



**Polski Koncern Naftowy ORLEN**  
Spółka Akcyjna

**REPORT  
OF THE SUPERVISORY BOARD OF PKN ORLEN S.A.  
FOR 2013**

**WARSAW, APRIL 2014**

## **I. COMPOSITION OF THE SUPERVISORY BOARD**

As at 1 January 2013, the Supervisory Board of PKN ORLEN S.A. was composed as follows:

- Maciej Mataczyński – Chairman of the Supervisory Board,
- Leszek Pawłowicz- Deputy Chairman of the Supervisory Board
- Angelina Sarota- Secretary of the Supervisory Board
- Artur Gabor – Member of the Supervisory Board
- Grzegorz Borowiec- Member of the Supervisory Board
- Michał Gołębiowski - Member of the Supervisory Board
- Cezary Banasiński – Member of the Supervisory Board
- Paweł Białek – Member of the Supervisory Board

On 27 June 2013 the Company's Ordinary General Meeting nominated the Supervisory Board of PKN ORLEN S.A. for a new three-year term of office.

As at 27 June 2013, the Supervisory Board of PKN ORLEN S.A. was composed as follows:

- Angelina Sarota - Chairwoman of the Supervisory Board
- Leszek Pawłowicz- Member of the Supervisory Board  
(Deputy Chairman of the Supervisory Board from 18 July 2013)
- Michał Gołębiowski- Member of the Supervisory Board  
(Secretary of the Supervisory Board from 18 July 2013)
- Grzegorz Borowiec- Member of the Supervisory Board
- Artur Gabor – Member of the Supervisory Board
- Cezary Banasiński – Member of the Supervisory Board
- Cezary Możejński- Member of the Supervisory Board

As at 31 December 2013 the composition of the Supervisory Board of PKN ORLEN S.A. remained unchanged.

## II. OPERATIONS OF THE SUPERVISORY BOARD

In 2013 the Supervisory Board held nine recorded meetings and approved 70 resolutions.

The supervisory and control operations of the Supervisory Board in the financial year of 2013 covered *inter alia* the following issues:

- The Supervisory Board reviewed the report of the Management Board of PKN ORLEN S.A. from the operations of the Company and the financial statements for the financial year of 2012;
- The Supervisory Board reviewed the proposal of the Company's Management Board on profit distribution for the financial year of 2012;
- The Supervisory Board reviewed the report of the Management Board on operations of the ORLEN Capital group for the financial year of 2012 and the consolidated financial statements of the PKN ORLEN Capital Group;
- The Supervisory Board provided its opinion on the agenda and draft resolutions of the Ordinary General Meeting of PKN ORLEN convened for 27 June 2013;
- The Supervisory Board provided its positive opinion on the Financial Plan for 2014;
- The Supervisory Board provided its consent to the planned investment tasks and contracting of the resultant obligations if expenditures or charges result therefrom that exceed the equivalent of one half of the Company's share capital;
- The Supervisory Board provided its consent to the issue by PKN ORLEN S.A. of bearer bonds within the program of public bond issues and to the contracting by the Company or bond related obligations and those related to the establishment of the program and public bond offerings;
- The Supervisory Board provided its consent to the contracting by PKN ORLEN S.A. of financial obligations that pursuant to one or more related legal actions throughout 2013 exceed the equivalent of one fifth of the Company's share capital;
- The Supervisory Board provide its consent to a modified method of using the mandatory reserves by PKN ORLEN S.A.;
- The Supervisory Board provide its consent to the performance of voting rights by PKN ORLEN S.A. at the General Meeting of UNIPETROL a.s. relating to amendments to the by-laws of the latter company;
- The Supervisory Board provided its consent to the Deputy President of the Management Board responsible for Finances and the Member of the Management Board responsible for

Petrochemicals to accept positions in the supervisory bodies of companies in the ORLEN Capital Group without any related remuneration;

- The Supervisory Board provided its consent to PKN ORLEN S.A. providing a security for excise tax as a third person;
- The Supervisory Board provided its consent for the sale of properties, perpetual usufruct right or a share in properties with net book value not exceeding one twentieth of the Company's share capital;
- The Supervisory Board reviewed the performance of the targets for 2012 by Members of the Management Board and approved annual bonus for the financial year of 2012;
- The Supervisory Board approved the principles of setting and settling individual bonus targets for Members of the Management Board of PKN ORLEN S.A. for 2014 and approved the Regulations of the Incentive System for Members of the Management Board of PKN ORLEN;
- The Supervisory Board approved the target cards for 2014 for each Member of the Company's Management Board;

The operations of the Supervisory Board were recorded in the approved resolutions and minutes from the meetings of the Supervisory Board in 2013.

### **III. COMMITTEES OF THE SUPERVISORY BOARD**

The operations of the Supervisory Board were supported by Committees operating as collective advisory and consultancy bodies to the Supervisory Board; the Committees are established from among members of the Supervisory Board.

In 2013 there were the following standing Committees within the Supervisory Board:

- Audit Committee
- Strategy and Development Committee
- Corporate Governance Committee
- Nomination and Remuneration Committee

The detailed operations of the Committees in 2013 were documented in the minutes of their respective meetings.

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



As at 1 January 2013, the Audit Committee of the Supervisory Board of PKN ORLEN S.A. was composed as follows:

Mr. 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 connection with the nomination of the Supervisory Board for a new term of office by the Ordinary General Meeting of the Company of 27 June 2013, the Supervisory Board by its resolution No. 1445/13 of 18 July 2013 nominated the following composition of the Audit Committee: Mr. Grzegorz Borowiec, Mr. Artur Gabor, Mr. Michał Gołębiowski and Mr. Leszek Jerzy Pawłowicz. Mr. Artur Gabor was elected Chairman of the Committee.

As at 31 December 2013, the Audit Committee was composed as follows:

Mr. Artur Gabor	Chairman of the Committee
Grzegorz Borowiec	Member of the Committee
Michał Gołębiowski	Member of the Committee
Leszek Pawłowicz	Member of the Committee

In 2013 the Audit Committee held nine recorded meetings.

In accordance with § 13.5 of the Regulations of the Supervisory Board, the Audit Committee took decisions in the form of resolutions (6 resolutions).

The meetings of the Audit Committee – apart from its members - were also attended by other members of the Supervisory Board. Additionally, the meetings were open to members of the Management Board with the exception of personal matters. Usually, during a discussion of a specific issue, the Management Board was represented by a competent member of the Management Board. The Audit Committee as well as its members also held meetings with employees of the Company and the auditor.

#### Scope of work of the Audit Committee

In compliance with § 15 of the Regulations of the Management Board, the task of the Audit Committee was to provide advice to the Management Board on appropriate implementation of the principles of budgetary and financial reporting and internal control of the Company and the PKN ORLEN Capital Group (within the meaning of the provisions of the Accounting Act) and collaboration with the Company's auditor.

The Audit Committee pursued its task by way of:

- monitoring of the work of the auditor and reviews of proposals of the Management Board requesting consent to commission additional tasks to the auditor,

- review of interim financial statements of the Company as well as the annual standalone and consolidated financial statements of PKN ORLEN S.A. ,
- providing an opinion on the Financial Plan for 2014,
- quarterly analysis of the results generated by the PKN ORLEN Capital Group in relation to the plan,
- providing an opinion on the on the proposal of the Company's Management Board on the recommendation of profit distribution for 2012,
- review of the auditor's report on the implementation of the procedures relating to the calculation of qualitative ratios resulting from the MBO Regulations for Members of the Company's Management Board for the financial year ended on 31 December 2012,
- analysis of periodic reports on the implementation status of the recommendations and a summary of the monitoring and conclusions from audits performed by internal audit functions and issued by the auditor.
- review of information on controls and verification procedures performed by the Control and Security Bureau for 2012.

In 2013 the Audit Committee additionally reviewed the following issues related to the functioning and operation of the companies in the Capital Group:

- it reviewed information on the implementation of the Integrated Corporate Risk Management System at PKN ORLEN S.A.,
- it discussed the tender principles applied by PKN ORLEN,
- it discussed the report from material litigation and arbitration procedures to which PKN ORLEN S.A. and the Capital group is party.

Additionally, the Audit Committee formulated recommendations for the Supervisory Board of PKN ORLEN on matters covered by the Supervisory Board, being within the competences of the Audit Committee.

### **Strategy and Development Committee**

As at 1 January 2013 the composition of the Strategy and Development Committee of the Supervisory Board of PKN ORLEN S.A. was as follows:

Mr. 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 connection with the nomination of the Supervisory Board for a new term of office by the Ordinary General Meeting of the Company of 27 June 2013, the Supervisory Board by its resolution No. 1445/13 of 18 July 2013 nominated the following composition of the Strategy and Development Committee: Mr. Cezary Banasiński, Mr. Artur Gabor, Mr. Cezary Możejński, Mr. Leszek Pawłowicz and Ms. Angelina Sarota. Mr. Cezary Banasiński was elected Chairman of the Committee.

As at 31 December 2013, the Strategy and Development Committee was composed as follows:



Mr. Cezary Banasiński	Chairman of the Committee
Artur Gabor	Member of the Committee
Cezary Możejński	Member of the Committee
Leszek Pawłowicz	Member of the Committee
Angelina Sarota-	Member of the Committee

In 2013 the Strategy and Development Committee held four recorded meetings.

Apart from its members, the meetings of the Strategy and Development Committee were attended also by other members of the Supervisory Board, members of the Management Board as well as executive directors and directors of bureaus.

The work of the Strategy and Development Committee is regulated in § 17 of the Regulations of the Supervisory Board in accordance with which the tasks of the Committee is to provide opinion and recommendations to the Supervisory Board on the planned investments and disinvestments that materially affect the assets of the Company.

Within its operations in 2013, the Strategy and Development Committee:

- analysed the report summarising the due diligence process with recommendations, relating to the acquisition of TriOil Resources Ltd;
- reviewed the time schedule of the implementation and monitoring of strategic objectives and discussed the following segment strategies: retail, refinery (wholesale, logistics, production), petrochemicals and in the area of oil supplies.

#### **Corporate Governance Committee**

As at 1 January 2013, the Corporate Governance Committee of the Supervisory Board of PKN ORLEN S.A. was composed as follows:

Angelina Sarota-	Chairwoman of the Committee
Grzegorz Borowiec	Member of the Committee
Paweł Białek	Member of the Committee
Maciej Mataczyński	Member of the Committee

In connection with the nomination of the Supervisory Board for a new term of office by the Ordinary General Meeting of the Company of 27 June 2013, the Supervisory Board by its resolution No. 1445/13 of 18 July 2013 nominated the following composition of the Corporate Governance Committee: Mr. Michał Gołębiowski, Mr. Cezary Możejński and Ms. Angelina Sarota. Mr. Cezary Możejński was elected Chairman of the Committee.

As at 31 December 2013, the Corporate Governance Committee was composed as follows:

Cezary Możejński	Chairman of the Committee
Michał Gołębiowski	Member of the Committee
Angelina Sarota-	Member of the Committee

In 2013 the Corporate Governance Committee held two recorded meetings which – apart from members of the Committee – were also attended by directors of other bureaus.

The area of work of the Corporate Governance Committee is regulated by § 16 of the Regulations of the supervisory Board and its tasks include the following: providing recommendations on the implementation of corporate governance principles, assessment of the implementation of corporate governance principles, providing opinion of normative documents and proposed modifications to corporate documents of the Company as well as development of such modifications to the documents of the Supervisory Board, monitoring of the management of the Company for compliance with legal and regulatory requirements, including for compliance with the Code of Ethics and corporate governance principles, as well as assessment of the reports relating to the compliance with the corporate governance principles developed for the Warsaw Stock Exchange.

Within its operations in 201, the Corporate Governance Committee:

- recommended to the Supervisory Board the approval of the Report in the implementation of the corporate governance principles at PKN ORLEN in 2012;
- provided a positive opinion on the proposal of the Management Board to the Supervisory Board on modifications to the by-laws of PKN ORLEN S.A. and Unipetrol a.s.

### **Nomination and Remuneration Committee**

As at 1 January 2013, the Nomination and Remuneration Committee of the Supervisory Board of PKN ORLEN S.A. was composed as follows:

Maciej Mataczyński	Chairman of the Committee
Paweł Białek	Member of the Committee
Grzegorz Borowiec	Member of the Committee
Artur Gabor	Member of the Committee
Michał Gołębiowski	Member of the Committee

In connection with the nomination of the Supervisory Board for a new term of office by the Ordinary General Meeting of the Company of 27 June 2013, the Supervisory Board by its resolution No. 1445/13 of 18 July 2013 nominated the following composition of the Nomination and Remuneration Committee: Mr. Cezary Banasiński, Mr. Grzegorz Borowiec, Mr. Michał Gołębiowski, Ms. A. Sarota. Ms. Angelina Sarota was elected Chairwoman of the Committee.

As at 31 December 2013, the Nomination and Remuneration Committee was composed as follows:

Angelina Sarota-	Chairwoman of the Committee
Cezary Banasiński	Member of the Committee
Grzegorz Borowiec	Member of the Committee
Michał Gołębiowski	Member of the Committee

In 2013 the Nomination and Remuneration Committee held four recorded meetings.



Apart from its members, the meetings of the Nomination and Remuneration Committee were attended also by other members of the Supervisory Board, members of the Management Board as well as executive directors and directors of bureaus and advisers.

The area of work of the Nomination and Remuneration Committee is regulated by § 18 of the Regulations of the supervisory Board and its tasks include the following: support to achieving the strategic objectives of the Company by submitting to the Supervisory Board of opinions and conclusions on developing the management structure, including organisational issues, the remuneration systems and selection of personnel with qualifications adequate to the development of the Company's success.

Among its tasks for 2013, the Nomination and Remuneration Committee:

- prepared a recommendation for the Supervisory Board relating to the assessment of the accomplishment of individual quality bonus tasks for members of the Management Board for 2012;
- reviewed the projection of the accomplishment of MBO objectives in 2013;
- discussed an evolution of the bonus system for Members of the Management Board of PKN ORLEN and recommended to the Supervisory Board the approval of the Regulations of the Incentive System for the Management Board of PKN ORLEN S.A. and draft objective cards for the Management Board for 2014.

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

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

- 1) report of the Company's Management Board on the activities of Polski Koncern Naftowy ORLEN Spółka Akcyjna for the financial year ended on 31 December 2013;
- 2) stand-alone financial statements of Polski Koncern Naftowy ORLEN Spółka Akcyjna for the year ended 31 December 2013, including the following items verified by a certified auditor:
  - consolidated statement of the financial position as at 31 December 2013 presenting both on the assets side and on the liabilities side the amount of 42 062 925 707.31 PLN (in words: forty two billion sixty two million nine hundred twenty five thousand seven hundred and seven zlotys 31/100);
  - stand-alone profit and loss account (included in the profit or loss statement and other total income) for the period from 1 January 2013 to 31 December 2013 ended with a net profit in the amount of 617 684 481.47 PLN (in words: six hundred seventeen million six hundred eighty four thousand and four hundred eighty one zlotys 47/100);
  - additional information including the introduction to the stand-alone financial statements and additional notes and explanations;

- stand-alone statement of changes in equity, indicating increase in the equity as at 31 December 2013 by the amount of 215 137 938.07 PLN (in words: two hundred fifteen million one hundred thirty seven thousand and nine hundred thirty eight zlotys 7/100);
- stand-alone cash flow statement indicating net increase in the cash by the amount of 1 100 143 835.73 PLN (in words: one billion one hundred million one hundred forty three thousand and eight hundred thirty five zlotys 73/100).

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 2013 and the report of the Management Board on activities of the Company are compliant with books, records and facts.

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

- 1) report of the Management Board on the activities of ORLEN Capital Group for the year ended on 31 December 2013;
- 2) consolidated financial statements of ORLEN Capital Group for the year ended 31 December 2013, including the following items verified by a certified auditor:
  - consolidated statement of the financial position as at 31 December 2013 presenting both on the assets side and on the liabilities side the amount of 51 643 860 767.23 PLN (in words: fifty one billion six hundred forty three million eight hundred sixty thousand and seven hundred sixty seven zlotys 23/100);
  - consolidated profit and loss account (included in the consolidated profit or loss statement and other total income) for the period from 1 January 2013 to 31 December 2013 ended with a net profit in the amount of 89 462 874.22 PLN (in words: eighty nine million four hundred sixty two thousand and eight hundred seventy four zlotys 22/100);
  - additional information including the introduction to the consolidated financial statements and additional notes and explanations;
  - consolidated statement of changes in equity, indicating decrease in the equity as at 31 December 2013 by the amount of 756 676 139.45 PLN (in words: seven hundred fifty six million six hundred seventy six thousand and one hundred thirty nine zlotys 45/100);
  - consolidated cash flow statement indicating net increase in the cash and its equivalents by the amount of 682 828 206.85 PLN (in words: six hundred eighty two million eight hundred twenty eight thousand and two hundred and six zlotys 85/100).

## **V. OPINION ON THE MOTION REGARDING THE DISTRIBUTION OF PROFIT FOR 2013.**

Pursuant to art. 382 § 3 of the Commercial Companies Code and § 8 par. 11 subpar. 6 of the Company Statutes in relation to art. 395 § 2 subpar. 2 of the Commercial Companies Code and § 7 par. 7 subpar. 3 of the Company Statutes, the Company's Supervisory Board positively evaluates the



motion of the Management Board regarding distribution of the net profit of PKN ORLEN S.A. for the financial 2013 in the amount of 617,684,481.47 PLN (in words: six hundred seventeen million six hundred eighty four thousand and four hundred eighty one zlotys 47/100) in the following manner:

- 1) the amount of 615,901,047.84 PLN (in words: six hundred fifteen million nine hundred and one thousand and forty seven zlotys 84/100) to be allocated to payment of the dividend (1.44 PLN per 1 share)
- 2) the remaining amount, i.e. 1,783,433.63 PLN (in words: one million seven hundred eighty three thousand and four hundred thirty three zlotys 63/100) to be allocated to the Company's supplementary capital.

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

The Company's Supervisory Board positively evaluates the motion of the Management Board regarding establishment of the day 16 June 2014 as the day of the dividend and the day of 8 July 2014 as the date of payment of the dividend.

#### VI. 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").

The year 2013 was the first year of realisation of the Strategy of the ORLEN Group for the years 2013-2017 assuming building of the Group values by improvement of the operational efficiency of the owned assets, dynamic development in the field of extraction and power industry together with preservation of stable financial fundamental, which should allow for implementation of stable dividend policy for the shareholders.

Safe financial situation related to reduction of the net debt during the year by another 2.1 bln PLN (r/r) to the level of 4.6 bln PLN and financial leverage by 5.6 pp. (r/r) to 20.4% at the end of 2013 enabled for the first time from 2008 to pay out the dividend to the shareholders with a rate of return 3.8% in comparison to the average share price in 2012.

The upstream segment developed both as a result of upstream operations conducted on the conventional and non-conventional deposits in Poland, as well as by means of purchase of the Canadian extraction company TriOil Resources Ltd conducting manufacturing activity.

Within the field of energetics the project of construction of the power plant in Włocławek has been conducted according to the schedule, anticipating its activation at the end of 2015.

The total volume sales of the ORLEN Group increased in 2013 by 2% (r/r) up to 36 bln of tons despite unfavourable economic environment related to reduction of the rate of increase of the GDP and at the same time of the fuel consumption as well as the negative impact of the so-called "grey economy" on the Polish and Czech market.

Operating profit increased by amortisation (EBITDA) of the ORLEN Group in 2013 amounted to 2.5 bln PLN and was lower by (-) 1.8 bln PLN (r/r). Main elements of this change included:

- negative impact of the change in petroleum prices on the evaluation of the stocks (the so-called LIFO effect) decreased EBITDA of the ORLEN Group by (-) 0.5 bln PLN (r/r).



- negative impact of the change in macroeconomic factors, particularly visible in the 2-nd half of 2013 in the refinery segment, influenced the decrease of EBITDA of the ORLEN Group in 2013 by around **(-) 1.7 bln PLN (r/r)**. The refinery margins in the 4th quarter of 2013 have been the lowest for over 10 years.
- positive volume effect of the higher sales in the refinery and retail segment and of improvement of the sales structure in the petrochemical segment, despite lower volumes of this segment, influenced the increase of EBITDA of the ORLEN Group by around **0.4 bln PLN (r/r)**.
- impact of the other factors was **neutral (r/r)** and mainly related to:
  - positive impact of the change in the balance on other operating activity in the amount of **0.4 bln PLN (r/r)** as a result of lower by 0.6 bln PLN (r/r) net write-offs revaluating the tangible fixed assets (mainly lack of write-offs for 2012 regarding the refinery segment of the Unipetrol Group in the amount of (-) 0.7 bln PLN) and lack of positive effects from 2012 related to acquisition of certificates for energy cogeneration in the amount of (-) 0.2 bln PLN (r/r).
  - negative impact of other elements in the amount of **(-) 0.4 bln PLN (r/r)** mainly including lack of positive effect from 2012 for repurchase of the 2nd tranche of compulsory stocks in the amount over (-) 0.2 bln PLN (r/r) and negative effect for sale of the 5th tranche of the compulsory stocks from 2013 in the amount over (-) 0.1 bln PLN, which will be levelled in a relation to the concluded hedging transactions.

#### **EBITDA of the ORLEN Group by segment:**

**EBITDA of the refinery segment** amounted to (-) 0.2 bln PLN and was lower by (-) 2.2 bln PLN (r/r) mainly as a result of:

- negative impact of the macroeconomic factors in the amount of (-) 1.7 bln PLN (r/r) related to reduction of the model refinery margin and differential Brent/Ural and strengthening of the PLN exchange rate in relation to foreign currencies and negative impact of the so-called LIFO effect related to evaluation of the inventory as a result of reduction of the petroleum prices in the amount of (-) 0.5 bln PLN (r/r),
- positive impact of higher volume sales in Poland and on the markets served by the ORLEN Group Lietuva, which was partly limited by lower volumes on the Czech market and amounted to 0.2 bln PLN (r/r),
- impact of the other factors in the amount of (-) 0.2 bln PLN (r/r), which mainly included positive effect of the change in the balance on the other operating activity in the amount of 0.4 bln PLN (r/r) and negative impact of other elements in the amount of (-) 0.6 bln PLN (r/r).

The change in the balance on the other operating activity comprises mainly lack of the write-offs revaluating the value of tangible fixed assets in the Unipetrol Group from 2012, lack of positive effects from 2012 for the certificates for energy cogeneration granted free of charge and creation in 2013 of reserves for the tax risks regarding the previous years in the Trzebinia Refinery.

The negative impact of the other elements was mainly related to the effects described above regarding the transactions of repurchase and sales of the compulsory stock conducted during

the years 2012 and 2013 and in the other part mainly from deterioration of the commercial margins as a result of strong market pression.

**EBITDA of the retail segment** increased by 0.3 bln PLN (r/r) to the record level of 1.3 bln PLN mainly as a result of:

- improvement of the petroleum margins on all the markets serviced by the ORLEN Group in the amount of over 0.2 bln PLN (r/r),
- higher volume sales on the Czech, German and Lithuanian markets with a stable sales on the Polish market.

**EBITDA of the petrochemical segment** in the amount of 2.0 bln PLN was higher by 0.1 bln PLN (r/r) mainly as a result of:

- positive volume effect in the amount of 0.1 bln PLN (r/r) achieved despite lower total sales of the segment. Impact of the increase of volumes, mainly polymers, monomers, aromas, plastics and PTA on the Polish market exceeded negative effects of limitation of sales of the fertilizers and the reduction of petrochemical volumes in the Unipetrol Group. The lower sales of the artificial fertilizers (r/r) is mainly the result of the breakdown down time of the ammonia installation in ANWIL S.A. in August 2013, permanent stoppage at the end of 2012 of manufacturing of fertilizers in the Unipetrol Group and down time of Spolana a.s. after June flood in the Czech Republic.
- positive impact of the macroeconomic environment and change in the prices for the petrochemical products on evaluation of the stock was not essential and compensated the negative change in the balance on the other operating activity mainly due to costs of removal of the results of the flood in Spolana a.s. from 2013.

**EBITDA of the upstream segment** in the amount of (-) 32 bln PLN in 2013 did not have a substantial impact on the results of the ORLEN Group. In relation to the projects conducted in Poland at the stage of explorations most of the incurred expenditures are capitalised and the results of the activity of TriOil were included for the period after taking control over the company in half of November 2013.

In 2013 the revaluation write-off for tangible and intangible fixed assets and intangible in the segments were conducted in the amount of (-) 0.1 bln PLN in relation to accomplishment of the exploration project on the Latvian shelf of the Baltic Sea.

Within the scope of settlement of transaction of purchase of TriOil company, ORLEN Group has evaluated and included in the consolidated profit and loss statement on the occasional purchase in the amount of 0.1 bln PLN.

**EBITDA of the corporate functions** in 2013 amounted to (-) 0.6 bln PLN.

Making allowance for the net financial costs in the amount of (-) 0.2 bln PLN mainly including the net interest costs and positive net exchange differences for revaluation of credits and other items in foreign currencies and tax burdens in the amount of (-) 0.1 bln PLN the **ORLEN Group has achieved in 2013 a net profit of 0.1 bln PLN.**

**The investment expenditures in the ORLEN Group** in 2013 for purchase of tangible fixed assets amounted to 2.5 bln PLN and 0.5 bln PLN in relation to purchase of the extraction company TriOil.



Within the conducted investment activity realisation of the key investment projects related to construction of Denitrification, De-dusting and Desulfurization Systems of the Flue Gases in PKN ORLEN, Vacuum Flasher Plant in the ORLEN Group Lietuva as well as development projects in the upstream and power industry segments was continued.

After purchase at the beginning of 2013 of the 2 concessions from Exxon Mobil the ORLEN Group has been presently having at its disposal 10 concessions for exploration of hydrocarbons in Poland.

Until the end of 2013 8 boreholes were made on the non-conventional deposits, including 6 vertical boreholes and 2 horizontal boreholes. At the beginning of 2014 the borehole works on the subsequent 7th vertical borehole and the 3rd horizontal borehole were accomplished, which places the ORLEN Group among the leaders with the highest number of the conducted boreholes (10) in Poland.

Taking over of the Canadian extraction company TriOil Resources Ltd. also had an essential importance for further development of the upstream segment. Due to this acquisition the ORLEN Group obtained access to the production oil deposits and know-how within the field of extraction of hydrocarbon from non-conventional sources, coming from the most technologically advanced world region.

Within the scope of development of the power industry sector construction of the gas-stem power plant was conducted in Włocławek. In 2013 the works regarded mainly the earthworks and foundation works as well as assembly of the steel structure in the building of the machine room. In addition, orders for all the key power plant components have been submitted, i.e. gas and steam turbine, generator, boiler, transformers. From 2015 the power plant will produce electrical energy in cogeneration with heat generation for the purposes of the Anwil Group and PKN ORLEN and for the external recipients.

**Within the scope of the process of optimisation of the ownership structure** the activities directed at further improvement of effectiveness of management of the companies owned by the ORLEN Group were conducted.

In 2013 PKN ORLEN became an official owner of the companies ORLEN Oil Sp. z o.o., ORLEN Asphalt Sp. z o.o. and increased its share in the capital of the company ORLEN Projekt S.A. Similar transactions were also conducted by Anwil S.A. and regarded increase of the held shares in the companies RemWil Sp. z o.o., Chemeko Sp. z o.o. and Prof-Med Sp. z o.o.

Establishment of the company ORLEN Upstream International B.V. enabled to efficiently conduct acquisition of the Canadian extraction company TriOil.

In 2013 the contract for purchase by Unipetrol a.s. from Shell Overseas Investments BV of the shares of the company Česká Rafinérská was concluded, representing 16.3% of the company's share capital. The transaction of taking over of the shares was completed in January 2014, which allowed for increase of the processing capacity of the refinery of the Unipetrol Group by 1.4 bln t/y to the level of 5.9 bln t/y.

In 2013 the activities related to **optimisation of petroleum wholesale** within the scope of the ORLEN Group were also conducted, the result of which was moving of the sales processes and service of the wholesale customers from PKN ORLEN to the company ORLEN Paliwa Sp. z o.o. The applied solution will enable better use of the sales potential by means of standardisation of procedures, use of the scale effect and increase of flexibility within the scope of customer service.

The project of changing of the business model of the company Petrolot Sp. z o.o. was also realised, pursuant to which from the beginning of 2014 the sales of the aviation fuels will be conducted



directly by PKN ORLEN whereas Petrolot will become an independent operator offering warehousing of aviation fuels and fuelling of the aircrafts to the order of fuel suppliers.

## **RESULTS OF PKN ORLEN as the Dominant Entity of the ORLEN Group**

**EBITDA of PKN ORLEN** in 2013 amounted to **1.5 bln PLN** and was by **(-) 1.4 mld PLN** lower (r/r) as a result of:

- negative impact of the change in petroleum prices on the evaluation of the inventory (the so-called LIFO effect) in the amount of **(-) 0.5 bln PLN (r/r)**.
- negative impact of the macroeconomic factors, particularly visible in the refinery segment in the amount of **(-) 0.9 bln PLN (r/r)**,
- positive effect of the higher sales volumes in the refinery and petrochemical segment in the amount of **0.4 bln PLN (r/r)**,
- negative impact of the other factors in the amount of **(-) 0.4 bln PLN (r/r)** mainly regarding the effects of transactions of repurchase and sales of the compulsory stocks from the years 2012 and 2013 described above.

The net financial revenues of PKN ORLEN in 2013 amounted to 0.2 bln PLN and included mainly the positive exchange differences for revaluation of credits and other items in the foreign currencies in the amount of over 0.2 bln PLN, received dividends from companies of the ORLEN Group in the amount of over 0.2 bln PLN, net interest costs in the amount of around **(-) 0.2 bln PLN** and revaluation write-offs for shares in the company Orlen International Exploration & Production Company BV in the amount of **(-) 0.1 bln PLN**. Revaluation write-off resulted from accomplishment and writing off the value of the expenditures incurred in the project conducted by this company within the scope of the upstream segment of the ORLEN Group at the shelf of the Baltic Sea described above.

Making allowance for the tax burdens **PKN ORLEN has achieved 0.6 bln PLN net profit for 2013.**

## **INTERNAL CONTROL SYSTEM 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. Within the scope of the performed tasks the Audit and Corporate Risk Management Office conducted independent and objective assessment of the risk management system and internal control system and business processes analysis.

The tasks of the Audit and Corporate Risk Management Office are carried out 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 2013 the Office has realised 38 audit tasks in total, for which 267 recommendations have been issued.

In 2013, the Audit and Corporate Risk Management Office also conducted the so-called monitoring of the audit recommendations, including recommendations of the external auditor issued in respect of the financial statements of the Company, within scope of which 291 recommendations in total have been subject to audit. Moreover, the Audit and Corporate Risk Management Office,

pursuant to the implemented Policy and Procedure for Corporate Risk Management, in a continuous manner coordinated the process of corporate risk management and made available IT tools and methodological support for the business areas. In 2013 the first process of risk self-assessment and testing of the control mechanisms identified at the stage of mapping of the key business processes in PKN ORLEN was conducted, as a result of which in 2014 the first Risk Map of PKN ORLEN will be developed, presenting actual risk profile arose based on the results of efficient functioning of the control mechanisms.

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.

Inspection and Safety Office, which realises the tasks in the scope of safety and institutional internal control at the company also functions in PKN ORLEN. Internal inspections are conducted on the basis of annual plan approved by the Chairman of the Company. Inspections are also realised apart from the plan in relation to current suspicions of occurrence of abuse and irregularities. In 2013 Inspection and Safety Office conducted 22 inspections and 12 verification proceedings. In 2013 work of the Office was assessed by the external audit, which confirmed compliance to the international standards and internal regulations during the process of inspection and paid attention to high quality of the post-inspection reports.

Warsaw, April 2014

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