Protocol to the United Nations Framework Convention on Climate Change adopted by the European Union, upon the decision of the Council of Ministers, the ORLEN Group entities received rights which determine the maximum CO_2 emission volume.

Each year the ORLEN Group verifies the number of such rights and determines the way of systematic balancing of the discovered deficits/surpluses as intra-group or futures and spot transactions depending on the situation. In the future it is expected that the pool of free-of-charge CO_2 emission rights will be reduced as early as at the initial stage of the 3rd settlement period for the years 2013-2020. Additionally, the electric energy producers will not be given a pool of free-of-charge emission rights.

Consequently, the ORLEN Group's business is subject to a risk of partial deficits with regard to the CO_2 emission rights and the costs of their purchase from the market
In 2012 the ORLEN Group concluded hedging transactions to secure the purchase price of the rights to be redeemed in the future to settle the CO_2 emission. Valuations of such transactions are not included in the consolidated financial statements.

Colour energy certificates

Issues related to the colour energy certificates are regulated in:

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

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

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

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

Mandatory reserves

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

- Act dated 16 February 2007 regulating the reserves of crude oil, refining products and natural gas and how to proceed in case of risk to the fuel safety of the state and disruptions on the oil market.

The Act imposes an obligation on all the companies operating on the fuel market to keep crude oil or fuel reserves (excluding LPG). In 2012 the reserve volume was set at a level of at least 76 days of the average daily production or imported volume, as realised by the producer or trader in the previous year.
The existing regulations may change as a result of works on the draft act which will adjust legal provisions to the requirements set in the EU Directive 2009/119/EC. The present draft provides, among other things, for a new methodology to calculate intervention reserve levels to be introduced and consequently, for a change in the requirements set for the companies, an introduction of the so-called “reserve fee” and regulations on the state supervision over the accessibility of the mandatory reserves.

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

- risk of changes in fuels consumption and import trends

A change in the fuels consumption and import trends can substantially affect the volume of sales and the level of prices of products of the ORLEN Group companies that are possible to be achieved and consequently, on the ORLEN Group’s financial standing. The changes in diesel oil and gasoline consumption on the main markets of the ORLEN Group are presented in point 4.1.5 of the foregoing Management Board Report.

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

When operating on the fuel trade market, the ORLEN Group is subject to the risk related to the “shadow economy” activity, which mostly involves introducing cheaper fuel to the market without the due tax.
High fuel prices resulted in a big number of companies emerging on the market to sell fuels at understated prices. This brings the market out of balance and, consequently, adversely affects the revenues and the competitive position of the ORLEN Group. The fuel sector estimates that about a million tonnes of fuel i.e. 7% of the fuel market, may be sold in the “shadow economy”.

3.7 Environmental protection

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

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

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

The project “Analysis of consequences of climate policy for the ORLEN Group” was implemented. As a result, recommendations for measures to balance the deficit of CO_2 emission rights and for opportunities arising under the Climate Package in the period 2013-2020 could be made. The process of updating procedures comprehensively regulating the CO_2 emission process within the ORLEN Group was initiated.

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

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

Environmental measures were continued in the ORLEN Group companies which resulted in drawing up the third Environmental Report of the ORLEN Group and organising a workshop where the issues related to the soil and water environment recultivation were discussed. The discussion focussed on the major legal requirements and practices aimed at removing environmental damage in Poland and Europe, most frequent problems and challenges for the next years in view of the industrial emission directive.

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

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

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

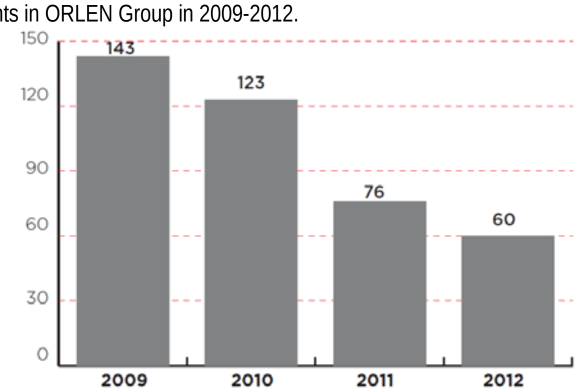
3.8 Occupational safety and health

The main objective of the occupational safety and health ("OSH") in the ORLEN Group is to ensure proper working conditions and regular identification and elimination of the risks. PKN ORLEN and all the ORLEN Group companies are covered by this system.

In 2012 the OSH system of the ORLEN Group was substantially changed. Major changes involved integration and cooperation of the ORLEN Group companies. Technical audits with consultancy were conducted in the ORLEN Group companies and, additionally, a 3-year OSH Improvement Programme was developed for each Company. Special inspections were carried out in the companies where serious or repeated accidents occurred. The OSH guideline system for the companies was further developed and occupational accident registration rules were specified. Regular technical turnarounds of production installations in the largest ORLEN Group companies were performed in accordance with the jointly developed OSH rules.

In 2012 special attention was paid to the safety management policy in the ORLEN Group and the development of the occupational safety culture at the operational level. The result of the measures taken to improve the occupational safety in the ORLEN Group companies is a drop in the number of accidents in 2012 by 21% as compared to the previous year.

DIAGRAM 16. The number of accidents in ORLEN Group in 2009-2012.



The accident rate – TRR (Total Recordable Rate) reached 1.87, which is the best result in the history of the ORLEN Group, and was lower by 30% (y/y) than the rate for 2011.
The methodology of calculating TTR is presented in the Glossary of selected technical definitions at the end of foregoing Management Board Report.

4. PRESENT AND FORECASTED FINANCE POSITION OF THE ORLEN GROUP

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

4.1.1 Consolidated statements of profit or loss and other comprehensive income

TABLE 28. Consolidated statements of profit or loss and other comprehensive income.

ITEM (PLN THOUSAND)	2012	2011	CHANGE	CHANGE %
1	2	3	4=(2-3)	5=(2-3)/3
Sales revenues	120 101 550	106 973 074	13 128 476	12.3%
Cost of sales	-112 093 990	-98 397 811	-13 696 179	13.9%
Gross profit on sales	8 007 560	8 575 263	-567 703	-6.6%
Distribution expenses	-3 871 660	-3 660 256	-211 404	5.8%
General and administrative expenses	-1 523 632	-1 468 298	-55 334	3.8%
Other operating revenues	726 401	1 006 655	-280 254	-27.8%
Other operating expenses	-1 314 298	-2 386 892	1 072 594	-44.9%
Profit from operations	2 024 371	2 066 472	-42 101	-2.0%
Financial revenues	1 581 994	2 780 145	-1 198 151	-43.1%
Financial expenses	-981 226	-2 243 175	1 261 949	-56.3%
Financial revenues and expenses, net	600 768	536 970	63 798	11.9%
Share in profit from investments accounted for under equity method	-696	188 299	-188 995	-
Profit before tax	2 624 443	2 791 741	-167 298	-6.0%
Income tax expense	-454 453	-776 738	322 285	-41.5%
Net profit	2 169 990	2 015 003	154 987	7.7%

Sales revenues

In 2012, the ORLEN Group generated an increase in sales revenues by PLN 13,128,476 thousand (by 12.3%) (y/y) up to the level of PLN 120,101,550 thousand.

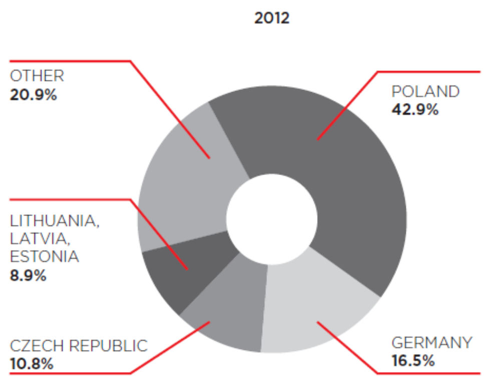
The growth of sales revenues in 2012 is mainly a result of increase of the revenues from sales of refining segment by PLN 7,399,292 thousand (12.7%) (y/y)) mainly as a result of higher quotations for products and the increase in the average PLN/foreign currency exchange rate, at a slightly lower sales volume. As compared to 2011, the average annual values of gasoline quotations in PLN increased by 15.6% (y/y), diesel oil by 12.4% (y/y), light heating oil by 12.2% (y/y) and Jet A-1 fuel by 11.2% (y/y).

The revenues generated by the retail segment increased by PLN 4,103,803 thousand (12.1%) (y/y), mainly as a result of higher sales volume by 1.7% (y/y), higher fuels prices due to the increasing quotations of crude oil and, consequently, of fuels, as well as higher revenues from the sale of non-fuel merchandise and services.

Increase of revenues in the petrochemical segment by PLN 1,655,984 thousand (11.6%) (y/y) is due to the higher, by 3.3% (y/y), sales volume, mainly as an effect of the sales of terephthalic acid (PTA) during the whole year (launch of sales on May 2011) and higher sales of polymers and fertilizers. Sales revenues were positively affected by the higher quotations for the segment core products in PLN, i.e. polyethylene by 8.9% (y/y), polypropylene by 1.6% (y/y), ethylene by 10.2% (y/y), propylene by 1.3% (y/y), benzene by 20.1% (y/y), toluene by 23.3% (y/y) and paraxylene by 3.4% (y/y).

Additionally, increased sales revenues were enhanced by the execution of two transactions concerning the sale of part of the mandatory crude oil reserves with Ashby Sp. z o. o. and Whirlwind Sp. z o.o. for the total amount of PLN 2,433,998 thousand.
The ORLEN Group conducts sales on many markets, however, the most significant part of the sales revenues comes from the domestic market.

DIAGRAM 17. Geographical structure of sales revenues in the ORLEN Group.



Other countries item contains mainly sales realised to customers from Switzerland, Denmark, Great Britain, Austria and Ukraine.

Additional information relating to the geographic distribution of sales revenues is also presented in note 6.2.3 to the Consolidated Financial Statements for 2012.

Operating result

The ORLEN Group values inventories in accordance with the International Financial Reporting Standards at the weighted average production cost or acquisition price. Such valuation method causes deferred recognition of the increase or decrease in the crude oil purchase prices as compared to the prices obtained from the sales of finished goods. A growing tendency of crude oil prices positively influences the operating results and a falling tendency – negatively.

The negative effect of the increasing crude oil PLN prices, partially compensated by appreciation of PLN against foreign currencies, on the valuation of the ORLEN Group's inventories in 2012 was not significant and amounted to PLN (-) 175,170 thousand. For comparison, in 2011 increasing crude oil prices and observed depreciation of PLN against foreign currencies had a positive effect on inventories valuation as well as operating result and amounted to PLN 2,349,465 thousand. As a result net effect of inventories valuation influenced the decrease of operating result of ORLEN Group in 2012 by PLN (-) 2,524,635 thousand.

Despite negative effect of inventories valuation and unstable macroeconomic environment relating to declining fuel consumption, ORLEN Group maintained high level of the profit on the operating activity which amounted to PLN 2,024,371 thousand.

A positive effect of changing macroeconomic factors, specifically visible in the refining segment, improved the operating results of the ORLEN Group in 2012 by approximately PLN 1,644,000 thousand (y/y).

Higher sales volume in the retail and petrochemical segments balanced the decrease of volume in the refining segment and improved the ORLEN Group's operating results by approximately PLN 329,000 thousand (y/y).

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

A positive effect of the other operating factors in 2012 amounted to PLN 776,534 thousand (y/y) and involved mainly a change of balance on the remaining operating activity including impairment allowances of property, plant and equipment lower by PLN 1,028,923 thousand (y/y).
The property, plant and equipment impairment allowances recognised in 2012 of PLN (-) 766,271 thousand involved mainly the refinery segment of the Unipetrol Group. In 2011 these impairment allowances amounted to PLN (-) 1,795,194 thousand and were mainly related to Unipetrol (refining and petrochemical segments) and ANWIL (PVC).
The negative effect of other elements of PLN (-) 252,389 thousand (y/y) results mainly from lack of positive effects of 2011 including the compensation received by ORLEN Lietuva as a settlement of fire losses in the refinery, reimbursement of the penalty paid from ENERGA-OPERATOR S.A. and update of the provision for CO_2 emission.

Operating results of major ORLEN Group companies

- PKN ORLEN – operating profit declined by PLN (-) 1,363,855 thousand (y/y) and amounted to PLN 1,810,083 thousand.
  - the operating result of the refining segment, which was lower by PLN (-) 1,361,086 thousand (y/y) was mainly due to the negative influence of the decreasing crude oil prices in PLN on the inventories valuation amounting to PLN (-) 2,086,003 thousand (y/y), the described above net effect of the one-off events in the amount of PLN (-) 267,000 thousand (y/y) and legislative changes regarding bio-components tax regulations with the positive effect of macroeconomic factors,
  - the operating result of the retail segment, which increased by PLN 213,929 thousand (y/y) is mainly due to the gradual reconstruction of fuel margins and higher margins obtained from the sale of non-fuel goods and services,
  - the result of petrochemical segment, which is lower by PLN (-) 106,003 thousand (y/y) covers the negative effect of changing product prices on the valuation of inventories in the amount of PLN (-) 101,317 thousand (y/y) with concurrent neutral influence of the changes in macroeconomic factors,
  - corporate functions costs, which are higher by PLN (-) 110,694 thousand (y/y) are mainly due to the lack of positive results generated by other operating activity in 2011, including the reimbursement of penalties paid to ENERGA-OPERATOR S.A. as a result of the Supreme Court having repealed the judgment which was unfavourable for PKN ORLEN.
- ORLEN Lietuva Group – the operating result was higher by PLN 439,242 thousand (y/y) and amounted to PLN 206,554 thousand.
  - the operating result of the refining segment higher by PLN 514,775 thousand (y/y) was mainly due to the favourable macroeconomic environment and a positive change in the result of other operating activity amounting to PLN 108,322 thousand resulting from the lack of property, plant and equipment impairment allowances in 2011, with concurrent negative influence of the inventories valuation in the amount of PLN (-) 102,359 thousand (y/y) and lower sales volume concerning the refinery periodic turnaround,
  - the result of retail segment higher by PLN 14,346 thousand (y/y) is mainly due to the positive effect of changes in the other operating activity related to the lack of property, plant and equipment impairment allowances in 2011,
  - corporate functions costs, higher by PLN (-) 89,879 thousand (y/y), are mainly due to the lack of positive effects of one-off events on the other operating activity in 2011, including the compensation received as the settlement of the fire losses in the refinery in 2006.
- Unipetrol Group – the operating result was higher by PLN 352,851 thousand (y/y) and amounted to PLN (-) 611,723 thousand.
  - the lower result of the refining segment by (-) 269,285 thousand (y/y) is mainly due to the higher by (-) 476,000 thousand (y/y) property, plant and equipment impairment allowances and the negative influence of the inventories valuation equal to PLN (-) 164,291 thousand (y/y), with concurrent positive effect of macroeconomic factors,
  - the result of retail segment lower by PLN (-) 19,056 thousand (y/y) is mainly due to the lower sales volume with the concurrent impact of the persisting market pressure on the fuel and non-fuel margin levels and a positive impact of a change in the other operating activity (y/y) as a result of the reversal of provision for the penalty imposed by the anti-trust office in prior years,
  - the result of petrochemical segment higher by PLN 697,428 thousand (y/y) mainly as a result of a growth in sales volume and the lack of property, plant and equipment impairment allowances in 2011 amounting to PLN (-) 629,000 thousand, with the concurrent negative effect of changes in the macroeconomic environment and the valuation of inventories in the amount of PLN (-) 27,535 thousand (y/y),
  - the increase in corporate functions costs by (-) 56,236 thousand (y/y) is mainly due to the lack of positive influence of one-off events on the other operating activity including the reimbursement of unjustified penalty imposed by the European Commission in previous years.

Refining segment

TABLE 29. Basic financial figures for refining segment.

REFINING SEGMENT (PLN THOUSAND)	2012	2011	CHANGE	CHANGE %
1	2	3	4=(2-3)	5=(2-3)/3
Segment revenues	93 877 051	83 487 180	10 389 871	12.4%
Sales to external customers	65 874 900	58 475 608	7 399 292	12.7%
Transactions with other segments	28 002 151	25 011 572	2 990 579	12.0%
Segment expenses	-92 343 866	-81 137 448	-11 206 418	13.8%
Other operating revenues/expenses, net	-606 437	-243 838	-362 599	148.7%
Profit from operations	926 748	2 105 894	-1 179 146	-56.0%

Profit from operations plus depreciation and amortisation (EBITDA)	1 966 522	3 219 805	-1 253 283	-38.9%
Capital expenditures on non-current non-financial assets and intangible assets (CAPEX)	799 534	899 882	-100 348	-11.2%

In 2012 the operating profit of the refining segment generated by the ORLEN Group amounted to PLN 926,748 thousand in comparison to PLN 2,105,894 thousand gained in 2011.

The negative effect of decreasing crude oil PLN prices on the inventories valuation in 2012 was higher by PLN (-) 2,395,783 thousand (y/y).

The total impact of changing macroeconomic environment including mainly improvement of model refining margins and a change of PLN/foreign currency exchange rate as well as sales volume exerted a positive impact on the enhancement of operating result of the segment by PLN 2,061,000 thousand (y/y).

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

The negative effect of the other operating factors was equal to PLN (-) 577,363 thousand (y/y) and included mainly the change of the other operating activity in the amount of PLN (-) 362,599 thousand (y/y) in relation to the property, plant and equipment impairment allowances in the refining segment of the Unipetrol Group and the influence of legislative changes in respect of tax regulations concerning biocomponents in fuels as a result of removing tax release since 1 May 2011.

In 2012, in comparison to the previous year, the segment's capital expenditures ("CAPEX") decreased by PLN (-) 100,348 thousand (y/y) to the level of PLN 799,534 thousand.
Major investment tasks implemented in 2012 included:

- PKN ORLEN: construction of boiler K8 in the Power and Heat Plant, modernization and intensification of HF Alkylation plant, construction of catalytic denitriding and dedusting installation in the Power and Heat Plant and legalization of product containers,
- the ORLEN Lietuva Group: replacement of parts of reactor installed on the Fluid Catalytic Cracking installation, works on the sulphur granulation and degasification installation as well as periodic turnaround,
- the Unipetrol Group: expenses related to making electrical devices comply with requirements of law.

Retail segment

TABLE 30. Basic financial figures for retail segment.

RETAIL SEGMENT (PLN THOUSAND)	2012	2011	CHANGE	CHANGE %
1	2	3	4=(2-3)	5=(2-3)/3
Segment revenues	38 264 374	34 153 466	4 110 908	12.0%
Sales to external customers	38 141 303	34 037 500	4 103 803	12.1%
Transactions with other segments	123 071	115 966	7 105	6.1%
Segment expenses	-37 588 269	-33 645 953	-3 942 316	11.7%
Other operating revenues/expenses, net	-28 649	-81 779	53 130	-65.0%
Profit from operations	647 456	425 734	221 722	52.1%
Profit from operations plus depreciation and amortisation (EBITDA)	1 006 404	759 535	246 869	32.5%
Capital expenditures on non-current non-financial assets and intangible assets (CAPEX)	498 707	425 064	73 643	17.3%

In 2012, the retail segment's operating profit of the ORLEN Group amounted to PLN 647,456 thousand as compared to PLN 425,734 thousand in 2011.

Maintenance of high volume in the retail sales (y/y) with the declining consumption, mainly thanks to the increase on German market influenced an improvement of the operating result of the segment that increased by PLN 31,000 thousand (y/y).

The gradual reconstruction of fuel margins on the Polish and German markets compensated with surplus a drop in margins on the Czech market and, consequently, contributed to the improvement of the segment's operating result by PLN 231,000 thousand (y/y).

The overall impact of the remaining factors of PLN (-) 40,278 thousand (y/y) represents mainly the net effect of higher costs of fuel stations' operations in relation to the increased sales volume and bistro offer and the positive effect of the other operating activity due to the lack of property, plant and equipment impairment allowances in 2011 in the segment at PKN ORLEN and at ORLEN Lietuva Group.

In comparison with the year 2011, the year 2012 witnessed higher amounts of capital expenditures ("CAPEX") in the segment by PLN 73,643 thousand (y/y) to the level of PLN 498,707 thousand. The implemented tasks mainly included the construction and modernization of fuel stations.

In 2012, the ORLEN Group opened 8 new fuel CODO stations (6 in Poland and 2 in the Czech Republic), 1 COCO fuel station in the Czech Republic and 40 new DOFO stations in Poland and 2 DODO stations in Germany. Additionally, 42 fuel CODO stations (39 in Poland, 1 in Germany and 2 in the Czech Republic) and 2 DOFO stations in Poland, changed the brand.
17 CODO stations were closed (9 in Poland, 7 in Germany and 1 in the Czech Republic), as well as 28 DOFO stations (26 in Poland and 2 in the Czech Republic) and 3 DODO stations in Germany.
Also the business model was changed from DOFO to CODO at 4 stations in Poland and at one station in Germany from DODO to CODO.

Petrochemical segment

TABLE 31. Basic financial figures for petrochemical segment.

PETROCHEMICAL SEGMENT (PLN THOUSAND)	2012	2011	CHANGE	CHANGE %
1	2	3	4=(2-3)	5=(2-3)/3
Segment revenues	19 595 747	17 657 085	1 938 662	11.0%
Sales to external customers	15 969 168	14 313 184	1 655 984	11.6%
Transactions with other segments	3 626 579	3 343 901	282 678	8.5%
Segment expenses	-18 434 512	-16 398 891	-2 035 621	12.4%
Other operating revenues/expenses, net	44 028	-1 244 706	1 288 734	-
Profit from operations	1 205 263	13 488	1 191 775	8 835.8%
Profit from operationsplus depreciation and amortisation (EBITDA)	1 946 372	834 897	1 111 475	133.1%
Capital expenditures on non-current non-financial assets and intangible assets (CAPEX)	476 890	641 796	-164 906	-25.7%

In 2012 the operating profit generated by the segment amounted to PLN 1,205,263 thousand in comparison with PLN 13,488 thousand generated in 2011.

Impact of the change of the petrochemical products' prices on the valuation of inventories reduced the segment's operating profit generated in 2012 by PLN (-) 128,851 thousand (y/y).

The negative effect of lower margins on petrochemical products was partly compensated with a positive influence of changes in foreign currency exchange rates and caused a decrease in the segment's operating profit by PLN (-) 280,000 thousand (y/y).

The growth of sales volume of the segment, mainly due to the sales of terephthalic acid that was conducted during the whole year 2012, higher sales of polyolefins (y/y) resulting from the lack of limitations on production due to cyclical turnaround of the petrochemical plant in Litvinov that occurred in 2011 and persistently maintaining good economic tendencies in the field of fertilizers contributed to the improvement of operating result by PLN 161,000 thousand (y/y).

A positive effect of the other factors made for PLN 1,439,626 thousand (y/y) and mainly covered the effect of a change in the other operating activity of PLN 1,288,734 thousand (y/y) resulting from the lack of property, plant and equipment impairment allowances in the Unipetrol Group and ANWIL Group in the total amount of PLN 1,373,000 thousand (y/y) in 2011 and the effect of higher commercial margins applied in respect of the sales of fertilizers.

In 2012, as compared to the year 2011, the capital expenditures ("CAPEX") in the segment were reduced by PLN (-) 164,906 thousand (y/y) to the level of PLN 476,890 thousand.
The largest investment tasks implemented in 2012 included:

- PKN ORLEN: modernisation of pneumatics and automatics at the Phenol Division, extension of the compressor at the Olefins Expedition Division, tasks related to the improvement of safety of operations of the Ethylene Oxide II installation and replacement of condensers on the Pyrolytic Gasses Separation Installation,
- ANWIL Group: tasks related to the reduction of power consumption and to the increase in the fertilizers production complex, tasks related to the change of chlorine liquefaction technology and construction of the drying system,

– Unipetrol Group: reconstruction of a pyrolytic furnace on the Olefins Plant.

Corporate functions

TABLE 32. Basic financial figures for corporate functions.

CORPORATE FUNCTIONS (PLN THOUSAND)	2012	2011	CHANGE	CHANGE %
1	2	3	4=(2-3)	5=(2-3)/3
Segment revenues	339 400	364 557	-25 157	-6.9%
Sales to external customers	116 179	146 782	-30 603	-20.8%
Transactions with other segments	223 221	217 775	5 446	2.5%
Segment expenses	-1 097 657	-1 033 296	-64 361	6.2%
Other operating revenues/expenses, net	3 161	190 086	-186 925	-98.3%
Loss from operations	-755 096	-478 653	-276 443	-57.8%
Loss from operations plus depreciation and amortisation (EBITDA)	-634 805	-367 826	-266 979	-72.6%
Capital expenditures on non-current non-financial assets and intangible assets (CAPEX)	258 683	166 712	91 971	55.2%

Higher (y/y) net costs of corporate functions in 2012 are mainly due to the lack of positive effects of the other operating activity in 2011 amounting to PLN (-) 186,925 thousand (y/y) and including compensation received as the final settlement of the fire losses of ORLEN Lietuva refinery in 2006, reimbursement of the penalty paid to ENERGA-OPERATOR S.A. by PKN ORLEN and the reimbursement of penalties for suspected cartel practices on the part of the Unipetrol Group.

Net corporate costs include the costs of the upstream segment activity, which in 2012 amounted to PLN (-) 28,577 thousand.

In 2012, in comparison with the prior year, the corporate segment's capital expenditures ("CAPEX") amount was higher by PLN 91,971 thousand (y/y) and attained the level of PLN 258,683 thousand, of which PLN 122,299 thousand concerned the expenditures in the upstream area.
Capital expenditures concerning the upstream area mainly concerned the analyses of the obtained geological data and expenses related to the drilling.
The other capital expenditures in respect of corporate functions in 2012 of PLN 136,384 thousand generally were related to the costs of IT projects as well as the expenses on the documentation and obtaining permits as part of power projects in the Polish sea areas.

Financial expenses and net result

In 2012, the financial revenues amounted to PLN 600,768 thousand and included mainly: positive exchange differences on loans and other foreign currency items on the amount of PLN 852,204 thousand and net interest amounting to PLN (-) 202,985 thousand.

Taking into account share in the financial result of entities accounted for using the equity method and tax charges, net profit generated by the ORLEN Group for 2012 amounted to PLN 2,169,990 thousand and was by PLN 154,987 thousand higher as compared to the prior year.

4.1.2 Statement of financial position

TABLE 33. Consolidated statement of financial position – assets.

ITEM (PLN THOUSAND)	31.12.2012	31.12.2011	CHANGE	CHANGE %
1	2	3	4=(2-3)	5=(2-3)/3
ASSETS				
Property, plant and equipment	24 743 734	26 578 651	-1 834 917	-6.9%
Investment property	117 270	117 645	-375	-0.3%
Intangible assets	1 447 300	1 323 044	124 256	9.4%
Perpetual usufruct of land	97 777	95 664	2 113	2.2%
Investments accounted for under equity method	11 932	13 125	-1 193	-9.1%
Financial assets available for sale	40 820	40 520	300	0.7%
Deferred tax assets	296 939	399 526	-102 587	-25.7%

Other non-current assets	54 865	30 966	23 899	77.2%
Total non-current assets	26 810 637	28 599 141	-1 788 504	-6.3%
Inventories	15 011 047	16 296 517	-1 285 470	-7.9%
Trade and other receivables	8 075 302	8 071 011	4 291	0.1%
Other short-term financial assets	368 125	293 434	74 691	25.5%
Income tax receivable	89 625	33 684	55 941	166.1%
Cash	2 211 425	5 409 166	-3 197 741	-59.1%
Non-current assets classified as held for sale	64 619	28 525	36 094	126.5%
Total current assets	25 820 143	30 132 337	-4 312 194	-14.3%
Total assets	52 630 780	58 731 478	-6 100 698	-10.4%

As at 31 December 2012 the statement on financial position **totalled to** PLN 52,630,780 thousand and decreased by PLN (-) 6,100,698 thousand (by (-) 10.4%) in comparison to value of total assets recorded as at 31 December 2011.

The value of non-current assets was reduced in comparison with the situation recorded as at 31 December 2011 by PLN (-) 1,788,504 thousand (by (-) 6.3%) and amounted to PLN 26,810,637 thousand. The above change was most significantly affected by the reduced net value of property, plant and equipment and intangible assets by PLN (-) 1,710,661 thousand, mainly due to:

- capital expenditures of PLN 2,006,152 thousand,
- depreciation and amortisation of PLN (-) 2,258,482 thousand,
- exchange differences resulting from translating foreign entities' non-current of PLN (-) 859,003 thousand,
- impairment allowances recognised mainly in the Unipetrol Group of PLN (-) 690,216 thousand.

As at 31 December 2012 the value of current assets was reduced by PLN (-) 4,312,194 thousand (by (-) 14.3%) (y/y) to reach the level of PLN 25,820,143 thousand) mainly as a result of:

- reduction by PLN (-) 3,197,741 thousand (by (-) 59.1%) of the cash and cash equivalents balance as compared to the situation recorded as at the end of 2011,
- decrease by (-) 1,285,470 thousand (by (-) 7.9%) of the inventories value, as a result of the sales transaction concerning part of mandatory crude oil reserves to the company Whirlwind Sp. z o.o. executed due to the change of the formula of maintaining mandatory crude oil reserves as described in point 1.5 of this Management Board Report.

For detailed information of the transaction concerning the sales of part of the crude oil mandatory reserves to the company Whirlwind Sp. z o.o. see note 16 to the Consolidated financial Statements for 2012.

TABLE 34. Consolidated statement of financial position – equity and liabilities.

ITEM (PLN THOUSAND)	31.12.2012	31.12.2011	CHANGE	CHANGE %
1	2	3	4=(2-3)	5=(2-3)/3
SHAREHOLDERS' EQUITY AND LIABILITIES				
Share capital	1 057 635	1 057 635	0	0.0
Share premium	1 227 253	1 227 253	0	0.0
Hedging reserve	-73 232	-24 305	-48 927	201.3%
Revaluation reserve	6 973	5 301	1 672	31.5%
Foreign exchange differences on subsidiaries from consolidation	80 926	415 628	-334 702	-80.5%
Retained earnings	24 179 632	21 852 261	2 327 371	10.7%
Total equity attributable to equity holders of the parent	26 479 187	24 533 773	1 945 414	7.9%
Non-controlling interest	1 827 646	2 264 910	-437 264	-19.3%
Total equity	28 306 833	26 798 683	1 508 150	5.6%
Loans and borrowings	7 678 446	10 537 792	-2 859 346	-27.1%
Provisions	660 279	621 379	38 900	6.3%
Deferred tax liabilities	671 603	740 910	-69 307	-9.4%

Deferred income	15 321	16 239	-918	-5.7%
Other long-term liabilities	171 009	203 682	-32 673	-16.0%
Total long-term liabilities	9 196 658	12 120 002	-2 923 344	-24.1%
Trade and other liabilities	12 655 891	15 092 524	-2 436 633	-16.1%
Loans and borrowings	1 294 641	2 459 799	-1 165 158	-47.4%
Income tax liability	83 737	673 643	-589 906	-87.6%
Provisions	802 719	1 008 140	-205 421	-20.4%
Deferred income	168 305	136 379	31 926	23.4%
Other financial liabilities	121 996	442 308	-320 312	-72.4%
Total short-term liabilities	15 127 289	19 812 793	-4 685 504	-23.6%
Total liabilities	24 323 947	31 932 795	-7 608 848	-23.8%
Total shareholders' equity and liabilities	52 630 780	58 731 478	-6 100 698	-10.4%

Equity as at 31 December 2012 amounted to PLN 28,306,833 thousand and was higher by PLN 1,508,150 thousand (by 5.6%) in comparison with equity recorded as at the end of the prior year, mainly due to:
- net profit generated in 2012 of PLN 2,169,990 thousand,
- reduction by PLN (-) 437,264 thousand (y/y) in the equity allocated to non-controlling interests,
- reduction by PLN (-) 334,702 thousand (y/y) in the balance of exchange differences on subsidiaries from consolidation.

Net indebtedness of the ORLEN Group as at 31 December 2012 amounted to PLN 6,761,662 thousand and was lower by PLN (-) 826,763 thousand as compared to that recorded as at the end of 2011. The decrease in net indebtedness in this period due to positive net exchange differences resulting from the revaluation of loans in foreign currencies amounted to PLN (-) 1,037,607 thousand with the concurrent overall growth by PLN 210 844 thousand due to the net repayment of the loans, valuation of indebtedness and reduction of cash balance.

4.1.3 Statement of cash flows

TABLE 35. Consolidated statement of cash flows.

ITEM (PLN THOUSAND)	2012	2011	CHANGE	CHANGE %
1	2	3	4=(2-3)	5=(2-3)/3
Cash flows- operating activities				
Net profit	2 169 990	2 015 003	154 987	7.7%
Adjustments for:				
Share in profit from investments accounted for under equity method	696	-188 299	188 995	-
Depreciation and amortisation	2 260 122	2 379 948	-119 826	-5.0%
Foreign exchange loss/(gain)	-515 553	729 342	-1 244 895	-
Interest, net	342 091	381 683	-39 592	-10.4%
Dividend received	-1 767	-1 287	-480	37.3%
(Profit) / Loss on investing activities	829 028	-68 924	897 952	-
Change in receivables	-135 551	-1 319 184	1 183 633	-89.7%
Change in inventories	1 018 997	-4 565 020	5 584 017	-
Change in liabilities	-2 022 190	1 080 799	-3 102 989	-
Change in provisions	420 620	594 175	-173 555	-29.2%
Income tax expense	454 453	776 738	-322 285	-41.5%
Income tax (paid)	-1 098 692	-333 469	-765 223	229.5%
Other adjustments	-633 059	-720 399	87 340	-12.1%
Net cash provided by operating activities	3 089 185	761 106	2 328 079	305.9%
Cash flows - investing activities				

Acquisition of property, plant and equipment and intangible assets	-2 446 497	-2 542 445	95 948	-3.8%
Disposal of property, plant and equipment and intangible assets	44 735	324 705	-279 970	-86.2%
Acquisition of shares	-169 917	-121 348	-48 569	40.0%
Disposal of shares	370	3 675 922	-3 675 552	-100.0%
Acquisition of other securities and deposits	-28 127	-111 280	83 153	-74.7%
Disposal of other securities and deposits	22 479	115 700	-93 221	-80.6%
Interest received	7 142	8 333	-1191	-14.3%
Dividend received	1 767	251 300	-249 533	-99.3%
(Disbursements)/ Proceeds from borrowings granted	-268 255	22 875	-291 130	-
Other	-38 553	-126 741	88 188	-69.6%
Net cash provided by / (used in) investing activities	-2 874 856	1 497 021	-4 371 877	-
Cash flows - financing activities				
Proceeds from borrowings and loans received	4 557 429	18 892 646	-14 335 217	-75.9%
Issue of debt securities	1 000 000	0	1 000 000	-
Repayment of loans and borrowings	-7 798 681	-18 021 857	10 223 176	-56.7%
Repurchase of debt securities	-750 000	0	-750 000	-
Interest paid	-373 156	-496 462	123 306	-24.8%
Payment of liabilities under finance lease agreements	-29 343	-27 553	-1 790	6.5%
Dividends paid to non-controlling interest	-15 212	-13 986	-1 226	8.8%
Other	-2 510	-412	-2 098	509.2%
Net cash provided by / (used in) financing activities	-3 411 473	332 376	-3 743 849	-
Net (decrease)/ increase in cash and cash equivalents	-3 197 144	2 590 503	-5 787 647	-
Effect of exchange rate changes on cash and cash equivalents	-597	-2 079	1 482	-71.3%
Cash and cash equivalents, beginning of the period	5 409 166	2 820 742	2 588 424	91.8%
Cash and cash equivalents, end of the period	2 211 425	5 409 166	-3 197 741	-59.1%

In 2012, cash flows from operating activities amounted to PLN 3,089,185 thousand and were higher by PLN 2,328,079 thousand in comparison with the prior year.
The main positions of the cash flows from operating activities are the net result increased by depreciation and amortisation of PLN 4,430,112 thousand as well as the increased need for the net working capital by PLN (-) 1,138,744 thousand.

The cash used in investing activities in 2012 amounted to PLN (-) 2,874,856 thousand and included mainly net expenses for the acquisition of property, plant and equipment and intangible assets of PLN (-) 2,401,762 thousand. The other net expenses in 2012 related mainly to the change in the borrowings balance and the acquisition of shares totalling to PLN (-) 437,802 thousand.
The position of proceeds/ (disbursements) from borrowings granted includes the short-term loan granted to Whirlwind of PLN (-) 271,791 thousand in connection with the sale to that company of another tranche of mandatory crude oil reserves. For additional information concerning the sale of mandatory crude oil reserves to Whirlwind Sp. z o.o. see note 16 to the Consolidated Financial Statements for 2012.

The position of acquisition of shares includes the acquisition for PLN (-) 54,231 thousand of 49.00% shares in Petrolot Sp. z o.o. (including PLN (-) 52,000 thousand for settlement of the borrowing), purchase for PLN (-) 27,174 thousand of 48,63% shares in ORLEN Projekt S.A and expenses in connection with the higher capital engagement mainly in companies: ANWIL S.A., Rafineria Nafty Jedlicze S.A., IKS Solino S.A. as a result of the purchase of minority stake of the overall value of PLN (-) 87,609 thousand.

In 2012, the cash used in financing activities amounted to PLN (-) 3,411,473 thousand and comprised mainly net expenses for the repayment of loans and borrowings and repurchase of debt securities in the overall amount of PLN (-) 2,991,252 thousand plus the expenses relating to the costs of debt service amounting to PLN (-) 373,156 thousand.

Consequently, the cash was reduced by PLN (-) 3,197,144 thousand as compared to the amount recorded as at the end of the prior year and as at 31 December 2012 was equal to PLN 2,211,425 thousand.

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

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

ORLEN Group operating results for 2012 did not change in comparison to results published on 23 January 2013 in consolidated quarterly report for the fourth quarter of 2012.

4.1.5 Macroeconomic factors affecting the financial results and sensitivity analysis

Changing macroeconomic environment has significant influence on ORLEN Group operations.
Economic situation on the labor market and macroeconomic trends have significant impact on fuel and petrochemical products' consumption and in consequence on volume and prices of their sales.
The basic indicator reflecting economic situation is the gross domestic product (GDP), which is determined by consumption, capital expenditures and export and allows to assess the stage of the economy. Changes in GPD index are correlated with changes in unemployment rate.

DIAGRAM 18. GDP in Poland (year-on-year increase)*.

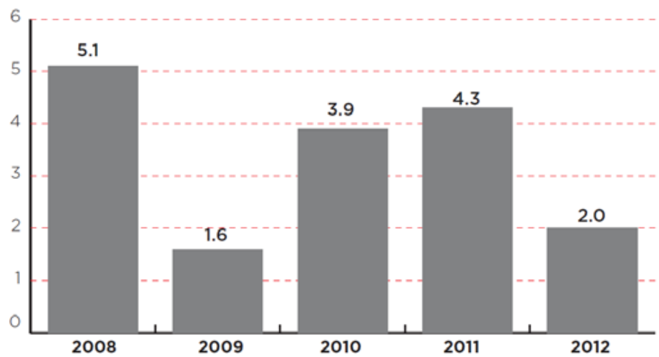


DIAGRAM 19. GDP in Czech Republic (year-on-year increase)*.

DIAGRAM 20. GDP in Lithuania (year-on-year increase)*.

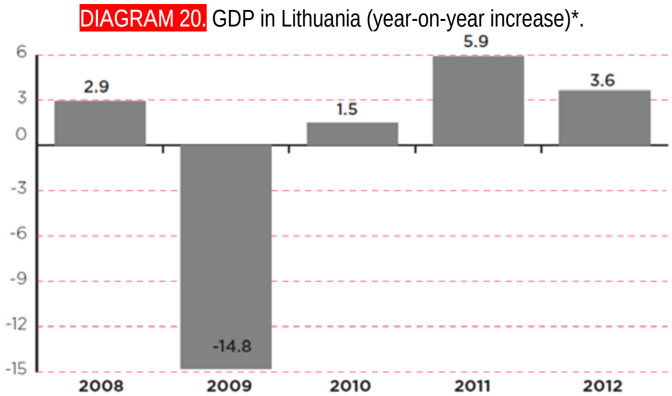
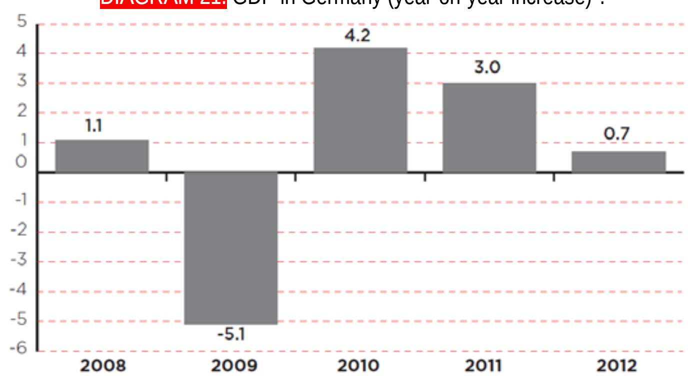


DIAGRAM 21. GDP in Germany (year-on-year increase)*.



*) Based on EUROSTAT data

Changes in interest rates affect the value of financial gains realised on bank deposits, borrowings granted, as well as costs of servicing debts resulting from variable interest rate loans.

DIAGRAM 22. WIBOR 3M average interest rate (%).

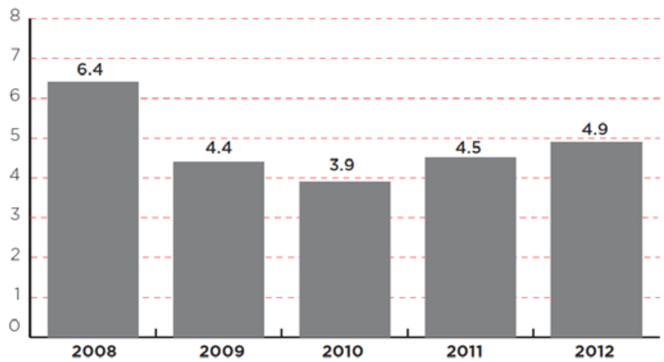


DIAGRAM 23. EURIBOR 3M average interest rate (%).

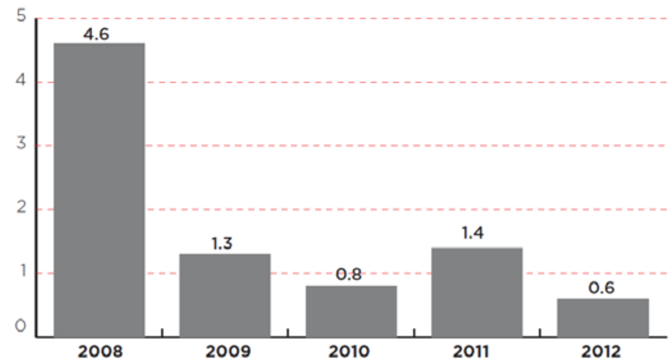


DIAGRAM 24. LIBOR 3M average interest rate (%).

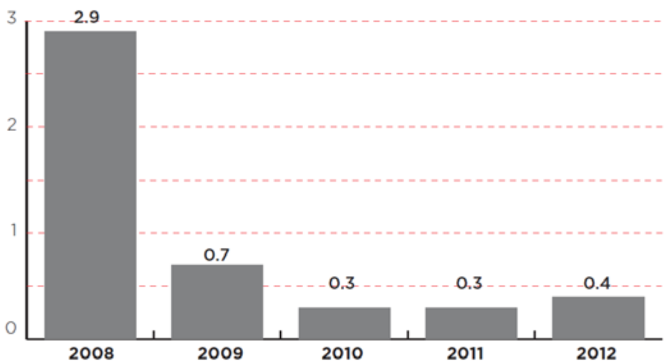
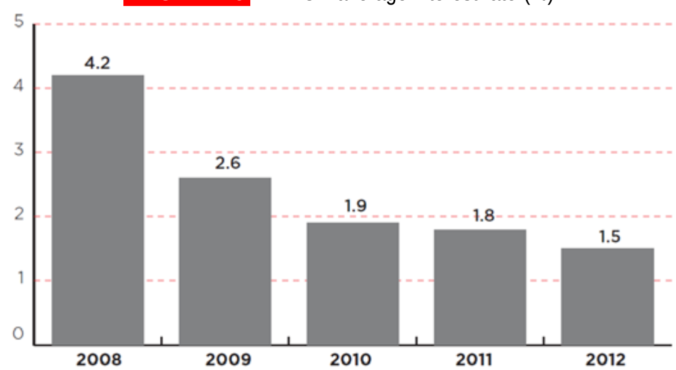


DIAGRAM 25. PRIBOR average interest rate (%).



Fluctuations of exchange rates have impact on the ORLEN Group's results. The level of revenues generated by the ORLEN Group largely derives from the value of PLN in relation to other currencies. Fixing of prices of refining and petrochemical products is based on quotations carried out on commodity markets in foreign currencies. The costs of crude oil, raw materials and debt servicing incurred by the ORLEN Group are also denominated in foreign currencies.

DIAGRAM 26. USD/PLN average exchange rate.

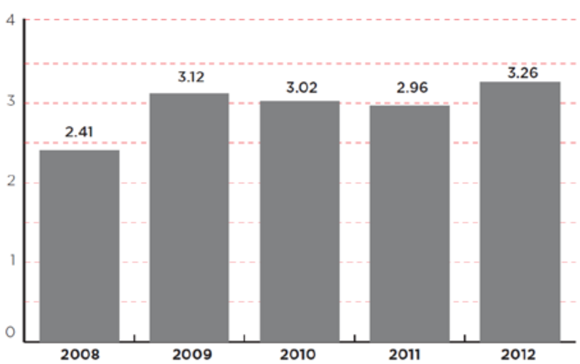
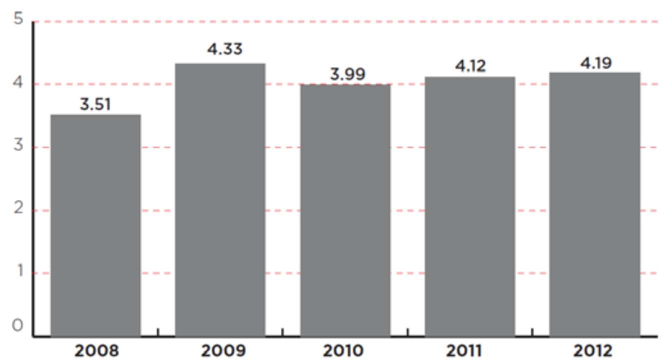
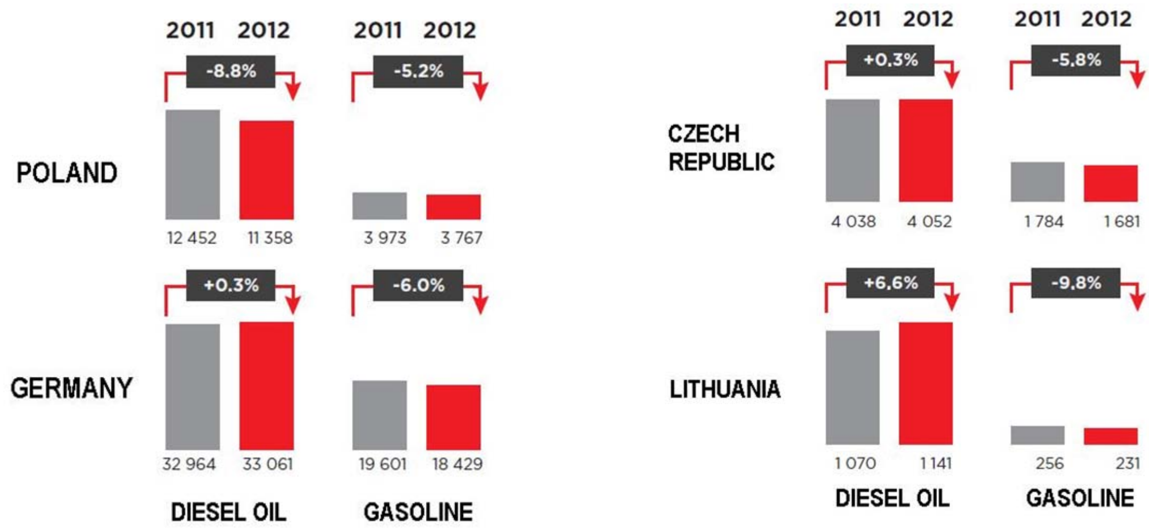


DIAGRAM 27. EUR/PLN average exchange rate.



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

DIAGRAM 28. Consumption of gasoline and oil in countries served by ORLEN Group.



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

DIAGRAM 29. Brent oil quotations (USD/bbl).

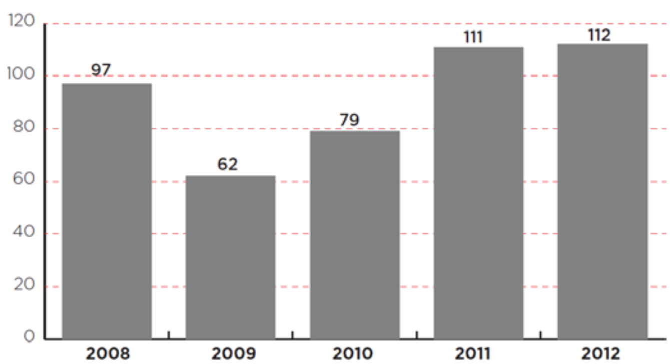
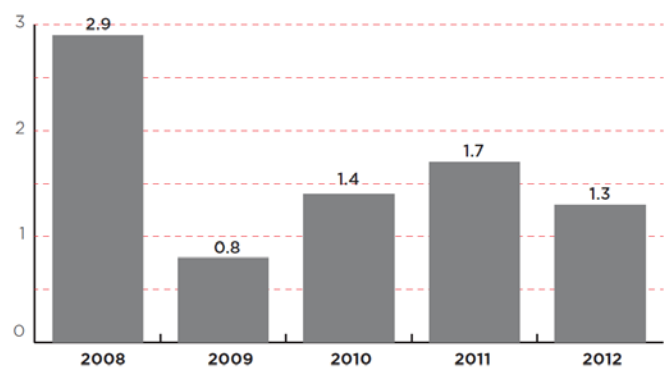


DIAGRAM 30. Brent/Ural differential * (USD/bbl).



ORLEN Group operating results depend on realisation of refinery and petrochemical margins. The margins depend in turn on changes in finished products prices on global markets and prices of crude oil.

DIAGRAM 31. Refining margin („crack quotations (USD/t).

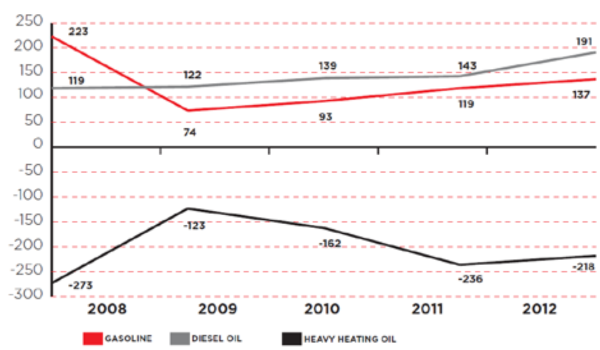
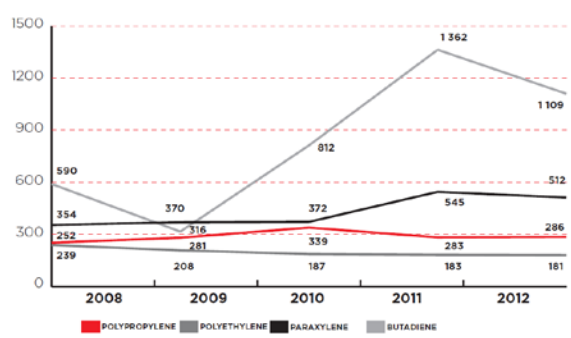


DIAGRAM 32. Petrochemical margin („crack") quotations (EUR/t).



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

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

DIAGRAM 33. Model refining margin and differential * (USD/bbl).

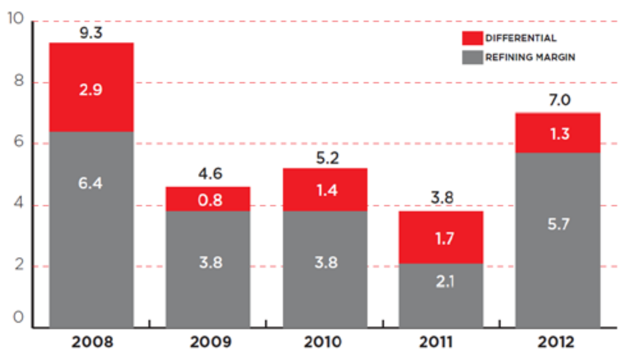
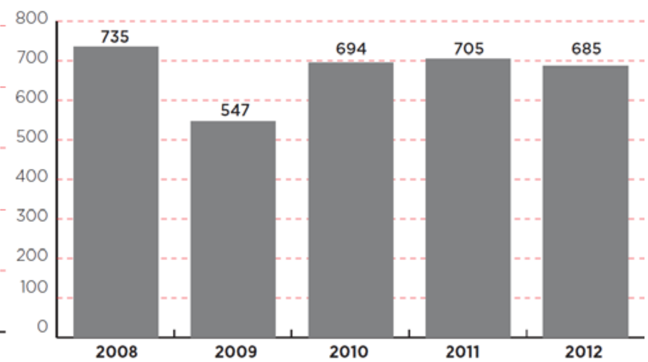


DIAGRAM 34. Model petrochemical margin* (EUR/t).



*) The differential, refining and petrochemical margin calculation methods are presented in the Refinery Glossary at the end of the foregoing Management Board Report

PKN ORLEN carries out an analysis of the impact of key macroeconomic indices on operational results realised. Methodology of aggregate estimating the impact of changes in main macroeconomic factors on the ORLEN Group financial results is presented below. The impact of the abovementioned factors is presented on the diagram below.

Estimates of impact on the model refining margin and differential Brent/Ural are performed using full processing capacity of crude oil of ORLEN Group of 31 million tonnes (around 230 million barrels) per year.

Estimates of impact on the model petrochemical margin are performed assuming the sale of polymers in ORLEN Group of approximately 850 thousand tonnes per year.

Estimates of impact on retail margin are performed assuming the sale of motor fuels in ORLEN Group of approximately 9 billion liters per year.

DIAGRAM 35. Sensitivity analysis of the change in the crucial macroeconomic parameters – impact on the operating result.

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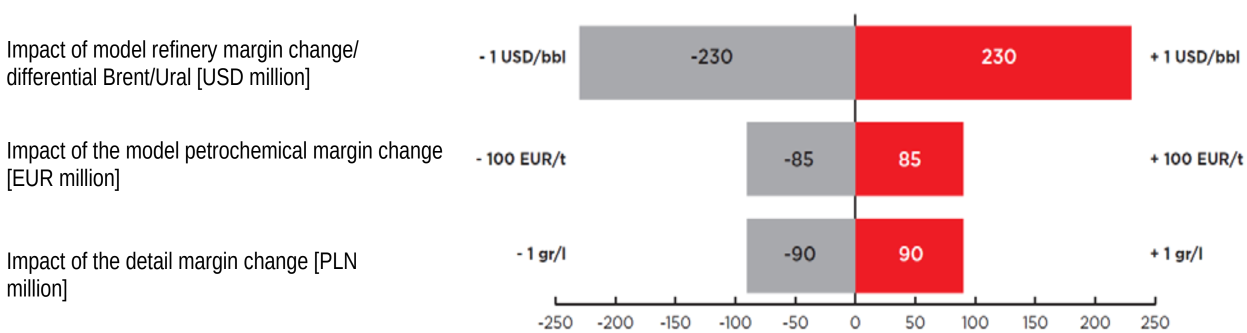


The effect of changes in these parameters was estimated with an assumption of luck of relation between them and other parameters determining the results of the ORLEN Group. Changes of macroeconomic factors may influence additionally many other elements like the optimisation of the structure of products' basket, sales directions or capacity utilization, which may additionally influence the presented results of operations.

4.2 Financial resources management

4.2.1 General management rules

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

The Parent Company takes advantage of a cash pooling system to optimise financing costs and effectively manage the current financial liquidity within the ORLEN Group.
In 2012, the following cash pooling systems were in operation:

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

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

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

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

4.2.2 Loans, borrowings and debt securities

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

TABLE 36. Sources of financing.

ITEM (PLN THOUSAND)	2012	2011	CHANGE	CHANGE %
1	2	3	4=(2-3)	5=(2-3)/3
Bank loans	7 594 852	11 824 318	-4 229 466	-35.8%
Borrowings	1 558	10 055	-8 497	-84.5%
Debt securities	1 376 677	1 163 218	213 459	18.4%
Financial indebtedness	8 973 087	12 997 591	-4 024 504	-31.0%
By maturity:				
Long-term	7 678 446	10 537 792	-2 859 346	-27.1%
Short-term	1 294 641	2 459 799	-1 165 158	-47.4%
Cash	2 211 425	5 409 166	-3 197 741	-59.1%
Net financial indebtedness	6 761 662	7 588 425	-826 763	-10.9%

The most significant loans in 2012 in the ORLEN Group are the following (in excess of PLN 100,000 thousand):

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

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

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

– 12 overdraft agreements in the Unipetrol Group's current account in the total amount of PLN 1,905,051 thousand for financing current activities, base currency for most of loans is CZK,

- loan to ORLEN Finance for EUR 243,000 thousand (PLN 993,433 thousand) as part of international cash pool. The loan was extended in April 2010 by Nordea Bank Finland Plc, the agreement will remain in force until June 2015,
- long-term loan to ORLEN Lietuva for USD 150,000 thousand (PLN 464,940 thousand) for general investment purposes extended by AB SEB Bankas. The loan was signed in August 2011 and the agreement will remain in force until April 2016 roku,
- syndicated loan to Basell ORLEN Polyolefins for EUR 191,668 thousand (PLN 783,577 thousand), of which EUR 151,668 thousand (PLN 620,049 thousand) forms the investment loan and EUR 40,000 thousand (PLN 163,528 thousand) the revolving loan. The loan was syndicate by four banks . The loan was signed in August 2011 and the agreement will remain in force by the end of December 2015,
- investment loan to IKS Solino S.A. for PLN 175,906 thousand extended by the consortium of 2 banks in August 2004 for the construction of underground warehouse of crude oil and fuels, the agreement will remain in force by 2017,
- overdraft in current account for financing the activities of Spolana a.s. owned by ANWIL Group, in the amount of CZK 700,000 thousand (PLN 114,100 thousand). The loan was extended by Bank RBS in May 2009 and the loan agreement will remain in force until February 2014.

As regards the loan agreements in force, the Parent Company is obliged to maintain selected financial indicators within brackets agreed in the loan agreements. In 2012, the financial assessed by the lending banks remained at the safe level. The reduction of the net financial debt improved the financial safety and the range of financial ratios assessed by the lending banks of the ORLEN Group. The financial indicators attained in 2012 presented in point 4.2.8 confirm the full ability to perform payment obligations resulting from the loan agreements and other agreements with banks and financial institutions.

As at 31 December 2012, under executed loan agreements, the amount of PLN 10,804,527 thousand was available to the ORLEN Group, of which PLN 9,811,094 thousand under long-term loan agreements or overdraft agreements and PLN 933,433 thousand under international cash pooling system.

For further information concerning the debt structure of the ORLEN Group see note 22 to the Consolidated Financial Statements for 2012.

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

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

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

In 2012, the securities issue scheme was applied by PKN ORLEN and by the Unipetrol Group. The aggregate value of the securities issued at PKN ORLEN amounted to PLN 1,022,716 thousand, in comparison with PLN 763,428 thousand in 2011, and in the Unipetrol Group it was PLN 353,961 thousand in comparison with PLN 399,790 thousand in 2011.

For further information on the issue of debt securities see note 22.3 to the Consolidated Financial Statements for 2012.

4.2.4 Borrowings granted

At the end of 2012, in ORLEN Group the following agreements of borrowings extended to entities within and outside the ORLEN Group were in force:
- long-term borrowing executed on 7 June 2011 with subsidiary, ORLEN Lietuva A.B., for the amount of USD 200,000 thousand with final maturity day on 6 June 2014. The borrowing balance to be repaid, as at 31 December 2012, amounted to USD 200,000 thousand plus accrued interest.
- borrowings granted within the ORLEN Group in relation to international cash-pool system of total amount USD 206,711 thousand.
- short-term borrowing granted on 28 December 2012 in Whirlwind Sp. z o.o. (company outside ORLEN Group) of PLN 271,791 thousand to pay VAT assessed in connection with the sales transaction by PKN ORLEN of crude oil reserves. In accordance with the borrowing agreement, it was supposed to be repaid at the latest on 30 June 2013. The borrowing balance to be repaid as at 31 December 2012 amounted to PLN 271,791 thousand plus accrued interest. On the day of publication hereof the borrowing is repaid in whole.

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

4.2.5 Sureties, guarantees and other contingent liabilities

As at 31 December 2012 the ORLEN Group possessed off balance liabilities arising out of the issued guarantees and sureties for the overall PLN 4,532,532 thousand, in comparison with PLN 4,166,132 thousand as at the end of 2011. In 2012 the amount includes:

- sureties and guarantees issued to subsidiaries to the benefit of third parties in the amount of PLN 2,346,022 thousand,
- securities for excise and excise duty on products and goods undergoing the procedure of suspended excise collection in the amount of PLN 1,729,558 thousand.
- sureties and guarantees concerning liabilities towards third parties issued in the course of normal business operations mainly relate to: guarantees and performance bonds, customs guarantees, tender guarantees, payment guarantees in the amount of PLN 456,952 thousand.

The aggregate value of contingent liabilities as at 31 December 2012 decreased as compared to that recorded as at 31 December 2011 by PLN (-) 26,807 thousand and amounted, as at 31 December 2012, to PLN 4,038 thousand mainly due to the conclusion of the OCCP anti-trust proceedings concerning competition-limiting practices on the domestic market of wholesale of gasolines and diesel oil.

For further information on contingent liabilities see note 38 to the Consolidated Financial Statements for 2012.

4.2.6 Working capital management

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

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

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

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

4.2.7 Financial instruments

As at 31 December 2012, the financial assets amounted to PLN 9,697,811 thousand, which means that in comparison with the end of 2011 they decreased by PLN (-) 3,230,291 thousand. The main items of financial assets were trade receivables amounting to PLN 6,897,977 thousand and cash and cash equivalents amounting to PLN 2,211,425 thousand.

As at 31 December 2012, the financial liabilities amounted to PLN 18,946,676 thousand, which means that in comparison with the end of 2011 they decreased by PLN (-) 6,456,647 thousand. The main components of financial liabilities were trade liabilities amounting to PLN 8,815,143 thousand, loans and borrowings amounting to PLN 7,596,410 thousand and debt securities amounting to PLN 1,376,677 thousand.

The ORLEN Group uses financial instruments to mitigate negative effects of risks, to which it is exposed as a result of its business activity, i.e. credit risk, liquidity risk and market risks (including currency risk, interest rate risk, risk of goods price changing, risk of changing prices of rights to CO_2 emissions). The ORLEN Group analyses how the changes of such factors as exchange rates, interest rates and crude oil and main products prices affect the attained financial results.

For additional information on financial instruments see note 35 to the Consolidated Financial Statements for 2012.

4.2.8 Selected financial ratios

TABLE 37. List of financial ratios.

ITEM	MEASURING UNIT	2012	2011
1	2	3	4
Liquidity ratios			
Current liquidity	x	1.7	1.5
Quick liquidity	x	0.7	0.7
Net working capital	PLN million	13 094	12 368
Turnover ratios			
Receivables turnover	days	21	21
Liabilities turnover	days	32	37
Inventory turnover	days	48	47
Assets turnover	x	2,2	1,9
Debt service coverage ratio			
Financial leverage	%	26.0	30.2
Net debt/(operating profit + depreciation + dividend from Polkomtel S.A. in 2011)	x	1.58	1.62

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

4.3 Assessment of the possibility of investment plans implementation

The investment programme as described in the updated strategy for the years 2013-2017 assumes the implementation of investment projects having key significance for further development and competition of the ORLEN Group mainly in the area of upstream and power industry.
The investment programme also includes the completion of a number of projects already under construction, among others Vacuum Flasher and Mild HydroCracker (MHC) in the ORLEN Lietuva Group and the SCR/EF (flue gas denitriding and dedusting) installation and IOS (flue gas desulphurisation) installation in the Power and Heat Plant in PKN ORLEN as well as a numerous development projects in the retail segment to be implemented on the Polish and German markets.

The aforementioned projects are secured in terms of finance with the priority of operations of the ORLEN Group. Thanks to effective performance of strategic goals in the latest years, solid foundations were created for further development of the ORLEN Group. The activities aimed at reducing financial debt to PLN 6,761,662 thousand, reduction of the leverage ratio to 26.0%, reduction of the covenants levels provided for in loan agreements as well as established operating cash flows will allow to implement the investment programme planned for the years 2013-2017. The level of selected financial ratios is presented in point 4.2.8 hereof.
With the implementation of strategic goal, the investment projects start up policy depending on current situation of the ORLEN Group and market environment is additionally of great importance for the financial security.

4.4 Perspectives for development in the nearest financial year

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

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

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

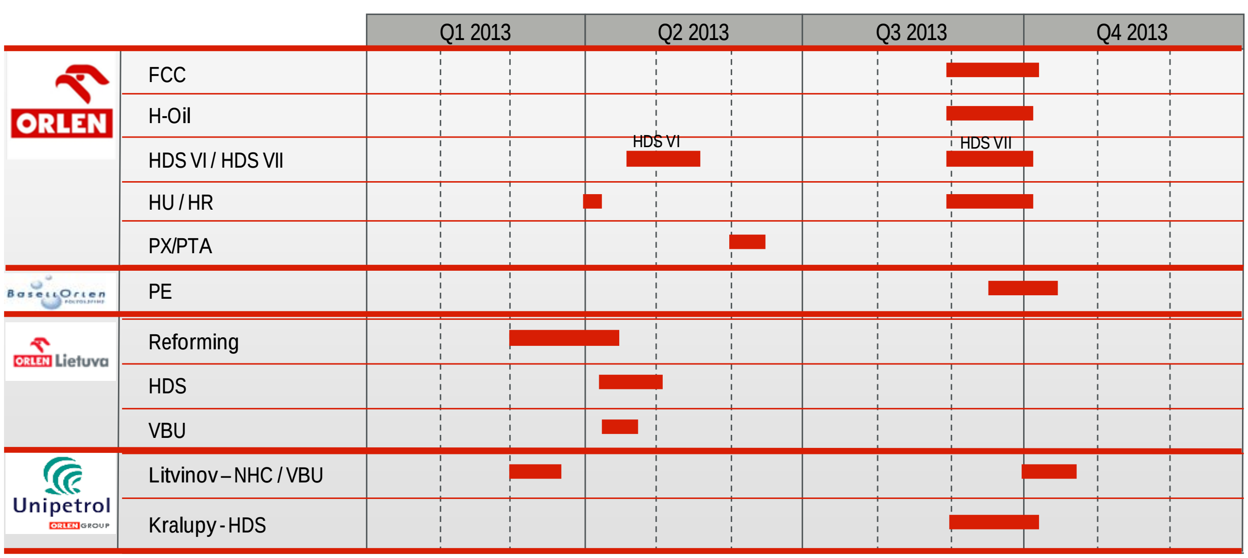
- Consumption tendencies and competition:
  - fluctuations in fuel consumption, including the possible continuation of dropping tendency due to the economic slowdown and increased unemployment as well as decrease in the real income of people, but also the impact of "shadow economy" influencing the possibility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

- Changes in legislation:
  - increased National Indicative Target up to the level of 7.1% in 2013 in comparison with 6.65% in 2012, with the retained option of the so-called "lowered target",
  - anticipated decrease in limits of gratuitous allocation of CO_2 emissions rights,
  - assumed further support for the production of electric energy in associable designs of high efficiency (colour certificates),
  - anticipated amendments to the provisions regulating mandatory reserves in medium term.

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

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

DIAGRAM 36 Schedule of turnaround of the main installations in the ORLEN Group for the year 2013.



TTD – Tubular-tower destillation
FCC – Fluid Catakityc Cracking
H-Oil – Vacuum Residue Hydrodesulfurization
HDS – Diesel Hydrotreating
HU / HR – Hydrogen Unit/ Hydrogen Recovery
PX/PTA – Paraxylene and terephthalic acid production installation
NHC / VBU – New Hydrocracker / Visbreaking Unit

5. ORLEN GROUP STRATEGY AND DEVELOPMENT PLANS

5.1 Summary of 2009-2013 strategy implementation

The ORLEN Group strategy for 2009-2013 assumed:

- increase in the efficiency and finalizing the investment activities,
- divestment of non-core assets and decrease in the indebtedness,
- development of the upstream segment and building of the power segment.

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

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

In 2011 one of the biggest merger and acquisition transaction in the region was the sale of Polkomtel shares. PKN ORLEN sold its package for PLN 3,672,000 thousand.
The realisation of the restrictive cost policy, improvement of the trading results and number of initiatives optimising the working capital (see also description in point 4.2.6 above) enabled the reduction of the net indebtedness of ORLEN Group by 46% in comparison to the end of 2008 to the level of PLN 6,761,662 thousand at the end of 2012. As a result a secure covenants level included in loan agreements was provided and the net financial leverage was decreased to 26.0 %. Stabilising financial situation creates solid foundations for the further development of the ORLEN Group.

Intense activities were performed related to creation and development of new segments, including upstream and power industry segments.
In the power industry segment a contract was signed to construct a steam and gas power plant in Wloclawek and a modernisation scheme was being implemented in the power plant in Plock. Drafting works were also carried out in connection with the construction of a new gas block unit in Plock and in the area of renewable energy sources ("RES").
In the upstream segment, the ORLEN Group became the leader in shale gas exploration in Poland. Till the end of 2012 5 drillings were performed within 3 concessions. Projects were continued to extract hydrocarbons from conventional sources- at the end of 2012 1 drilling was performed and further were in the preparation stage.

The motto for the ORLEN Group Strategy for 2009-2013 was "We gain position for further growth". The successful realisation of the policy laid solid foundations for further development of the ORLEN Group which was outlined in the new strategy for 2013-2017 with the motto "Fuelling the future".

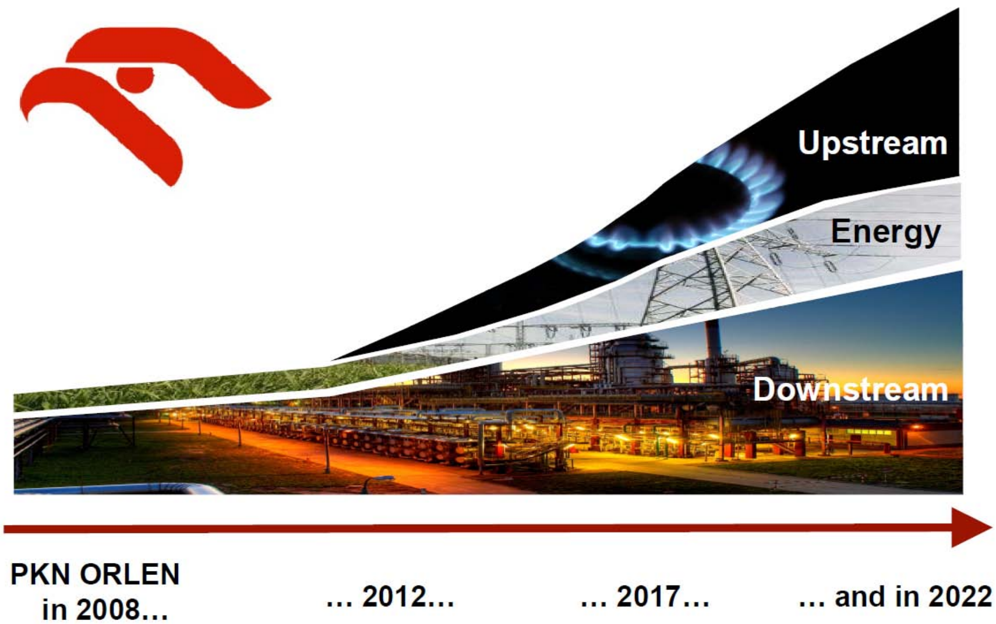
5.2 ORLEN Group strategy for 2013-2017

On 30 November 2012 strategic directions of the ORLEN Group's development for 2013-2017, based on three pillars, were presented:

- Shareholders – stable financial foundations resulting from a reduced indebtedness and financial leverage, guaranteed refinancing and improved rating of the ORLEN Group's condition expressed in rating agencies opinions create the potential for dividend payments in the following years. A new, transparent dividend policy assumes a sustainable increase in the dividend rate up to 5% as compared to the Company's average capitalization in the previous year, taken into consideration the implementation of strategic objectives in the field of financial safety and macroeconomic situation.
- Value growth – in the Refining, Petrochemical and Retail segments – so called downstream- focus on enhancing the efficiency and value maximisation and using the owned potential as the leverage to build value in the area of Power Industry and Upstream, strengthening the competitive advantages in reducing external risks. Improving the operating results and cash flows provided by operating activities will enable to allocate more funds for development, especially in the area of Power Industry and Upstream.
- Financial Foundations – the above strategic objectives will be performed with special attention to the financial safety, which is especially important in the unstable situation on the worldwide financial markets. It is planned to keep the safe level of financial leverage below 30% and the Net debt/(operating result + amortization) covenant below 1.5. One of the strategic objectives is also to restore PKN ORLEN's investment rating at the minimum BBB- level.

Over the next 10 years the ORLEN Group will become a concern with three strong pillars of activities: downstream, power energy and upstream.

DIAGRAM 37. ORLEN Group's vision in the time horizon till 2022.



With the assumption that forecasts included in the strategic plan for 2013-2017 will realise, the ORLEN Group will generate in that period cash flows from operating activities higher by more than 40% in comparison with 2008-2012.
As a result, it will be possible to implement both the new dividend policy and allocate up to PLN 22.5 billion for investments, PLN 6.9 billion of which constitutes so called additional pool that will be activated dependent on the projects' economics and current ORLEN Group situation.
Development expenditures within the total value of the planned investments will amount to PLN 15.1 billion, PLN 5.1 billion and PLN 4.2 billion of which will be allocated to upstream and power industry, respectively. The remaining amount of PLN 5.8 billion will be allocated to downstream segments (refining, petrochemistry and wholesale).

Strategy implementation in particular ORLEN Group segments.

Refining segment

The core business of the ORLEN Group will remain the refining segment with the high-class integrated production assets which ensure a strong position on the competitive market, mostly through the constant efforts to improve efficiency.
In 2017 it is planned to increase the crude oil processing volume by 2.2 million of tonnes, increase the yield on fuels by 1 p.p. and to decrease by 4 units the energy consumption (Solomon index) in comparison to 2012.

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

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

Petrochemical segment

PKN ORLEN's position as the largest petrochemical producer in the region and a leader in the olefin and polyolefin production along with the forecast of increase in the demand for these products create a solid foundation of the value growth. Plans for the petrochemical segment assume the improvement of the performance rate of key installations, as well as enhance efficiency of the production and sale processes. In 2017 the assumed increase of throughput in olefin installation is 7 p.p., as well as increase in polymers sale and PTA together by 0.2 million tonnes in comparison to 2012.

Planned higher sales volume, wider range of products and positive macroeconomic environment will enable to increase the average annual ratio EBITDA acc. to LIFO in the strategic plan period by PLN 1.1 billion in comparison to EBITDA acc. to LIFO from 2008-2012, excluding one-offs related mainly to impairment allowances of assets.

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

Retail segment

The activity of the retail segment in the next years will be based on the strong and established market position. The ORLEN Group has the largest sales network in the Central Europe and the biggest group of loyal customers in Poland. The Vitay and Flota programmes have over 2.5 million active participants.
New strategy assumes for 2017 increase of the ORLEN Group home market share by 3 p.p., improvement of the average sale per gasoline station by 0.6 million liters and increase of non-fuel margins by over 50% in comparison to 2012.

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

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

Power Industry

ORLEN Group has experience gained in managing energy assets and on the natural gas market. In the production plant in Plock the biggest professional production block in Poland is localized, where various types of fuel, such as heating oil, refining gas and natural gas, are used to produce energy and heat. PKN ORLEN is the largest gas recipient in Poland and active participant in the liberalisation process of the natural gas market.
Given the energy market prospects, including the expected excess of demand over the supply, good locations held and possible synergies with other segments, it was decided to continue the development activities in this area.

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

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

Upstream

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

ORLEN Group's priority is the shale gas exploration under concessions held in Poland. The extraction may possibly be started as early as in 2016 and reach 161 million m^3 per year in 2017. ORLEN Group also plans to extract crude oil, the own production volume may reach 1 million bbl per year in 2017.
It is planned that the development of the upstream segment will bring positive operating results even within the time covered of the present strategy – it is expected that in 2017 EBITDA acc. to LIFO will increase by an additional amount of PLN 0.4 billion.

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

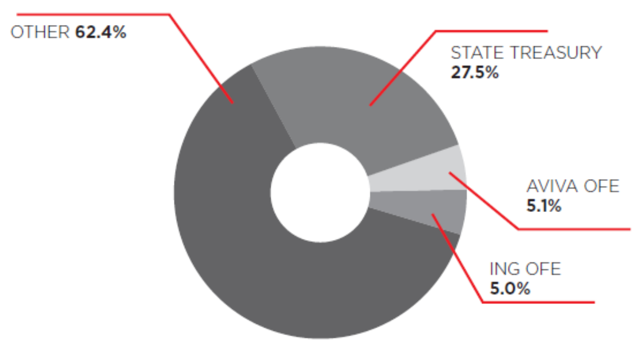
6. SHAREHOLDERS AND SHARES

6.1 Shareholding structure in PKN ORLEN

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

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

DIAGRAM 38. Shareholding structure in PKN ORLEN as at 31 December 2012.



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

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

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

6.3 Employee stock option scheme monitoring system

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

6.4 Share repurchase

In 2012 PKN ORLEN and other ORLEN Group companies did not hold or repurchase any own shares.

6.5 Dividend policy

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

6.6 Ratings

Good liquidity situation of the ORLEN Group at the end of 2012 is the result of continued activities aimed at reducing debt and implementing a number of initiatives providing high flexibility, as far as the demand for working capital is concerned. Two transactions involving the sale of mandatory reserves of crude oil worth PLN 2,433,998 thousand were carried out to reduce the level of involved capital in 2012. A reduction of the indebtedness to PLN 6,761,662 thousand contributed to the further decrease of the net financial leverage to 26% at the end of 2012.
The effects of the optimisation activities, as well as regular contacts with agencies with a view to summarising the activities and achievements of the ORLEN Group at all operating levels improved the prospect of PKN ORLEN increasing its rating position from stable to positive and being better evaluated by the Fitch Agency BB+(positive outlook) and Moody`s Ba1 positive. Additionally, PKN ORLEN obtained a long-term loan

rating from the Fitch Agency at the BBB+(pol) level (positive outlook), which is an assessment of creditworthiness with regard to the lowest loan risk rating in Poland.
The Agencies underline that PKN ORLEN's international long-term rating may be increased up to the BBB-/Baa3 level within the next 12-24 months if the debt ratios are kept at the appropriate level.

6.7 PKN ORLEN share quotations

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

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

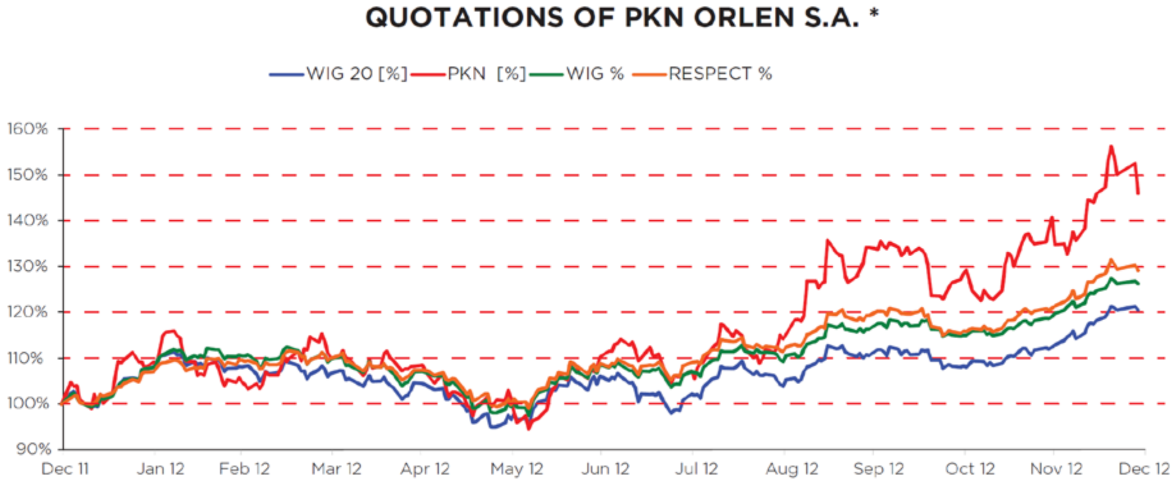
In 2012, WIG20, the largest companies stock market index, lost its value by 20.4% (y/y), whereas WIG index increased its value by 26.2%. In the same period the price of PKN ORLEN's shares increased by 46% (y/y). In the continuous quoting system, 286 million of shares changed their holders, i.e. 66.9%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

TABLE 38. Key data regarding PKN ORLEN's shares.

KEY DATA	MEASURING UNIT	2012	2011	CHANGE %
1	2	3	4	5=(3-4)/4
ORLEN Group's net profit	'000 PLN	2 169 990	2 015 003	7.7%
Highest share price	PLN	52.95	57.90	-8.5%
Lowest share price	PLN	32.02	32.30	-0.9%
Share price at year end	PLN	49.50	33.90	46.0%
Average price in the period	PLN	39.27	44.96	-12.7%
P/E ratio max		10.44	12.29	-15.1%
P/E ratio min		6.31	6.86	-8.0%
P/E ratio at year end		9.76	7.20	35.6%
Number of shares traded	no.	427 709 061	427 709 061	0.0%
Capitalization at year end	'000 PLN	21 171 599	14 499 337	46.0%
Average daily trading value	'000 PLN	45 263	56 942	-20.5%
Average daily trading volume	no.	1 148 614	1 284 292	-10.6%

Calculation of the above indices based on the closing share prices.

CHART 39. Quotations of PKN ORLEN and WIG20 on the Warsaw Stock Exchange.



*) percentage change of PKN ORLEN and WIG 20 quotations in respect to the quotations recorded on 31 December 2011

CHART 40. PKN ORLEN's quotations in the years 1999-2012.

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

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

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

7. CORPORATE GOVERNENCE

7.1 A set of applied Corporate Governance rules

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

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

Communication with the capital market

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

Corporate website www.orlen.pl

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

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

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

One can find there, among others:

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

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

- new tab "Bonds" was created in the „Shareholder services & tools" section. It presents basic information regarding long term PKN ORLEN's bonds issue which were newly listed on the Catalyst on 27 June 2012. This section also allows to download documents relating to bonds issue (information memorandum and information note) and enables to watch a broadcast of the bonds debut on Catalyst,
- a section containing a set of financial results materials was complemented with a link to the Company's press webcasts organized while publishing financial results,
- on the home page of Investor relations section, link to publications, industry reports of which the Company is the author or co-author, was added.

On the website, in the investor relations section, there is also a tab concerning the corporate governance. One can find there the Company's annual reports on complying with best practice rules and the "Code of Best Practice for WSE Listed Companies. There is also brief information on best practice applied by the Company, the rules for selecting an entity authorized to audit the financial statements as well as information about the participation of women and men in the Company's Management Board and the Supervisory Board in the last two years.

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

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

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

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

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

Direct contacts with capital market representatives

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

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

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

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

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

- organizing an open educational debate on the Warsaw Stock Exchange dedicated to building issuer creditability and alternative forms of financing in time of economic crisis,
- issue of corporate bonds amounting to PLN 1 billion in February 2012. These bonds were the highest in value among listed in 2012 on the Catalyst. In addition the issue was one of the highest bond issues in the history of the Polish market. 7-year maturity date was the longest among issues addressed to non-banking investors,
- taking part in an educational campaign „Akcjonariat Obywatelski. Inwestuj Świadomie" ("Citizens Shareholders. Invest knowingly.") dedicated to individual stock investors.

The care for communication with the capital market players was appreciated also in 2012 and reflected through the awards granted to the Company in the area of investor relations:

- special award for keeping the investor relation section using modern methods of internet communications in the V edition of „Złota Strona Emitenta" („Golden Website") organized by the Polish Association of Listed Companies,
- award nomination for „Golden Website" in polish listed companies belonging to WIG20 and mWIG40 category, in 5-th edition of the competition,
- In 2012 PKN ORLEN maintained its presence in 4-th and 5-th edition of Respect Index project.
- PKN ORLEN was ranked among the top three best reporting of non-financial data listed companies among polish companies belonging to WIG20 and mWIG40 and the group of companies in the energy sector - ranking organized by the Polish Association of Listed Companies, GES and Accreo Taxand,
- „Best Annual Report 2011" award, in the competition organized by the Institute of Accounting and Taxation,
- award nomination for „Best investor relations by a Polish Company 2012" - IR Magazine.

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

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

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

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

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

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

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

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

All corporate social responsibility reports are disclosed on Company's website:
http://www.orlen.pl/EN/CSR/Reports/Pages/default.aspx.

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

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

Records of economic events in PKN ORLEN is conducted in an integrated system of financial - accounting, which configuration is compatible with the Company's accounting policy.

This system is the leading system in the ORLEN Group. Thanks to a uniform IT platform used, the Parent Company has control over the recording of financial – accounting events within the ORLEN Group.
The system has an option enabling the control of access rights of different users in a way that ensures the control over their access to specific objects and transactions.
All actions performed in the system are recorded for individual transactions and users. In order to protect against unauthorized access, the entire system, along with the user data, is stored in a special directory structure of the operating system, which is secured with the appropriate access rights.

Security and availability of information contained in the financial-accounting system are controlled at all levels of the database, applications and presentations as well as at the level of operating system. System integration is ensured by the data entry control systems (validation, authorization, a list of values) and logs of changes. In case of system failure not completed transactions are withdrawn. Logs of changes give the possibility of path reviews.
Users do not have direct access to the operating system and database. Integrated menu of the system includes access paths to all transactions available in the system. Securing the access to individual transactions is based on the authorizations assigned to the user. Security systems are used at the hardware and software level of the system.

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

The consolidated financial statements are prepared based on the integrated IT system where consolidation process of entered data from reporting packages provided by the ORLEN Group companies is performed. The system is designed for financial management and reporting purposes. The system enables the unification of financial information. Results, budgeted and forecasted data, as well as statistics are gathered in one place, what ensures direct control and compatibility of the entered data.
The data is reviewed in terms of their cohesion, completeness and continuity, which is achieved thanks to controls implemented in the system, which check the compliance of data entered by the companies.
Designated users of the system supervise the safety management of the system and established stages of consolidation process management. Granting access rights to individual users is strictly dependent on the security roles defined for (assigned to) them. Appropriate security classes have been set up for individual users in order to maintain control. Access to financial resources is limited by a system of permissions that are granted to authorized personnel only within the performance of their duties. These authorizations are subject to regular audits and verification. Controlling of the access to applications is carried out at each stage of preparation of the financial statement. Starting from data entry and ending with the generating of the final information.
Financial information is stored in an IT system, so that they can be used to create transparent reports and forecasts, both for internal needs and external recipients, such as public bodies, financial analysts, shareholders and business partners.
The preparation of consolidated financial statements in a single integrated tool enables to shorten the processes of consolidation and reporting of financial information as well as to obtain high-quality substantive and usable financial information.

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

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

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

Within the realised tasks and objectives, the Audit and Corporate Risk Management Department provides recommendations as to the implementation of solutions and standards designed to mitigate the risk of PKN ORLEN not meeting the targets set, to improve the effectiveness of the internal control system and to increase the efficiency of business processes. Additionally the Audit Department monitors the implementation of its own recommendations as well as those given by the auditor as to the Company's financial statements.

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

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

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

7.4 PKN ORLEN's shareholders with a significant stake

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

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

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

Termination of depositary agreement constituting the GDRs took place on 27 February 2013 and the agreement constituting the ADRs on 4 March 2013.
The share capital of PKN ORLEN is divided into 427,709,061 ordinary bearer shares with a par value of PLN 1.25 each.

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

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

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

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

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

TABLE 39. Shareholding structure of PKN ORLEN as at 1 January 2012.

SHAREHOLDERS	NUMBER OF SHARES	NUMBER OF VOTES AT A GENERAL MEETING OF PKN ORLEN	SHARE IN TOTAL NUMBER OF VOTES AT AGENERAL MEETING OF PKN ORLEN	SHARE IN SHARE CAPITAL OF PKN ORLEN
State Treasury	117 710 196	117 710 196	27,52%	27,52%
Aviva OFE *	21 744 036	21 744 036	5,08%	5,08%
Others	288 254 829	288 254 829	67,40%	67,40%
Total	427 709 061	427 709 061	100,00%	100,00%

* According to the information received by the Company from the Fund on 9 February 2010.

TABLE 40. Shareholding structure of PKN ORLEN as at 31 December 2012.

SHAREHOLDERS	NUMBER OF SHARES	NUMBER OF VOTES AT A GENERAL MEETING OF PKN ORLEN	SHARE IN TOTAL NUMBER OF VOTES AT AGENERAL MEETING OF PKN ORLEN	SHARE IN SHARE CAPITAL OF PKN ORLEN
State Treasury	117 710 196	117 710 196	27,52%	27,52%
Aviva OFE *	21 744 036	21 744 036	5,08%	5,08%
ING OFE **	21 464 398	21 464 398	5,02%	5,02%
Others	266 790 431	266 790 431	62,38%	62,38%
Total	427 709 061	427 709 061	100,00%	100,00%

*According to the information received by the Company from the Fund on 9 February 2010.
** According to the information received by the Company from the Fund on 30 March 2012.

7.5 PKN ORLEN's shareholders vested with special control rights and voting right restrictions

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

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

- The voting right of the Company's shareholders is restricted to the extent that at the General Meeting of Shareholders none of them can exercise more than 10% of the total votes existing in the Company as at the date the General Meeting of Shareholders is held, provided that such a restriction of the voting right does not apply for the purpose of determining the duties of acquirers of significant stakes in accordance with:
  - Competition and Consumer Protection Act of 16 February 2007,
  - Accounting Act of 29 September 1994,
  - Act of 22 September 2006 on Transparency of Financial Relations between Public Authorities and Public Entrepreneurs and on Financial Transparency of Certain Entrepreneurs,
  - Act of 29 July 2005 on Public Offering and Terms for Introducing Financial Instruments to the Organised Trading System and Public Companies.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

7.6 Rules for amending PKN ORLEN's Articles of Association

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

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

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

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

Convening and calling off PKN ORLEN's General Meetings

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

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

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

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

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

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

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

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

Competence of PKN ORLEN's General Meeting

The General Meeting of Shareholders is especially authorised to:

- consider and approve the Company's annual financial statements, the annual report on the Company's business operations, the consolidated financial statements of the ORLEN Group and the report on the ORLEN Group business operations for the previous financial year,
- acknowledge the fulfilment of duties by the Supervisory Board and Management Board members,

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

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

Voting at PKN ORLEN's General Meetings

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

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

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

One PKN ORLEN share confers the right to one vote at the Company's General Meeting. The voting right of the Company's shareholders is restricted to the extent that at the General Meeting of Shareholders none of them (but for those specified in the Company's Articles of Association) can exercise more than 10% of the total votes existing in the Company as at the date the General Meeting of Shareholders is held. The detailed rules for exercising the voting right are described in point 7.5 of the foregoing Management Board Report.

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

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

Participation in PKN ORLEN's General Meetings

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

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

- the business name, seat, address and stamp of the issuer and the certificate number,
- number of shares held (at the shareholder request part or all of the shares registered on the securities account should be indicated),
- type and code of shares,

- the business name, seat and address of the Company,
- nominal value of shares,
- name and surname or the business name of the shareholder,
- the seat (place of residence) and address of the shareholder,
- purpose of issuing the certificate,
- date and place of the certificate issuing,
- signature of the person authorised to issue the certificate.

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

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

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

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

The shareholders of the Company may communicate with the Company via the corporate website. This way shareholders can send an electronic notice of proxy or proxy document allowing the identification of the principal and the proxy together with other related documentation. Special section dedicated to the Company's General Meetings is used for this purpose. The section includes also useful to the shareholders materials, among others, the guideline "How to participate in General Meeting" updated in accordance with changes that occur in the commonly applicable provisions of law, information about the planned shareholders' meetings along with materials relating to such meetings, archive materials from the meetings held, including texts of resolutions adopted and video files with internet broadcasts of the General Meetings.

General Meetings in 2012

In 2012 two General Meetings of PKN ORLEN were held:
- on 12 January 2012 – the Extraordinary General Meeting of PKN ORLEN,
- on 30 May 2012 – the Ordinary General Meeting of PKN ORLEN.

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

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

The General Meeting decided also to allocate the Company's entire profit generated in 2011 to the Company's reserve capital.

The Ordinary General Meeting of PKN ORLEN adopted a resolution to remove provisions relating to possibility of setting up the Observer in the Articles of Association and passed the resolution to establish a uniform act of the Articles of Association.

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

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

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

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

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

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

7.8.1 The Management Board

Composition of PKN ORLEN's Management Board in 2012

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

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

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

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

Until 31 December 2012 and the date of authorization of these financial statement composition of the Management Board has not changed.

TABLE 42. Composition of the PKN ORLEN's Management Board as at 31 December 2012.

NAME AND SURNAME	POSITION HELD IN PKN ORLEN MANAGEMENT BOARD
Dariusz Jacek Krawiec	President of the Management Board, Chief Executive Officer
Sławomir Jędrzejczyk	Vice – President of the Management Board, Chief Financial Officer
Piotr Chełmiński	Member of the Management Board, Petrochemistry
Krystian Pater	Member of the Management Board, Refinery
Marek Podstawa	Member of the Management Board, Sales

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

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

AS AT	NUMBER OF WOMEN	NUMBER OF MEN
1 January 2011	0	5
30 June 2011	1	4
9 December 2011	1	4
1 January 2012	1	4
10 March 2012	1	4
19 March 2012	0	5
31 December 2012	0	5

Division of powers of the Company's Management Board

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

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

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

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

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

The rules of PKN ORLEN's Management Board operations

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

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

Appointing and recalling PKN ORLEN's Management Board

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

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

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

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

Organisation of PKN ORLEN's Management Board activity

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

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

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

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

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

Competences of PKN ORLEN's Management Board

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

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

A resolution of the Management Board is required, among others to:
- adopt and amend the Management Board Regulations,
- adopt and amend the Organisational Rules and Regulations of PKN ORLEN,
- adopt motions to be submitted to the Supervisory Board and / or to the General Meeting of Shareholders, in particular, any motions sent to these bodies for their consent to perform certain actions, issue opinions, make an assessment or give an approval, which are required in accordance with the generally applicable law and / or the Company's Articles of Association,
- convene the General Meetings of Shareholders and adopt the proposed agenda of the General Meetings
- approve annual and long-term financial plans as well as the Company's development strategy
- approve investment tasks and corresponding liabilities if the resulting expenditures and encumbrances exceed PLN 10,000,000,
- incur liabilities, manage the property rights and any form of encumbrance on the Company's property where the total value exceeds PLN 20,000,000 (with certain exceptions to that rule)
- dispose and purchase real estate, perpetual usufruct or an interest in real estate and to establish a limited property right,
- dispose of, purchase and encumber stakes, shares or other interest in other entities, including shares admitted to public trading,
- issue the Company's securities,
- approve the annual report on the Company's business operations, the Company's annual, half-yearly and quarterly financial statements, the ORLEN Group's annual, half-yearly and quarterly financial statements,

- adopt and change the Company's employees' remuneration scheme, as well as decisions regarding introduction and fundamentals of the incentive schemes,
- conclude, amend and terminate a collective labour agreement applicable in the Company, and other agreements with trade unions,
- establish the principles of granting and revoking powers of attorney,
- formulate the so-called donation policy of the Company,
- grant a procuration,
- establish the internal segregation of duties among the members of the Management Board,
- set up establishments / offices abroad,
- handle other matters which at least one member of the Management Board requests to be handled in the form of a resolution,
- take decisions on the payment of interim dividends.

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

7.8.2 Supervisory Board

Composition of PKN ORLEN's Supervisory Board in 2012

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

NAME AND SURNAME	POSITION HELD IN PKN ORLEN's SUPERVISORY BOARD
Maciej Mataczyński	Chairman of the Supervisory Board
Marek Karabuła	Vice – Chairman of the Supervisory Board
Angelina Sarota	Secretary of the Supervisory Board
Grzegorz Borowiec	Member of the Supervisory Board
Artur Gabor	Independent member of the Supervisory Board
Krzysztof Kołach	Independent member of the Supervisory Board
Leszek Jerzy Pawłowicz	Independent member of the Supervisory Board
Piotr Wielowieyski	Independent member of the Supervisory Board (in period from 9 December 2011 to 9 March 2012 – delegated to act as a Member of the Management Board of PKN ORLEN)
Janusz Zieliński	Independent member of the Supervisory Board

At the beginning of the 2012 changes in the composition of the Supervisory Board were made. On 12 January 2012 the Extraordinary General Meeting of PKN ORLEN revoked Mr Krzysztof Kołach from the Supervisory Board. At the same time the Extraordinary General Meeting appointed Mr Michał Gołębiowski to the Supervisory Board.

Additionally, as of 11 January 2012, Minister of the State Treasury based on § 8 item 2 point 1 of Articles of Association, acting on behalf of the State Treasury - the shareholder recalled Mr Janusz Zieliński from his office of the Supervisory Board of PKN ORLEN. Concurrently Minister of the State Treasury, as of 12 January 2012 appointed Mr Cezary Banasiński to the Supervisory Board.

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

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

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

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

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

NAME AND SURNAME	POSITION HELD IN PKN ORLEN's SUPERVISORY BOARD
Maciej Mataczyński	Chairman of the Supervisory Board
Leszek Jerzy Pawłowicz	Vice – Chairman of the Supervisory Board
Angelina Sarota	Secretary of the Supervisory Board
Cezary Banasiński	Independent member of the Supervisory Board
Grzegorz Borowiec	Member of the Supervisory Board
Artur Gabor	Independent member of the Supervisory Board
Michał Gołębiowski	Member of the Supervisory Board
Paweł Białek	Member of the Supervisory Board

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

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

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

AS AT	NUMBER OF WOMEN	NUMBER OF MEN
1 January 2011	1	8
1 January 2012	1	8
12 January 2012	1	8
29 March 2012	1	6
30 May 2012	1	7
31 December 2012	1	7

The rules of conduct of PKN ORLEN's Supervisory Board

Appointing and recalling members of PKN ORLEN's Supervisory Board

Members of PKN ORLEN's Supervisory Board are appointed for a joint term of office, ending on the day when the Ordinary General Meeting has been held, approving the financial statement for the whole second financial year of such term of office. Individual members of the Supervisory Board and the entire Supervisory Board can be recalled at any time before the end of the term of office. The General Meeting of PKN ORLEN appoints the Chairman of the Supervisory Board, whereas the vice-chairman and the secretary are appointed by the Supervisory Board from amongst the other members of the Board.

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

Pursuant to the Articles of Association of PKN ORLEN, at least two members of the Supervisory Board have to comply with the following independency provisions (the so-called independent members of the Supervisory Board):

- he/she is not an employee of the Company or a Related Entity,
- he/she has not been a member of management authorities of the Company or a Related Entity within the last five years prior to the appointment to the Supervisory Board,
- he/she is not a member of supervisory and management authorities of a Related Entity,
- he/she does not receive nor has received, within the last five years prior to the appointment to the Supervisory Board, a considerable additional remuneration, i.e. remuneration exceeding the aggregate amount of PLN 600,000 from the Company or a Related Entity, apart from the remuneration due to the member of supervisory authorities,
- he/she is not nor has been, within the last three years prior to the appointment to the Supervisory Board, a partner or employee of the current or former chartered auditor examining the financial statements of the Company or a Related Entity,

- he/she is not a shareholder holding 5% or more votes at the Company's General Meeting of Shareholders or a Related Entity's General Meeting,
- he/she is not a member of supervisory or management authorities or an employee of an entity having 5% or more votes at the Company's General Meeting of Shareholders or a Related Entity's General Meeting
- he/she is not an ascendant, descendant, spouse, sibling, spouse's parent or any other person remaining in an adoptive relationship with any of the persons mentioned above,
- he/she has not hold the position of the Company's Supervisory Board member for more than 3 terms of office,
- he/she is not a member of the Management Board of the company, where a member of the Company's Management Board holds the position of a member of the Supervisory Board,
- he/she is free from any significant connections with members of the Company's Management Board by participation in other companies.

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

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

Organisation of PKN ORLEN's Supervisory Board's operations

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

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

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

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

Passing resolutions on the following matters:

- any contribution to members of the Management Board provided by the Company or any related entities,
- giving permission to sign any significant agreement by the Company or a subsidiary with an entity related to the Company, a member of the Supervisory Board, or Management Board, as well as with their related entities,
- appointing a certified auditor to audit the financial statements of the Company

requires the consent of at least one half of the independent members of the Supervisory Board. Such provisions do not exclude applying Article 15 § 1 and 2 of the Commercial Code.

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

Competence of PKN ORLEN's Supervisory Board

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

Pursuant to the Articles of Association, the Supervisory Board is also authorised to:

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

The Articles of Association also stipulate that the consent of PKN ORLEN's Supervisory Board is required to:

- set up a branch abroad,
- sell or encumber fixed assets which net book value exceed one twentieth of the asset value stated in the recent financial statements approved by the General Meeting of Shareholders, as a result of one or several related legal actions being taken,
- dispose of or encumber, in any way whatsoever, shares or stakes in the following companies: Naftoport Sp. z o.o., Inowrocławskie Kopalnie Soli S.A. and in the company to be established with a view to transporting liquid fuels through pipelines,
- incur other liabilities exceeding the equivalent of one fifth of the share capital, as a result of one or several related legal actions being taken during the financial year, except for the following:
    - activities performed within the scope of ordinary management activity, including in particular all activities relating to Fuels trading,
    - activities approved by the Supervisory Board in the annual financial plans,
    - activities which need the consent of the Shareholders Meeting in order to be performed,
    - activities performed in connection with the implementation of the investment task, approved by the Supervisory Board in accordance with § 8 sec. 11 item 9 of the Articles of Association, up to the amount not exceeding 110 percent of the amount allocated for this investment task,
    - activities concerning the implementation of the investment task and the related liabilities, if expenditures or charges do not exceed the cap indicated in § 8 sec. 11 item 9 of the Articles of Association,
- carry out capital or tangible investments abroad worth more than one twentieth of the share capital,

- exercise the Company's voting right at general meetings and partners/associates/shareholders meetings of the subsidiaries and other entities, if the value of the shares or stakes held by the Company, at a price the shares were acquired or taken up exceed one fifth of the Company's share capital, as regards merger with another company and Company restructuring, sale and lease of the Company's undertaking and establishing on it the right to use, amendments to the Articles of Incorporation or Articles of Association, execution of the concern contract within the meaning of Article 7 of the Commercial Code and winding up of the Company,
- establish commercial law companies and join existing companies, as well as to make contributions to cover shares in companies, and to sell shares if the Company's capital involvement in a given company so far, or commitment which the Company is about to achieve as a result of buying or acquiring shares, calculated on the basis of the share purchase or acquisition price, exceeds one tenth of the initial capital, excluding the purchase of shares in the regulated market,
- pay interim dividends to the shareholders.

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

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

Given the best practice standards and in order to enable the shareholders to make a true and fair view of the Company, the Supervisory Board of PKN ORLEN is in charge of the additional duty to submit to the General Meeting of the Company a concise assessment of PKN ORLEN's standing, including internal control and risk management system relevant for the Company. The assessment is submitted annually, before the date of the Company's General Meeting to allow time for PKN ORLEN shareholders to get acquainted with it. Moreover, the Supervisory Board prepares an annual report on its work, in which it takes into account both the number of meetings held and the most important issues dealt with in the year.

7.8.3 Committees of Supervisory Board

The Supervisory Board of PKN ORLEN may elect permanent or *ad hoc* committees which act as its collective advisory and opinion making bodies. The following permanent Committees operate within the Supervisory Board of PKN ORLEN:
- Audit Committee,
- Strategy & Development Committee,
- Nomination & Remuneration Committee,
- Corporate Governance Committee.

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

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

The Committee meetings are convened by the Committee chairman and, if he/she is either absent or unable to perform his/her duties, by the chairman of the Supervisory Board or another member of the Supervisory Board indicated by the chairman, who invites all the Committee Members to the meeting and notifies all the other Supervisory Board members of the meeting. All the members of the Supervisory Board can participate in the Committee meetings. The Committee chairman can invite to the Committee meetings members of the Management Board, the Company's employees and other persons whose participation in the meeting is expedient to carry out the Committee tasks.

The Committee resolutions are passed with a simple majority of the votes cast. In the event of an equal number of "for" and "against" vote cast, the Committee chairman has the casting vote.

Composition of Supervisory Board Committees of PKN ORLEN in 2012

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

NAME AND SURNAME	POSITION HELD IN PKN ORLEN's SUPERVISORY BOARD COMITEE
Audit Commitee	
Artur Gabor	Committee Chairman, Independent Member of the Supervisory Board
Marek Karabuła	Committee Member
Leszek Jerzy Pawłowicz	Committee Member, Independent Member of the Supervisory Board
Piotr Wielowieyski	Committee Member, Independent Member of the Supervisory Board
Janusz Zieliński	Committee Member, Independent Member of the Supervisory Board

Corporate Governance Commitee	
Angelina Sarota	Committee Chairman
Grzegorz Borowiec	Committee Member
Maciej Mataczyński	Committee Member
Strategy and Development Committee	
Marek Karabuła	Committee Chairman
Krzysztof Kołach	Committee Member, Independent Member of the Supervisory Board
Leszek Jerzy Pawłowicz	Committee Member, Independent Member of the Supervisory Board
Piotr Wielowieyski	Committee Member, Independent Member of the Supervisory Board
Janusz Zieliński	Committee Member, Independent Member of the Supervisory Board
Nomination and Remuneration Committee	
Maciej Mataczyński	Committee Chairman
Grzegorz Borowiec	Committee Member
Artur Gabor	Committee Member, Independent Member of the Supervisory Board
Krzysztof Kołach	Committee Member, Independent Member of the Supervisory Board

Mr. Krzysztof Kołach and Janusz Zieliński were recalled from the Supervisory Board Committee with regards to changes in composition of the Supervisory Board which took place in January 2012.
On 19 January 2012 Mr. Michał Gołębiowski was appointed as a member of the Audit Committee, Strategy and Development Committee as well as Nomination and Remuneration Committee by the Supervisory Board.
Mr. Cezary Banasiński was appointed a member of the Strategy and Development Committee.

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

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

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

TABLE 48. Composition of Supervisory Board Committees of PKN ORLEN as at 31 December 2012.

NAME AND SURNAME	POSITION HELD IN PKN ORLEN'S SUPERVISORY BOARD COMITEE
Audit Commitee	
Artur Gabor	Committee Chairman, Independent Member of the Supervisory Board
Leszek Jerzy Pawłowicz	Committee Member, Independent Member of the Supervisory Board
Michał Gołębiowski	Committee Member
Paweł Białek	Committee Member, Member of the Supervisory Board
Corporate Governance Commitee	
Angelina Sarota	Committee Chairman
Grzegorz Borowiec	Committee Member
Maciej Mataczyński	Committee Member
Paweł Białek	Committee Member, Member of the Supervisory Board
Strategy and Development Committee	
Cezary Banasiński	Committee Chairman, Independent Member of the Supervisory Board
Michał Gołębiowski	Committee Member
Leszek Jerzy Pawłowicz	Committee Member, Independent Member of the Supervisory Board
Paweł Białek	Committee Member, Member of the Supervisory Board

Nomination and Remuneration Committee	
Maciej Mataczyński	Committee Chairman
Grzegorz Borowiec	Committee Member
Artur Gabor	Committee Member, Independent Member of the Supervisory Board
Michał Gołębiowski	Committee Member
Paweł Białek	Committee Member, Member of the Supervisory Board

Audit Committee

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

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

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

Corporate Governance Committee

The task of the Corporate Governance Committee is:

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

Strategy and Development Committee

The task of the Strategy and Development Committee is to issue opinions and submit recommendations to the Supervisory Board on planned investments and divestments which exert a material impact on the Company's assets. In particular, the Committee:

- assesses the effect of planned and conducted already implemented investments and divestments on the form of the Company's assets,
- evaluates the activities, contracts, letters of intent and other documents relating to the actions aimed at acquisition, sale, encumbrance or any other disposal of the Company's material assets,

- issues opinions on any strategic documents which the Management Board submits to the Supervisory Board,
- issues opinions on the Company's development strategy, including long-term financial plans.

Nomination and Remuneration Committee

The task of the Nomination and Remuneration Committee is to help to attain the strategic goals of the Company by providing the Supervisory Board with opinions and motions on how to shape the management structure, with regard to organisational solutions, remuneration schemes and selection of the staff with the skills required to ensure the Company's success. In particular, the tasks of the Committee include:

- to initiate and issue opinions on the solutions in the area of Management Board members nomination system,
- to issue opinions on the solutions proposed by the Management Board in the area of the Company's management system, aimed at ensuring efficiency, integrity and safety of the Company's management,
- to periodically review and recommend the rules for determining incentive schemes to the Management Board members and top executives, with a view to the Company's interest,
- to periodically review the remuneration system applicable to Management Board members and managerial staff directly reporting to the Management Board members, including managerial contracts and incentive schemes and to submit to the Supervisory Board the proposals how to shape them in the context of the Company's strategic goal attainment,
- to submit to the Supervisory Board opinions on the rationale behind performance-driven remuneration, in the context of evaluating the degree to which the Company's specified tasks and goals are met,
- to assess the Company's human resources management system.

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

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

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

The components of the Management Board Members remuneration system include:

- monthly fixed base pay,
- annual bonus dependent on the accomplishment level of quantitative and qualitative targets,
- severance pay for dismissal from the Management Board Member function,
- compensation for non-competition.

Additional benefits for the Management Board Members may include company car, tools and technical appliances necessary to perform the duties of the Management Board Member, cover the business travel and representation costs in the area and amount corresponding to the assigned functions, life and endowment insurance agreement, private health insurance for the Management Board Member and his/her closest family as well as possibility to cover reasonable expenses of personal and property protection.

Rules for awarding bonuses to the key executive personnel

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

Following January 2012, the Rules for MBO bonuses to key executive personnel members in the ORLEN Group have been restated. The changes were implemented in order to increase flexibility and motivate capability of a system as well as adjustment of the Bonus Regulations to the best market practices.

The Management Board Report on the operations of the ORLEN Group was authorized by the Management Board of the dominant entity on 28 March 2013.

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Dariusz Krawiec
President of the Board

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Sławomir Jędrzejczyk
Vice-President of the Board

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Piotr Chełmiński
Member of the Board

……………………………
Krystian Pater
Member of the Board

………………………
Marek Podstawa
Member of the Board

Glossary of selected technical definitions

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

Glossary is also available on the Company website:
http://www.orlen.pl/en/PressCenter/Glossary/Pages/default.aspx

Financial Glossary

FINANCIAL GLOSSARY	
ADR	American Depository Receipt = certificate issued by an American bank representing a share of a foreign stock that the bank holds in trust but that is traded on an American stock exchange.
EURIBOR	Euro Interbank Offered Rate – interest rate of interbank credit on the interbank market in euro zone.
GDR	Global Depositary Receipt = security issued outside of Poland by the Depositary Bank in relation to shares.
LIBOR	London Interbank Offered Rate – interest rate on the London market that apply to interbank credits.
WIBOR	Warsaw Inter Bank Offered Rate - interest rate on the Polish interbank market that apply to interbank credits.

FINANCIAL RATIOS	
LIQUIDITY RATIOS	
CURRENT LIQUIDITY	current assets/short-term liabilities
QUICK LIQUIDITY	(current assets– inventories - prepayments)/ short-term liabilities
NET WORKING CAPITAL	trade receivables + inventories – trade liabilities
TURNOVER RATIOS	
RECEIVABLES TURNOVER	average amount of trade receivables, net/ net revenues x 365 days
LIABILITIES TURNOVER	average amount of trade liabilities, gross /cost of goods sold x 365 days
INVENTORY TURNOVER	average amount of inventories/net revenues x 365 days
ASSETS TURNOVER	net revenues/average balance of assets
DEBT SERVICE COVERAGE RATIO	
FINANCIAL LEVERAGE	net debt/equity (calculated using the average carrying amount in the period) x 100%