



Polski Koncern Naftowy ORLEN
Spółka Akcyjna

**REPORT
OF THE SUPERVISORY BOARD OF PKN ORLEN S.A.
FOR 2012**

WARSAW, APRIL 2013

I. COMPOSITION OF THE SUPERVISORY BOARD

As at 1 January 2012, the composition of the Supervisory Board (SB) of PKN ORLEN S.A. was the following:

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	Member of the Supervisory Board
Krzysztof Kołach	Member of the Supervisory Board
Leszek Jerzy Pawłowicz	Member of the Supervisory Board
Janusz Zieliński	Member of the Supervisory Board
Piotr Wielowieyski	Member of the Supervisory Board (from 9 December 2011 to 9 March 2012 delegated to temporarily perform the duties of the Management Board Member)

On 11 January 2012 the Minister of Treasury recalled, on behalf of the State Treasury shareholder, Mr. Janusz Zieliński from the composition and position of a member of the Supervisory Board of PKN ORLEN S.A., and on 12 January 2012 appointed Mr. Cezary Banasiński to the position of a member of the Supervisory Board of PKN ORLEN S.A.

On 12 January 2012 the Extraordinary General Meeting of Shareholders of PKN ORLEN recalled Mr. Krzysztof Kołach from the Supervisory Board and appointed Mr. Michał Gołębiowski.

On 28 March 2012 the following members resigned from the position of a member of the Supervisory Board of PKN ORLEN S.A.: Mr. Marek Karabuła and Mr. Piotr Wielowieyski.

At the meeting held on 24 April 2012, the Supervisory Board elected Mr. Leszek Pawłowicz as the Vice-Chairman of the Supervisory Board.

On 30 May 2012 the Ordinary General Meeting appointed Mr. Paweł Białek to the composition of the Supervisory Board of PKN ORLEN S.A.

As at 31 December 2012, the composition of the Supervisory Board (SB) of PKN ORLEN S.A. was the following:

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	Member of the Supervisory Board
Paweł Białek	Member of the Supervisory Board
Grzegorz Borowiec	Member of the Supervisory Board
Artur Gabor	Member of the Supervisory Board
Michał Gołębiowski	Member of the Supervisory Board

II. ACTIVITIES OF THE SUPERVISORY BOARD

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

The supervisory and controlling activities of the Supervisory Board in 2012 related to, among others, the following issues:

1. changes in the composition of the Management Board:
 - in connection with the announced competition for the position of the Management Board Member for Petrochemical Operations, the Supervisory Board made the appointment to the abovementioned position on 6 March 2012.
 - due to resignation of the Member of the Management Board for Sales from the position held, the Supervisory Board appointed the former Executive Director for Retail Sales in PKN ORLEN to the aforementioned position on 14 March 2012 .
2. representing the Company in agreements with members of the Management Board, including also in respect of the conditions for employment of members of the Management Board:
 - the Supervisory Board approved the management contracts with the Member of the Management Board for Petrochemical Operations and the Member of the Management Board for Sales with Target Sheets for 2012. Moreover, it approved Target Sheets for the Management Board for 2013 constituting annexes to the contracts.
3. selecting an entity authorised to audit financial statements of the Company and consolidated financial statements of the Group in accordance with the Accountancy Act:
 - the Supervisory Board selected an entity authorised to audit the stand-alone financial statements of PKN ORLEN S.A. and the consolidated financial statements of the ORLEN Group for 2013 – 2014.
4. provision of an opinion on the financial statements of the Company in terms of their compliance with books, records and facts, and the opinion on the report of the Management Board on activities of the Company and motions of the Management Board regarding the distribution of profit or loss coverage and submission of the annual report on conclusions from such opinions in writing to the General Meeting:
 - the Supervisory Board provided its opinion on the report of the Management Board of PKN ORLEN S.A. on activities of the Company and financial statements for the financial year 2011;
 - the Supervisory Board provided its opinion on the motion of the Management Board of the Company regarding the distribution of profit for the financial year 2011.

5. provision of an opinion on the financial statements of the Group and the Management Board report on activities of the Group and submission of the annual report on conclusions from such opinions in writing to the General Meeting:
 - the Supervisory Board provided its opinion on the report of the Management Board on activities of the ORLEN Group for the financial year 2011 and consolidated financial statements of the ORLEN Group.
6. provision of opinions on any matter submitted by the Management Board for the examination by the Ordinary and Extraordinary General Meeting of Shareholders:
 - the Supervisory Board provided its opinion on the agenda and the draft resolutions of the Ordinary General Meeting of PKN ORLEN S.A. to be held on 30 May 2012.
7. granting consents to the Management Board members to hold positions on supervisory or management bodies of other entities and to receive emoluments in consideration thereof:
 - the Supervisory Board granted consents to the Member of the Management Board for Sales and the Member of the Management Board for Petrochemical Operations to hold positions in supervisory bodies of companies in the PKN ORLEN Group without receiving emoluments in consideration thereof.
8. granting consent for implementation of an investment task and incurrence of any liabilities resulting therefrom, if any expenses or charges are incurred in relation to such task that exceed the equivalent of one half of the share capital of the Company:
 - the Supervisory Board adopted two resolutions in the abovementioned scope.
9. approving the development strategies and long-term financial plans of the Company:
 - the Supervisory Board approved the "PKN ORLEN S.A. Development Strategy and Mid-Term Plan for 2013-2017".
10. providing opinions on annual financial plans:
 - the Supervisory Board provided a positive opinion on the Financial Plan for 2012 and 2013.
11. granting consent, upon the motion of the Management Board, to sell real estates, perpetual usufructs or a share in such real estate, whose net book value does not exceed one twentieth of the share capital:
 - the Supervisory Board adopted twelve resolutions in the abovementioned scope.

Furthermore, in the course of its work the Supervisory Board of PKN ORLEN S.A.:

- granted its consent for changing the method of maintaining by PKN ORLEN S.A. mandatory reserves by incurring liabilities by the Company in connection with conclusion of the agreement for sales of crude oil previously constituting a part of mandatory reserves and the agreement commissioning an external entity to perform obligations related to maintenance of a part of mandatory reserves on behalf of the Company, and also regarding the consent to incur liabilities by the Company regarding conclusion of one or more transactions to hedge against the risk of the price of repurchase of the entire crude oil volume being the subject of the sales agreement;
- provided its consent to the exercise by PKN ORLEN S.A. of the voting right at the General Meetings of Shareholders of the following companies: Rafineria Trzebinia S.A. and Anwil S.A. as regards amendments to the Articles of Association of these companies.
- provided its consent for PKN ORLEN S.A. to incur any financial liabilities, whose value resulting from one or several related legal actions carried out at any point during the year 2012 exceeds the value of one fifth of the share capital.

The activities of the Supervisory Board were documented by the adopted resolutions and minutes of the meetings of the Supervisory Board in 2012.

III. COMMITTEES OF THE SUPERVISORY BOARD

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

In 2012, the following permanent Committees operated within the Supervisory Board:

- **Audit Committee**
- **Strategy and Development Committee**
- **Corporate Governance Committee**
- **Appointments and Remuneration Committee**

The detailed area of the activities of the Committees in 2012 was documented in the minutes of the meetings of respective Committees.

Audit Committee of the Supervisory Board of PKN ORLEN S.A.

As at 1 January 2012, the members of the Audit Committee of the Supervisory Board of PKN ORLEN S.A. included:

Artur Gabor	Chairman of the Committee
Marek Karabuła	Member of the Committee

Leszek Pawłowicz	Member of the Committee
Piotr Wielowieyski	Member of the Committee (from 9 December 2011 to 9 March 2012 delegated to temporarily perform the duties of the Management Board Member)
Janusz Zieliński	Member of the Committee

In connection with the changes to the composition of the Supervisory Board of PKN ORLEN S.A. made by the State Treasury shareholder and the Extraordinary General Meeting on 12 January 2012, the Supervisory Board appointed the following members of the Audit Committee by resolution no. 1326/2012 dated 19 January 2012: Artur Gabor, Marek Karabuła, Leszek Pawłowicz, Piotr Wielowieyski, Michał Gołębiowski. Artur Gabor remained the Chairman of the Committee.

The composition of the Audit Committee decreased due to resignation by Mr. Marek Karabuła and Mr. Piotr Wielowieyski from participation in the Supervisory Board of PKN ORLEN S.A. on 28 March 2012.

In connection with appointment of Mr. Paweł Białek to the Supervisory Board by the Ordinary General Meeting of PKN ORLEN S.A. on 30 May 2012, the Supervisory Board supplemented the composition of the Audit Committee with the new member of the Supervisory Board by resolution no. 1370/2012 dated 30 May 2012.

As at 31 December 2012 the composition of the Audit Committee was the following:

Artur Gabor	Chairman of the Committee
Paweł Białek	Member of the Committee
Michał Gołębiowski	Member of the Committee
Leszek Pawłowicz	Member of the Committee

In 2012 the Audit Committee held 13 minuted meetings, including one joint meeting held with the Appointments and Remuneration Committee and three joint meetings with the Strategy and Development Committee.

In accordance with the provisions of § 13 item 5 of the Constitution of the Supervisory Board, the Audit Committee passed decisions by way of resolutions (5 resolutions).

Apart from its members, the meetings of the Audit Committee were attended by other members of the Supervisory Board. Proceedings were also open to members of the Management Board, with the exception of personnel matters. The Management Board was usually represented by its member competent for the issue discussed by the Committee. Moreover, the Audit Committee and its respective members had direct meetings with employees of the Company and with the certified auditor.

Scope of activities of the Audit Committee

Pursuant to § 15 of the Constitution of the Supervisory Board, the duty of the Audit Committee is to advise the Supervisory Board on appropriate implementation of the principles of budget and

financial reporting, and internal control in the Company and the PKN ORLEN Group (according to the Accountancy Act), and to cooperate with the certified auditors of the Company.

The measures applied by the Audit Committee included:

- a) monitoring the work of the certified auditors of the Company and making recommendations to the Supervisory Board concerning the selection and remuneration of the certified auditors of the Company**

The Audit Committee monitored the works of the certified auditor on an ongoing basis and provided its positive opinion on the audits carried out by the certified auditor and on their professionalism, flexibility and availability while providing services to PKN ORLEN.

Moreover, the Audit Committee examined motions from the Management Board concerning approval of additional orders for the Auditor.

- b) each time prior to auditing annual financial statements, discussing with the certified auditors of the Company the character and scope of such audit, and monitoring the coordination of work between the certified auditors of the Company**

Within its competencies, the Audit Committee provided the certified auditor with instructions which in its opinion should be taken into account in development of the annual audit report of PKN ORLEN S.A.

- c) revising periodic and annual (stand-alone and consolidated) financial statements of the Company**

Prior to publication of each periodic report, as well as annual stand-alone and consolidated financial statements of PKN ORLEN S.A., the Audit Committee held meetings participated by the Vice-President of the Management Board, CFO and the Executive Director, Planning and Reporting, as well as the certified auditors of the Company in order to carefully review and analyse such reports.

- d) discussing any problems or reservations arising from the audit of financial statements**

The Audit Committee regularly investigated any problems reported by the certified auditor of the Company, and expressed its opinions and recommendations to the Management Board of PKN ORLEN S.A.

- e) analysing the letter to the Management Board prepared by the certified auditor of the Company, independence and objectivity of their audit, and the reply of the Management Board.**

The Audit Committee read "The Auditor's Letter to the Management Board of PKN ORLEN S.A." and analysed selected issues. In agreement with the Audit Office, it determined the process of monitoring implementation of the certified auditor's recommendations.

- f) providing opinions on annual and long-term financial plans**

The Audit Committee recommended to the Supervisory Board to issue a positive opinion on the Financial Plan for 2013, and in quarterly cycles it analysed obtained results of the PKN ORLEN Group against the planned values.

g) providing opinions on dividend policy, profit distribution and issuance of securities

The Audit Committee got acquainted with the information of the Management Board regarding recommendation on the distribution of profit for 2011.

Moreover the Audit Committee positively recommended a motion from the Management Board to the Supervisory Board concerning permission to incur financial liabilities for the purpose of planned issue of bonds.

h) revising the management accounting

The Audit Committee studied the report of the certified auditor on the implementation of the procedures for calculation of the quantitative indicators resulting from the MBO Regulations for the Members of the Management Board of the Company for the financial year ending on 31 December 2011 and quantified MBO quantitative objectives for the members of the Management Board of PKN ORLEN S.A. for 2013, and then recommended the same to the Supervisory Board.

i) revision of the internal control system in the PKN ORLEN Group, including the mechanisms of financial and operational control, controlling compliance with applicable regulations, and risk assessment and management control

The Audit Committee periodically reviewed the process of centralization of audit functions, providing its opinions and recommendations.

j) analysing reports of the internal auditors of the Company and key observations of other internal analysts, and replies of the Management Board to such observations, together with testing the level of independence of internal auditors.

The Audit Committee analysed periodic reports on the progress of implementation of recommendations, on summaries of observations and on the conclusions drawn from audits conducted by internal auditing services and issued by a certified auditor.

k) revising the internal audit programme on an annual basis, coordinating the works of internal and external auditors and examining the conditions of the operations of internal auditors.

The Audit Committee provided its opinion on the Audit Plan for 2013 and recommended its adoption to the Supervisory Board.

l) cooperating with the organisational units of the Company responsible for audit and control, and providing periodic assessment of their work

The Audit Committee performed periodic assessment of the work of the Audit Office, discussing prepared reports on procedures and audits carried out in 2012.

Moreover, the Audit Committee became familiar with the information regarding controls and

verification procedures conducted by the Control and Security Office.

m) analysing any other issues related to the audit of the Company raised by the Audit Committee or the Supervisory Board

In 2012 the Audit Committee also examined the following issues concerning the functioning and activity of the Group companies:

- it became familiar with information regarding insurance policies for the Production Plant in Płock in 2012
- it discussed the impact of development of road infrastructure by 2016 on existing fuel stations
- it became familiar with information regarding the use of funds from the sale of shares in Polkomtel
- it discussed the report from major court and arbitration proceedings with the participation of PKN ORLEN S.A.

n) informing the Supervisory Board about any essential issues concerning activities of the Audit Committee

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

Strategy and Development Committee

As at 1 January 2012, the composition of the Strategy and Development Committee of the Supervisory Board of PKN ORLEN S.A. was the following:

Marek Karabuła	Chairman of the Committee
Krzysztof Kołach	Member of the Committee
Leszek Pawłowicz	Member of the Committee
Piotr Wielowieyski	Member of the Committee (from 9 December 2011 to 9 March 2012 delegated to temporarily perform the duties of the Management Board Member)
Janusz Zieliński	Member of the Committee

In connection with the changes to the composition of the Supervisory Board of PKN ORLEN S.A. made by the State Treasury shareholder and the Extraordinary General Meeting on 12 January 2012, the Supervisory Board appointed the following members of the Strategy and Development Committee by resolution no. 1326/2012 dated 19 January 2012: Marek Karabuła, Leszek Pawłowicz, Piotr Wielowieyski, Cezary Banasiński, Michał Gołębiowski. Marek Karabuła remained the Chairman of the Committee.

The composition of the Strategy and Development Committee decreased due to resignation by Mr. Marek Karabuła and Mr. Piotr Wielowieyski from participation in the Supervisory Board of PKN ORLEN S.A. on 28 March 2012 .

In connection with appointment of Mr. Paweł Białek to the Supervisory Board by the Ordinary General Meeting of PKN ORLEN S.A. on 30 May 2012, the Supervisory Board supplemented the composition of the Strategy and Development Committee with the new member of the Supervisory Board by resolution no. 1370/2012 dated 30 May 2012. Cezary Banasiński was appointed the Chairman of the Committee.

As at 31 December 2012, the composition of the Strategy and Development Committee was the following:

Cezary Banasiński	Chairman of the Committee
Paweł Białek	Member of the Committee
Michał Gołębiowski	Member of the Committee
Leszek Pawłowicz	Member of the Committee

In 2012 the Strategy and Development Committee held 4 minuted meetings, including 3 joint meetings held with the Audit Committee.

In 2012, the meeting of the Development and Strategy Committee was attended, apart from its members, also by other members of the Supervisory Board, members of the Management Board and executive directors and office directors.

The area of the Strategy and Development Committee activities is regulated by § 17 of the Constitution of the Supervisory Board pursuant to which the Committee is responsible for giving opinions and presenting recommendations to the Supervisory Board on matters regarding planned investments and disinvestments having significant influence on the assets of the Company.

Within the area of its activities in 2012, the Strategy and Development Committee :

- discussed major strategic challenges, directions of development and investments of PKN ORLEN in the perspective of 2013-2017,
- discussed assumptions of the mid-term financial plan and investment projects in the PKN ORLEN Group for 2013-2017, paying particular attention to:
 - activities aimed at improvement of results,
 - increase of efficiency,
 - completion of major investment projects,
 - development initiatives directed in the following years on major increase of the value of the Company.

Strategy and Development Committee recommended to the Supervisory Board to approve the "PKN ORLEN S.A. Development Strategy and Mid-Term Plan for 2013-2017".

Corporate Governance Committee

As at 1 January 2012, the composition of the Corporate Governance Committee of the Supervisory Board of PKN ORLEN S.A. was the following:

Angelina Sarota	Chairman of the Committee
Grzegorz Borowiec	Member of the Committee
Maciej Mataczyński	Member of the Committee

In connection with appointment of Mr. Paweł Białek to the Supervisory Board by the Ordinary General Meeting of PKN ORLEN S.A. on 30 May 2012, the Supervisory Board supplemented the composition of the Corporate Governance Committee with the new member of the Supervisory Board by resolution no. 1370/2012 dated 30 May 2012. Angelina Sarota remained the Chairman of the Committee.

In 2012, the Corporate Governance Committee held three minuted meetings attended, apart from its members, also by members of the Supervisory Board, members of the Management Board, the Counsel of the Company and Directors of Offices.

The area of the Corporate Governance Committee activities is regulated by § 16 of the Constitution of the Supervisory Board in accordance with which the Committee is responsible for presenting recommendations on the implementation of the corporate governance principles, assessing the implementation of the corporate governance principles, providing opinions on the standard documentation and proposals on amendments to the corporate regulations of the Company, and also preparing such amendments to the own documents of the Supervisory Board, monitoring the management of the Company in terms of its compliance with law and regulations, including compliance with the Code of Ethics and corporate governance principles, and also assessing reports on the observance of the corporate governance principles prepared for the Warsaw Stock Exchange.

Within the area of its activities in 2012, the Corporate Governance Committee :

- recommended to the Supervisory Board to approve the Report on application of corporate governance principles in PKN ORLEN S.A. in 2011;
- provided its positive opinion on the motions of the Management Board to the Supervisory Board regarding amendments to the Articles of Association of Rafineria Trzebinia S.A and Anwil S.A.;
- recommended to the Supervisory Board to provide consent for completion of the PKN ORLEN S.A depository receipt programme.

Appointments and Remuneration Committee

As at 1 January 2012, the composition of the Appointments and Remuneration Committee of the Supervisory Board of PKN ORLEN S.A. was the following:

Maciej Mataczyński	Chairman of the Committee
Grzegorz Borowiec	Member of the Committee

Krzysztof Kołach
Artur Gabor

Member of the Committee
Member of the Committee

In connection with the changes to the composition of the Supervisory Board of PKN ORLEN S.A. made by the State Treasury shareholder and the Extraordinary General Meeting on 12 January 2012, the Supervisory Board appointed the following members of the Appointments and Remuneration Committee by resolution no. 1326/2012 dated 19 January 2012: : Maciej Mataczyński, Grzegorz Borowiec, Artur Gabor and Michał Gołębiowski. Maciej Mataczyński remained the Chairman of the Committee.

In connection with appointment of Mr. Paweł Białek to the Supervisory Board by the Ordinary General Meeting of PKN ORLEN S.A. on 30 May 2012, the Supervisory Board supplemented the composition of the Appointments and Remuneration Committee with the new member of the Supervisory Board by resolution no. 1370/2012 dated 30 May 2012.

In 2012, the Appointments and Remuneration Committee held 2 minuted meetings, including 1 joint meeting held with the Audit Committee.

The meetings of the Appointments and Remuneration Committee were attended, apart from its members, also by other members of the Supervisory Board, members of the Management Board, executive directors, office directors and personnel adviser.

The area of the Appointments and Remuneration Committee activities is regulated by § 18 of the Constitution of the Supervisory Board, according to which the Appointments and Remuneration Committee is responsible for supporting the fulfilment of the strategic objectives of the Company by submitting to the Supervisory Board opinions and motions relating to the development of the management structure, including organisational solutions, remuneration system and selection of qualified personnel to ensure the success of the Company.

Within the area of its activities in 2012, the Appointments and Remuneration Committee reviewed applications submitted in the competition for the position of the member of the Management Board for Petrochemical Operations, requesting the personnel advisor to prepare assessment of selected candidates. Moreover, the Committee discussed draft Target Sheets for the Management Board members for 2013, recommending their approval by the Supervisory Board.

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

Acting pursuant to Art. 382 § 3 of the Commercial Companies Code and § 8 item 11 point 6 of the Articles of Association of the Company in conjunction with Article 395 § 2 point 1 of the Commercial Companies Code and Article 45 and 53. 1 of the Accountancy Act and § 7 item 7 point 1 of the Articles of Association of the Company, the Supervisory Board provided its positive opinion on:

1. report of the Management Board of the Company on activities of **Polski Koncern Naftowy ORLEN Spółka Akcyjna** for the financial year ended on 31 December 2012;

2. stand-alone financial statements of **Polski Koncern Naftowy ORLEN Spółka Akcyjna** for the year ended on 31 December 2012, including the following items verified by a certified auditor:
 - stand-alone statement of financial position as at 31 December 2011 presenting the total balance of assets, equity and liabilities in the amount of PLN 41,406,969,186.97 (in words: forty one billion four hundred and six million nine hundred and sixty nine thousand one hundred and eighty six Polish zlotys, 97/100);
 - stand-alone income statement (included in the report on total income) for the period from 1 January 2012 to 31 December 2012 presenting a net profit of PLN 2,127,797,966.06 (in words: two billion one hundred and twenty seven million seven hundred and ninety seven thousand nine hundred and sixty six Polish zlotys, 06/100);
 - additional information including the introduction to the stand-alone financial statements and additional notes and explanations;
 - stand-alone statement of changes in equity presenting an increase in the equity as at 31 December 2012 of PLN 2,073,282,162.65 (in words: two billion seventy three million two hundred and eighty two thousand one hundred and sixty two Polish zlotys, 65/100);
 - stand-alone cash flow statement presenting a decrease in the net cash and cash equivalents of PLN 3,321,847,252.34 (in words: three billion three hundred and twenty one million eight hundred and forty seven thousand two hundred and fifty two Polish zlotys, 34/100).

Having considered the opinion and the report of the certified auditor and also having thoroughly examined the aforementioned documents, in the opinion of the Supervisory Board, the financial statements of PKN ORLEN S.A. for the financial year 2012 and the report of the Management Board on activities of the Company are compliant with books, records and facts.

The Supervisory Board, acting pursuant to § 8 item 11 point 6a of the Commercial Companies Code in conjunction with Article 395 § 5 of the Commercial Companies Code and Article 55 and Article 63c item 4 of the Accountancy Act in conjunction with § 7 item 7 point 1 of the Articles of Association of the Company, provided its positive opinion on:

1. report of the Management Board on activities of the **ORLEN Group** for the year ended on 31 December 2012;
2. consolidated financial statements of the **ORLEN Group** for the year ended on 31 December 2012, including the following items verified by a certified auditor:
 - consolidated statement of financial position as at 31 December 2012 presenting the total balance of assets, equity and liabilities in the amount of PLN 52,630,779,893.17 (in words: fifty two billion six hundred and thirty million seven hundred and seventy nine thousand eight hundred and ninety three Polish zlotys, 17/100);consolidated income statement (included in the consolidated report on total income) for the period from 1 January 2012 to 31 December 2012 presenting a net profit of PLN 2,169,989,676.87 (in words: two billion one hundred and sixty nine million nine hundred and eighty nine thousand six hundred and seventy six Polish zlotys, 87/100);
 - additional information including the introduction to the consolidated financial statements and additional notes and explanations;

- consolidated statement of changes in equity presenting an increase in the equity as at 31 December 12 of PLN 1,508,152,344.87 (in words: one billion five hundred and eight million one hundred and fifty two thousand three hundred and forty four Polish zlotys, 87/100);
- consolidated cash flow statement presenting a decrease in the net cash and cash equivalents of PLN 3,197,142,586.55 (in words: three billion one hundred and ninety seven million one hundred and forty two thousand five hundred and eighty six Polish zlotys, 55/100).

V. BRIEF ANALYSIS OF THE CONDITION OF THE COMPANY, INCLUDING THE OPINION ON THE INTERNAL CONTROL SYSTEM AND THE SYSTEM OF MANAGEMENT OF KEY RISK FOR THE ORLEN GROUP AND PKN ORLEN S.A. ("PKN ORLEN").

In 2012 the ORLEN Group achieved the highest ever revenue from sales in the amount of PLN 120 billion and a record level of PLN 5.2 billion of operating profit increased by depreciation before taking into account the impact of inventory valuation (EBITDA acc. to LIFO) and non-cash write-downs on fixed assets.

At the same time the Company managed to maintain high, comparable to the previous year level of volume sales in the amount of 35 million tonnes, despite unfavourable economic environment related to decreased growth rate of GDP and fuel consumption as well as negative impact of the so called "grey zone" in Poland and the Czech Republic.

Net debt at the end of 2012 was reduced to the level below PLN 6.8 billion, which allowed to reduce the net financial leverage to the level of 26%. The undertaken activities were appreciated by Moody's and Fitch rating agencies which improved the long-term rating perspective to positive.

Operating profit (EBIT) of the ORLEN Group in 2012 reached the level comparable to the result of 2011 and amounted to PLN 2.0 billion:

- the so called LIFO effect decreasing operating result as regards the entire 2012 amounted to PLN (-) 0.2 billion against a positive impact in 2011 in the amount of PLN 2.3 billion. As a result, net impact of inventory valuation affected reduction of operating result of the ORLEN Group in 2012 by PLN (-) 2.5 billion (YoY).
- positive impact of changes of macroeconomic factors, especially visible in the refinery sector, influenced improvement of operating result of the ORLEN Group in 2012 by about PLN 1.6 billion (YoY).
- increase of sales volumes in the retail and petrochemical segment, with lower sales in the refinery segment contributed to increase of operating result of the ORLEN Group by about PLN 0.3 billion (YoY).
- positive impact of increased throughput of low-sulphur crude oils to restrict the effects of overhaul downtimes and repurchase of the 1st tranche of mandatory reserves of crude oil on the results of 2011 amounted to approx. PLN 0.5 billion (YoY). Positive effect of repurchase of the 2nd tranche of mandatory reserves in January 2012 amounted to about PLN 0.2 billion (YoY). As a result, net impact of the aforementioned one-time events on the change of results of 2012 as compared to the previous year was negative and amounted to PLN (-) 0.3 billion (YoY).
- positive impact of other operating factors in 2012 amounted to about PLN 0.9 billion (YoY) and applied mainly to the change of balance on other operations covering write-downs on tangible fixed assets lower by PLN 1.0 billion (YoY). In the remaining part it was connected with lack of

positive effects from 2011 covering, among others, received compensation from settlement of damages resulting from fire at the ORLEN Lietuva refinery, reimbursement of paid penalty from ENERGA-OPERATOR S.A. and update of the balance of provisions for CO₂ emission costs.

Operating results of the ORLEN Group by segment:

- operating result of the **refinery segment** amounted to PLN 0.9 billion and was lower by PLN (-) 1.2 billion (YoY) mainly due to negative impact of falling oil prices on inventory valuation in the amount of PLN (-) 2.4 billion (YoY). Positive impact of macroeconomic environment and volume sales contributed to improvement of the segment result by PLN 2.1 billion (YoY). Net impact of the abovementioned one-time events regarding mitigation of the effects of overhaul downtimes and activities optimising the level of mandatory reserves reduced the result by PLN (-) 0.3 billion (YoY). Negative effects of other factors amounted to PLN (-) 0.6 billion (YoY) and covered mainly the change of balance on other operations in the amount of PLN (-) 0.4 billion (YoY) due to disclosed write-downs on fixed assets of the segment in the Unipetrol Group in the amount of PLN (-) 0.8 billion and impact of legislative changes as regards taxation of biocomponents.
- operating result of the **retail segment** increased by PLN 0.2 billion (YoY) to the level of PLN 0.6 billion mainly as a result of higher volume sales due to activities stimulating demand, gradual recovery of margins on the Polish and German market and further development of non-fuel offer.
- operating result of the **petrochemical segment** amounting to PLN 1.2 billion increased by PLN 1.2 billion (YoY). The effect of higher sales of terephthalic acid, polyolefins and artificial fertilisers amounted to PLN 0.2 billion (YoY), with negative impact of the macroeconomic environment in the amount of (-) PLN 0.3 billion (YoY). Positive impact of other factors amounted to PLN 1.3 billion (YoY) and was connected mainly with lower write-downs on fixed assets (YoY).
- net costs of **corporate functions** in 2012 increased by approximately (-) PLN 0.2 (YoY) to the level of about PLN (-) 0.7 primarily as a result of lack of positive effects on other operations of 2011 including compensation received for final settlement of damages after fire at the ORLEN Lietuva refinery in 2006, reimbursement of penalty paid to ENERGA-OPERATOR S.A. by PKN ORLEN and reimbursement of penalty for suspected application of cartel practices by the Unipetrol Group.

Taking into account net financial revenue in the amount of PLN 0.6 billion covering mainly positive net exchange rate differences on loans and other items in foreign currencies and net interest costs and tax burdens in the amount of about (-) PLN 0.4 billion the ORLEN Group achieved in 2012 net profit of PLN 2.2 billion.

In 2012, PKN ORLEN as the Parent Company of the ORLEN Group achieved increase of revenue from sales by PLN 9 billion (YoY) to the level of PLN 88 billion.

Effective implementation of strategic and operational objectives of PKN ORLEN allowed to achieve in the unstable economic situation PLN 1.9 billion of operating profit before impact of inventory valuation (EBIT acc. to LIFO).

Operating profit (EBIT) of PKN ORLEN in 2012 reached the level of PLN 1.8 billion and was by (-) PLN 1.4 billion lower (YoY):

- the so called LIFO effect decreasing operating result as regards the entire 2012 amounted to PLN (-) 0.1 billion against a positive impact in 2011 in the amount of PLN 2.1 billion. As a result, net impact of inventory valuation affected reduction of operating result of the ORLEN Group in 2012 by PLN (-) 2.2 billion (YoY).
- positive impact of changes of macroeconomic factors, especially visible in the refinery segment, influenced improvement of operating result by PLN 1.0 billion (YoY).
- the effect of increase in volume sales, mainly in the petrochemical segment, influenced the increase of operating result by PLN 0.4 billion (YoY).
- net impact of the abovementioned one-time events regarding mitigation of the effects of overhaul downtimes and activities optimising the level of mandatory reserves reduced the operating result by PLN (-) 0.3 billion (YoY).
- negative impact of other operating elements amounted to PLN (-) 0.3 billion (YoY) and covered mainly legislative changes in the scope of taxation of biocomponents in fuels, higher depreciation costs and change of balance on other operations mainly due to lack of positive effects from 2011 including reimbursement of the penalty paid to ENERGA - OPERATOR S.A.

Taking into account net financial revenues in the amount of PLN 0.8 billion covering mainly positive net exchange rate differences on loans and other items in foreign currencies, received dividends, net interest costs, write-downs on shares of AB ORLEN Lietuva and tax burdens in the amount of (-) PLN 0.5 billion the ORLEN Group achieved in 2012 net profit of PLN 2.1 billion.

Capital expenditure in the ORLEN Group in 2012 amounted to PLN 2.0 billion. As part of investment activities the Company continued implementation of key investment projects including, among others, construction of K8 boiler and flue gas catalytic denitrogenation and dedusting unit at the CHP Plant, modernisation and intensification of the HF Alkylation unit in PKN ORLEN, construction of sulphur granulation and degassing unit in ORLEN Lietuva and construction of new and modernisation of existing fuel stations in the retail segment.

New areas of activities of the ORLEN Group, carried out consistently as part of development and diversification of income sources covered production of hydrocarbon and the energy sector.

By the end of 2012 five wells were made on unconventional deposits, including two horizontal wells. Moreover, steps were taken to obtain two new licenses owned by Exxon Mobil - the process was completed already at the beginning of 2013. As regards conventional gas exploration, appraisal well was completed in the area of the Polish Plain (Sieraków).

As part of development of the energy sector in 2012 the Company signed a contract with the general contractor of the gas and steam unit in Włocławek - the construction site was made available to the contractor at the beginning of March 2013. The unit will produce electricity in cogeneration with heat production for the ANWIL Group and PKN ORLEN, and additionally half of the produced electricity will be sent to the external market. The second energy project assuming construction of the gas and steam unit in Płock passed through the stage of analysis of construction concept options and feasibility study. Environmental decision was also obtained and economic analyses of the project have been initiated.

As part of optimisation of the ownership structure, PKN ORLEN became the sole shareholder of Anwil S.A., Rafineria Nafty Jedlicze S.A., IKS Solino S.A. and Petrolot Sp. z o.o., which contributed to further improvement of management efficiency. The Unipetrol Group permanently ceased to

process crude oil at the Paramo plant due to decreasing consumption of fuel on the Czech market and low throughput efficiency of this refinery. ORLEN Lietuva continued implementation of a number of restructuring activities and overhaul downtime of the entire refinery conducted periodically every 4 years was successfully completed.

Development strategy of the ORLEN Group for 2013-2017 adopted in November 2012 assumes further sustainable development of the ORLEN Group with full use of the potential. Development and growth of the ORLEN Group will be achieved, among others, by increase of annual average cash flows from operations by more than 40% as compared to the period 2008-2012 (after elimination of impact of one-time events) and capital expenditure plan for the next 5 years covering expenditure up to PLN 22.5 billion. Financial security and maintenance of financial leverage on the level below 30% will remain a priority. Implementation of strategic assumptions will allow to initiate the programme of dividend for shareholders.

Internal control systems and risk management system

The Audit Committee of the Supervisory Board and the Supervisory Board evaluated the internal control system and risk management system in association with the Audit and Corporate Risk Management Office, which is responsible for internal audit activities in ORLEN Group. The aim of analyses was preparation of an independent and objective assessment of risk management and internal control systems as well as business processes analysis. The Audit and Corporate Risk Management Office carried out its tasks on the basis of annual audit plans approved by the Management Board and accepted by the Audit Committee of the Supervisory Board and the Supervisory Board. In 2012, the Audit and Corporate Risk Management Office implemented in total 28 audit tasks, as part of which as at 31 December 2012 in total 120 recommendations were issued. In 2012, the Audit and Corporate Risk Management Office monitored twice audit recommendations, including recommendations of the external auditor issued in respect of the financial statements of the Company. In the 1st quarter of 2012 in total 163 recommendations were monitored, whereas in the 3rd quarter of 2012 – 80 recommendations. Implementation of 122 recommendations in 2012 was confirmed in the monitoring process. Moreover in 2012 PKN ORLEN completed the project connected with update of the Integrated Corporate Risk Management System, whose main objective was to link corporate risks to business processes. As part of this project also new Corporate Risk Management Policy and Procedure were developed. In accordance with the approved Audit and Corporate Risk Management Office Strategy for 2013 -2017 the introduced solutions will be implemented in key companies of the ORLEN Group.

The Control and Security Office responsible for internal control processes in the ORLEN Group functions within PKN ORLEN independently from the Audit and Corporate Risk Management Office. Control activities are carried out on the basis of the annual control plan approved by the President of the Management Board of the Company and in the event of ad-hoc controls and verification proceedings in connection with current signals regarding suspected irregularities.

Last year the Internal Control Department within the Control and Security Office was subject to independent assessment which confirmed full compliance of applied procedures and practices with international professional standards in the area of internal control and internal regulations.

Warsaw, May 2013

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Maciej Mataczyński
Chairman of the Supervisory Board
PKN ORLEN S.A.

