



Polski Koncern Naftowy ORLEN
Spółka Akcyjna

REPORT
OF THE SUPERVISORY BOARD OF PKN ORLEN S.A.
FOR 2014

WARSAW, MARCH 2015

I. COMPOSITION OF THE SUPERVISORY BOARD

As at 1 January 2014, the Supervisory Board of PKN ORLEN S.A. was composed as follows:

Angelina Sarota	Chairwoman of the Supervisory Board
Leszek Pawłowicz	Deputy Chairman of the Supervisory Board (Independent Member of the Supervisory Board)
Michał Gołębiowski	Secretary of the Supervisory Board
Grzegorz Borowiec	Member of the Supervisory Board
Artur Gabor	Member of the Supervisory Board (Independent Member of the Supervisory Board)
Cezary Banasiński	Member of the Supervisory Board (Independent Member of the Supervisory Board)
Cezary Możejki	Member of the Supervisory Board

On 21 April 2014 Mr Michał Gołębiowski resigned from the function of a Member of the Supervisory Board of PKN ORLEN S.A.

On 15 May 2014 the Company's Ordinary General Meeting appointed the following Members to the Supervisory Board of PKN ORLEN S.A.:

Adam Ambrozik

Radosław L. Kwaśnicki

On 15 May 2014 the Minister of the Treasury appointed, on behalf of the State Treasury shareholder, Mr Maciej Bałtowski to the Supervisory Board of PKN ORLEN S.A.

Due to the above-mentioned changes as from 15 May 2014, the Supervisory Board of PKN ORLEN S.A. was composed as follows:

Angelina Sarota - Chairwoman of the Supervisory Board

Leszek Pawłowicz- Deputy Chairman of the Supervisory Board (Independent Member of the Supervisory Board)

Adam Ambrozik – Member of the Supervisory Board (as from 20 May 2014 – Secretary of the Supervisory Board)

Grzegorz Borowiec- Member of the Supervisory Board

Artur Gabor - Member of the Supervisory Board (Independent Member of the Supervisory Board)

Cezary Banasioski - Member of the Supervisory Board (Independent Member of the Supervisory Board)

Maciej Bałtowski - Member of the Supervisory Board

Radosław L. Kwaśnicki - Member of the Supervisory Board

Cezary Możejki - Member of the Supervisory Board

As at 31 December 2014 the composition of the Supervisory Board of PKN ORLEN S.A. remained unchanged.

II. OPERATIONS OF THE SUPERVISORY BOARD

In 2014 the Supervisory Board held nine recorded meetings and adopted 93 resolutions.

The supervisory and control operations of the Supervisory Board in the financial year of 2014 covered *inter alia* the following issues:

- The Supervisory Board appointed the President of the Management Board and Members of the Management Board of PKN ORLEN S.A. for a joint three-year term of the Management Board;
- The Supervisory Board approved management contracts for the President of the Management Board and Members of the Management Board of PKN ORLEN S.A. for a joint three-year term of the Management Board;
- The Supervisory Board reviewed the report of the Management Board of PKN ORLEN S.A. on operations of the Company and the financial statements for the financial year 2013;
- The Supervisory Board reviewed the motion of the Company's Management Board on profit distribution for the financial year of 2013;

- The Supervisory Board reviewed the report of the Management Board on operations of the ORLEN Group for the financial year of 2013 and the Consolidated financial statements of the PKN ORLEN Group;
- The Supervisory Board provided its positive opinion on motions submitted by the Management Board for review by the General Meeting of the Company;
- The Supervisory Board provided its positive opinion on the agenda and draft resolutions of the Ordinary General Meeting of PKN ORLEN convened for 15 May 2014;

- The Supervisory Board approved the Strategy of PKN ORLEN for the years 2014-2017;

- The Supervisory Board provided its positive opinion on the Financial Plan for 2015;

- The Supervisory Board selected the entity authorised to audit the financial statements of PKN ORLEN S.A. and the Group;
- The Supervisory Board provided its consent to the 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 implementation of capital or material investments to the amount exceeding one-twentieth of the share capital; the creation of commercial companies and joining companies as well as making contributions to shares in companies and disposal of shares;

- 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 2014 exceed the equivalent of one fifth of the Company's share Capital;

- The Supervisory Board provided its consent to a modified method of using the mandatory reserves by PKN ORLEN S.A.;

- The Supervisory Board provided its consent to the performance of voting rights by PKN ORLEN S.A. at the General Meetings of the following companies: Rafineria Trzebinia S.A., UNIPETROL a.s., ORLEN

Lietuva relating to amendments to the Articles of Association of these companies;

- 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 whose value according to the acquisition price exceeds fortieth of the Company's share Capital;
- 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 introduced changes to the Regulations of the Supervisory Board of PKN ORLEN S.A.;
- The Supervisory Board reviewed the performance of the targets for 2013 by Members of the Management Board and approved annual bonus for the financial year of 2013;
- 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;
- The Supervisory Board approved the target cards for 2014 and 2015 for each Member of the Company's Management Board;

Activities of the Supervisory Board were documented in adopted resolutions and minutes of the meetings of the Supervisory Board in 2014.

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 2014 there were the following standing Committees within the Supervisory Board:

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

- Corporate Social Responsibility Committee (*appointed by the Supervisory Board by resolution no. 1563/14 at the meeting on 25*

November 2014)

Due to changes in the composition of the Supervisory Board of PKN ORLEN SA made on 15 May 2014 by the Ordinary General Meeting of the Company and on the basis of the statement of the Minister of the Treasury, the Supervisory Board at its meeting on 20 May 2014 by resolution No. 1517/14 made additions in the compositions of the Committees. Compositions of the Supervisory Board Committees with changes have been given in the description of operations of individual committees.

The detailed operations of the Committees in 2014 were documented in the minutes of their respective meetings (in total there were 26 meetings of Committees of the Supervisory Board in 2014).

Audit Committee

As at 1 January 2014, the Audit Committee of the Supervisory Board of PKN ORLEN S.A. was composed as follows:

Artur Gabor	Chairman of the Committee (Independent Member of the Supervisory Board)
Grzegorz Borowiec	Member of the Committee
Michał Gołębiowski	Member of the Committee
Leszek Pawłowicz	Member of the Committee (Independent Member of the Supervisory Board)

On 21 April 2014 Mr Michał Gołębiowski resigned from the function of a Member of the Supervisory Board of PKN ORLEN S.A.

After changes in the composition of the Supervisory Board that took place on 15 May 2014 the Supervisory Board supplemented the composition of the Supervisory Board Committees at the meeting on 20 May 2014 by resolution no. 1517/2014.

As at 20 May 2014, the Audit Committee was composed as follows:

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

In 2014 the Audit Committee held nine recorded meetings. The Committee also held two joint meetings with the Strategy and Development Committee.

In accordance with § 13.5 of the Regulations of the Supervisory Board, the Audit Committee took decisions in the form of resolutions (5 resolutions).

The meetings of the Audit Committee in 2014 - apart from its members - were also attended by other members of the Supervisory Board, members of the Management Board, the Counsel of the Company, executive directors and directors of offices as well as the certified auditor.

In accordance with § 15 of the Regulations of the Supervisory Board, the task of the Audit Committee is to provide advice to the Supervisory Board as regards correct implementation of budgetary and financial reporting principles and internal control of the Company and the PKN ORLEN Group (within the meaning of the provisions of the Accounting Act) and to cooperate with certified auditors of the Company.

The Audit Committee pursued its task by way of:

- monitoring of the work of the certified auditor and reviews of proposals of the Management Board requesting consent to commission additional tasks to the auditor;
- review of interim financial statements of the Company as well as the annual standalone and Consolidated financial statements of PKN ORLEN S.A.,
- presenting recommendation to the Supervisory Board regarding the selection of an entity authorized to audit the financial statements for the financial years 2015 and 2016;
- providing an opinion on the Financial Plan for 2015,
- presenting recommendation to the Supervisory Board regarding the consent for construction of the gas fired CHP plant in Płock;
- quarterly analysis of the results generated by the PKN ORLEN 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 2013,
- review of the auditor's report on the implementation of the procedures relating to the calculation of quantitative ratios resulting from the MBO Regulations for Members of the Company's Management Board for the financial year ended on 31 December 2013,
- 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 certified auditor.
- discussing the report on important judicial proceedings with participation of PKN ORLEN S.A. and the Group.

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 2014 the composition of the Strategy and Development Committee of the Supervisory Board of PKN ORLEN S.A. was as follows:

Cezary Banasioski	Chairman of the Committee (Independent Member of the Supervisory Board)
Artur Gabor	Member of the Committee (Independent Member of the Supervisory Board)
Cezary Możejński	Member of the Committee
Leszek Pawłowicz	Member of the Committee (Independent Member of the Supervisory Board)
Angelina Sarota	Member of the Committee

In 2014 the Strategy and Development Committee held seven recorded meetings. Moreover this Committee held two joint meetings with the Audit Committee and one joint meeting with the Corporate Governance Committee.

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, the Counsel of the Company, as well as executive directors and directors of offices and advisors.

The work of the Strategy and Development Committee is regulated in § 17 of the Regulations of the Supervisory Board in accordance with which the task 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 2014, the Strategy and Development Committee:

- analysed the update of the strategy of PKN ORLEN in respective areas of operation;
- recommended to the Supervisory Board to approve the Strategy of PKN ORLEN for 2014-2015
- analysed the situation of ORLEN Lietuva and the analysis of strategic options for this Company;
- analysed and provided opinion on the motion of the Management Board regarding divestments of ORLEN Medica;
- analysed and provided opinion on the motion of the Management Board regarding incurring liability in order to conduct transaction of acquisition of an extraction company in Canada;
- became familiar with information regarding the situation in certain companies of the ORLEN Group;
- recommended motions of the Management Board of the Company regarding acquisition of production assets of ORLEN Asphalt Sp. z o.o. and ORLEN Oil Sp. z o.o. by PKN ORLEN S.A.
- considered and discussed about directions of development of PKN ORLEN.

Furthermore the Strategy and Development Committee formulated recommendations to the Supervisory Board of PKN ORLEN on matters being the subject of meetings of the Supervisory Board and within the competence of the Committee.

Corporate Governance Committee

As at 1 January 2014, the Corporate Governance Committee of the Supervisory Board of PKN ORLEN S.A. was composed as follows:

Cezary Możejowski	Chairman of the Committee
Michał Gołębiowski	Member of the Committee
Angelina Sarota	Member of the Committee

On 21 April 2014 Mr Michał Gołębiowski resigned from the function of a Member of the Supervisory Board of PKN ORLEN S.A.

After changes in the composition of the Supervisory Board that took place on 15 May 2014 the Supervisory Board supplemented the composition of the Supervisory Board Committees at the meeting on 20 May 2014 by resolution no. 1517/2014.

As from 20 May 2014 to 31 December 2014, the Corporate Governance Committee was composed as follows:

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

In 2014 the Corporate Governance Committee held four recorded meetings. The Committee also held one joint meeting with the Strategy and Development Committee.

The meetings of the Corporate Governance Committee - apart from members of the Committee - were also attended by other members of the Supervisory Board, members of the Management Board, the Counsel of the Company, executive directors of directors of offices.

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 2014, the Corporate Governance Committee:

- recommended to the Supervisory Board the approval of the Report on the implementation of the corporate governance principles at PKN ORLEN in 2013;
- provided opinion on motions of the Management Board regarding exercising the voting right by PKN ORLEN S.A. at General Meetings as regards
- amendments to the Articles of Association of Unipetrol a.s. and AB ORLEN Lietuva;
- recommended a motion regarding amendments to the Regulations of the Supervisory Board of PKN ORLEN S.A.;
- conducted discussions on issues concerning the relations of authority within the holding groups and determining the moment of expiration of the mandates of the members of the capital companies due to the end of the term;

Nomination and Remuneration Committee

As at 1 January 2014, the Nomination and Remuneration Committee of the Supervisory Board of PKN ORLEN S.A. was composed as follows:

Angelina Sarota	Chairwoman of the Committee
Cezary Banasiński	Member of the Committee (Independent Member of the Supervisory Board)
Grzegorz Borowiec	Member of the Committee
Michał Gołębiowski	Member of the Committee

On 21 April 2014 Mr Michał Gołębiowski resigned from the function of a Member of the Supervisory Board of PKN ORLEN S.A.

After changes in the composition of the Supervisory Board that took place on 15 May 2014 the Supervisory Board supplemented the composition of the Supervisory Board Committees at the meeting on 20 May 2014 by resolution no. 1517/2014.

As from 20 May 2014 to 31 December 2014, the Nomination and Rumuneration Committee was composed as follows:

Angelina Sarota	Chairwoman of the Committee
Cezary Banasiński	Member of the Committee (Independent Member of the Supervisory Board)
Grzegorz Borowiec	Member of the Committee
Adam Ambrozik	Member of the Committee
Maciej Bałtowski	Member of the Committee

In 2014 the Nomination and Remuneration Committee held three recorded meetings.

Apart from its members, the meetings of the Nomination and Remuneration Committee were attended also by other members of the Supervisory Board and members of the Management Board.

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 strategy 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 2014, 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 2013;
- reviewed the projection of the accomplishment of quantitative objectives in 2013;
- recommended conditions of management contracts of Members of the Management Board;
- due to the change of competence on the Management Board of PKN ORLEN SA recommended draft

amendments to the management contracts of Members of the Management Board;

- prepared recommendation for the Supervisory Board regarding draft objective cards for the Management Board Members of PKN ORLEN S.A. for 2015.

Corporate Social Responsibility Committee (CSR Committee)

Corporate Social Responsibility Committee was established by the Supervisory Board by resolution no. 1563/14 at the meeting on 25 November 2014.

The following Members of the Supervisory Board were appointed to the composition of the Committee:

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

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

The first meeting of the CSR Committee was held in February 2015.

IV. OPINION OF 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 Company's Articles of Association, also in connection with Art. 395 § 2 point 1 of the Commercial Companies Code and Art. 45 and 53 item 1 of the Accounting Act and § 7 item 7 point 1 of the Company's Articles of Association, the Company's Supervisory Board gives a positive opinion:

1. The Report of the Management Board on the activities of Polski Koncern Naftowy ORLEN Spółka Akcyjna for the year ended on 31 December 2014;
2. The stand-alone financial statements of Polski Koncern Naftowy ORLEN Spółka Akcyjna for the year ended on 31 December 2014 assessed by an expert auditor, which comprises of:
 - stand-alone loss and profit statement (included in the report on loss and profit and other total income) for the period from 01 January 2014 to 31 December 2014 presenting a net loss of PLN 4,671,826,145.06 (in words: four billion six hundred seventy one million eight hundred twenty-six thousand one hundred forty-five Zloty 6/100);
 - the stand-alone statement of financial position as of 31 December 2014 presenting the total balance of assets and liabilities in the amount of PLN 37,978,493,772.10 (in words: thirty-seven billion nine hundred seventy-eight million four hundred ninety-three thousand seven hundred and seventy-two Zloty, 10/100)
 - stand-alone statement of changes in equity presenting a decrease in the equity as at 31

December 2014 in the amount of PLN 6,833,460,049.15 (in words: six billion eight hundred thirty-three million four hundred sixty thousand and forty-nine Zloty 15/100);

- stand-alone cash flow statement presenting an increase in the net cash balances of PLN 1,408,453,752.52 (one billion four hundred and eight million four hundred fifty-three thousand seven hundred and fifty-two Zloty 52/100).
- additional information including the introduction to the stand-alone financial statements and additional notes and explanations;

The Supervisory Board, having examined the opinion and report of the expert auditor, and after a close consideration of the aforementioned documents decides that the financial statements of PKN ORLEN S.A. for the financial year 2014 and the report of the Management Board on the activities of the Company are consistent with accounting records and documents, as well as the actual state of affairs.

Acting pursuant to § 8 item 11 point 6a of the Company's Articles of Association, in connection with Art. 395 § 5 of the Commercial Companies Code and Art. 55 and Art. 63c item 4 of the Accounting Act, also in connection with § 7 item 7 point 1 of the Company's Articles of Association, the Company's Supervisory Board gives a positive opinion:

1. Report of the Management Board on activities of the ORLEN Capital Group for the year ended on 31 December 2014.
2. Consolidated financial statements of the ORLEN Capital Group for the year ended 31 December 2014, verified by a certified auditor, composed of:
 - Consolidated loss and profit statement (included in the consolidated report on loss and profit and other total income) for the period from 01 January 2014 to 31 December 2014 presenting a net loss of PLN 5,827,917,427.10 (in words: five billion eight hundred twenty-seven million nine hundred seventeen thousand four hundred and twenty-seven Zloty 10/100);
 - Consolidated statement of financial position as at 31 December 2014 presenting the total balance of assets and liabilities in the amount of PLN 46,725,348,837.04 (in words: forty-six billion seven hundred twenty-five million three hundred forty-eight thousand eight hundred and thirty-seven Zloty, 4/100);
 - Consolidated statement of changes in equity presenting a decrease in the equity as at 31 December 2014 in the amount of PLN 7,163,889,128.52 (in words: seven billion one hundred sixty-three million eight hundred eighty-nine thousand one hundred and twenty-eight Zloty 52/100);

- Consolidated cash flow statement presenting an increase in the net cash and cash equivalents balance of PLN 1,249,467,815.99 (in words: one billion two hundred forty-nine million four hundred sixty-seven thousand eight hundred and fifteen Zloty 99/100).
- Additional information including the introduction to the Consolidated financial statement and additional notes and explanations;

V. OPINION ON THE MOTION REGARDING THE COVERAGE OF THE NET LOSS FOR 2014 AND THE AMOUNT OF DIVIDENT PAYMENTS IN 2015

Acting pursuant to Art. 382 § 3 of the Commercial Companies Code and § 8 item 11 point 6 of the Company's Articles of Association, also in connection with Art. 395 § 2 point 2 of the Commercial Companies Code and § 7 item 7 point 3 of the Company's Articles of Association, the Company's Supervisory Board gives a positive opinion on the motion of the Company's Management Board regarding the coverage of the net loss incurred by PKN ORLEN S.A. in 2014 in the amount of PLN 4,671,826,145.06 (in words: four billion six hundred seventy-one million eight hundred twenty-six thousand one hundred and forty-five Zloty 6/100) with the use of the supplementary capital.

Acting pursuant to Art. 382 § 3 of the Commercial Companies Code and § 8 item 11 point 6 of the Company's Articles of Association, also in connection with Art. 395 § 2 point 2 and Art. 348 § 1 of the Commercial Companies Code and § 7 item 7 point 3 of the Company's Articles of Association, the Company's Supervisory Board gives a positive opinion on the motion of the Company's Management Board regarding the allocation of the amount of PLN 705,719,950.65 (in words: seven hundred and five million seven hundred nineteen thousand nine hundred and fifty Zloty 65/100) for dividend payments (PLN 1.65 PLN per 1 share). Dividend payments, referred to in the previous sentence, shall be made with the use of the supplementary capital of the Company established from income from the previous year.

The Supervisory Board decides that the motion presented by the Management Board regarding the dividend

amounts to be paid in 2015 is consistent with the Company's strategy and objectives.

The Supervision Board gives a positive opinion on the Company's Management Board on scheduling the date 16

June 2015 as the dividend day and the date of 8 July 2015 as the dividend payment day.

VI. BRIEF ASSESSMENT OF THE SITUATION OF THE COMPANY WITH THE ASSESSMENT OF INTERNAL CONTROL SYSTEM AND SYSTEM FOR MANAGEMENT OF RISK SIGNIFICANT FOR THE ORLEN GROUP AND PKN ORLEN S.A. ("PKN ORLEN").

One of the key events for the ORLEN Group in 2014 was the publication of the ORLEN Group Strategy for the years 2014-2017 which anticipates a further increase in the value of the Concern while maintaining secure financial indicators based on the modern management culture, which will allow for an increase in the amounts of dividend paid. The planned average annual EBITDA LIFO for the years 2014 – 2017 will be at the level of PLN

5.1 billion, which will provide resources for the implementation of the investment programme directed at development in the total amount of PLN 16.3 billion.

PKN ORLEN paid out dividend at the level of PLN 1.44 per share. The financial foundations of the Concern were reinforced by the further diversification of financing resources – the retail bonds issue programme which commenced in 2013 was finalised at the total amount of PLN 1 billion, and Eurobonds were successfully issued at the amount of EUR 500 million.

The net debt at the end of 2014 amounted to PLN 6.7 billion, net leverage 33%, and the net debt indicator/EBITDA according to LIFO amounted to 1.29 excluding write-downs of the value of fixed assets.

Results of the ORLEN Group in 2014

The total volume sales of the ORLEN Group in 2014 amounted to 36 million tons and stayed at the level similar to the previous year. Despite the fall in the quotation of petroleum products as a result of decreasing petroleum prices, the total income of the ORLEN Group in 2014 reached PLN 107 billion.

- Sales of the downstream segment decreased by (-) 2.4% (annually) as a result of lower volumes on the markets of the Baltic states and in Poland, caused by the persistent unfavourable market situation. An important problem in regard to the activities of the ORLEN Group in Poland is the still visible influence of the so-called grey fuels market, which, despite an increase in GDP in 2014 of over 3%, caused a decrease in the petrol consumption of (-) 1.8% (annually) and diesel fuel of (-) 1.3% (annually). The negative trends on the abovementioned markets were to a high extent compensated by a higher level of sales of the segment on the Czech market due to an increased capacity after purchasing the shares of Ceska Rafinerska a.s. from Shell and an increased availability of production facilities.
- The sales in the retail segment increased by 3.5% (annually) as a result of higher volumes at all the markets, while the segment of exploration reached hydrocarbon sales at the level of 258 thousand tons.
- The exploration segment in 2014 developed both as a result of exploration works conducted in Poland, as well as the purchase of further productive assets of the Birchill company in Canada and their full integration with the company TriOil Resources Ltd. purchased in 2013. In 2014, the average annual exploration in Canada was at the level of 5.8 boe/day.

The record result of EBITDA LIFO in the amount of PLN 5.2 billion, excluding write-downs to the fixed assets, increased by PLN 2.1 billion (annually), while the main elements of the change included:

- The positive effect of the changes in macroeconomic factors, particularly visible in the second half of 2014, which impact amounted to PLN 1.5 billion,
- The positive volume effect in the amount of PLN 0.6 billion (annually) as a result of higher sales of the downstream segment in the Czech Republic, an increase in retail sales on all markets and recognition of the results of exploration works in Canada,
- The positive effect of other factors was not substantial and concerned mainly a change in the balance of other operational activity in the amount of PLN 0.3 billion (annually) (excluding write-downs to the value of fixed assets), the positive impact of net transactions of repurchase and sale of mandatory stocks from 2013 and 2014 in the amount of around PLN 0.3 billion (annually) and the negative impact of other elements in the amount of PLN (-) 0.6 billion (annually) connected mainly to the revaluation of the value of stock at the end of 2014 as a result of a fall in the prices of petroleum and consequently a decrease in the prices of the Group's products.

EBITDA LIFO of the ORLEN Group by segment:

- EBITDA LIFO of the downstream segment in 2014, excluding write-downs of the fixed assets, was PLN 4.2 billion and increased by PLN 1.8 billion (annually) as a result of:
 - The positive effect of macroeconomic factors in relation to an improvement in the model downstream margin, which amounted to PLN 1.5 billion (annually)
 - The positive volume effect in the amount of PLN 0.2 billion (annually) despite lower joint volumes of the sales of the segment (annually), resulting from, among others, increased sales on the Czech market, improvement in the sales structure as a consequence of a decrease in volumes directed at sea freight export and reduction in volumes of heavy heating oil due to an increase in the yield of the ORLEN Lietuva Group and Unipetrol.
 - The positive impact of other factors amounted to PLN 0.1 billion (annually) and was mainly a result of a change in the balance of other operational activity in the amount of PLN 0.4 billion (annually) (excluding write-downs of the value of fixed assets), the positive impact of net transactions of repurchase and sale of the mandatory stocks from 2013 and 2014 in the amount of around PLN 0.3 billion (annually) and the negative impact of other elements in the amount of PLN (-) 0.6 billion (annually) connected mainly to the revaluation at the end of 2014 of the value of stock to the achievable prices according to IFRS 2 – stock.

Net write-downs for impairment losses in fixed assets in 2014 amounted to around PLN (-)5.1 billion and related to mainly the assets write-downs recognised in the second quarter of 2014 of the ORLEN Lietuva Group in the amount of PLN (-) 4.2 billion, of the Unipetrol Group in the amount of PLN (-) 0.8 billion.

Taking into account the abovementioned write-downs, EBITDA LIFO for the downstream segment for 2014 was PLN (-) 0.9 billion.

- EBITDA for the retail segment of the ORLEN Group in 2014 increased by PLN 0.1 billion (annually) to the record level of PLN 1.4 billion, mostly as a result of:
 - A positive effect of fuel margins on the Polish market, while they were limited on other markets, and an increase in the sales of non-fuel product and services on all markets, which jointly contributed to an increase in EBITDA of the segment by PLN 0.1 billion.
 - Higher volume sales (annually) on all markets, which increased the EBITDA result of the segment by PLN 0.1 billion (annually).
 - A negative impact of the other factors in the amount of (-) 0.1 billion PLN (annually) concerning mostly an increase in the operational costs of petrol stations as a result of an increase in volume sales by 3.5% (annually)
- EBITDA for the exploration segment in 2014 excluding write-downs of the value of fixed assets amounted to PLN 0.2 billion and increased by PLN 0.2 billion (annually) due to the exploration activity conducted in Canada.
Write-downs of the value of fixed assets amounted to PLN (-) 0.3 billion and related mainly to exploration assets in Canada as a result of a fall in petroleum prices on global markets. The fair value of production assets and mineral resources exploration in Canada as of 31 December 2014 was established on the basis of an evaluation of the resources, prepared by an independent company in accordance with professional standards applicable to the Canadian market.
- EBITDA for the corporate functions in 2014 amounted to PLN (-) 0.6 billion and stayed at a similar level (annually) despite a lack of a positive impact of the balance on other operational activity from 2013 concerning the compensation and refunds received in regard to the taxes paid in the previous years. Taking into account the aforementioned non-cash write-downs, EBITDA of the ORLEN Group for 2014 amounted to PLN (-) 2.7 billion.

The Strategy of the ORLEN Group adopted in July of 2014 for the years 2014-2017 reflects the reduction in fuel consumption resulting from the ongoing economic crisis, as well as excessive production capacity of refineries and a growing pressure on the margins as a consequence of the shale revolution in the United States and economical changes in Russia.

On the basis of tests conducted in accordance with IAS 36 – impairment of assets, the ORLEN Group recognised

net write-downs to the fixed assets at the total amount of PLN (-) 5.3 billion, which related mainly to the write-downs of the ORLEN Lietuva Group recognised in the second quarter of 2014 in the amount of PLN (-) 4.2 billion, of the Unipetrol Group in the amount of PLN (-) 0.8 billion and asset write-downs of the ORLEN Upstream Group in Canada in the fourth quarter in the amount of PLN (-) 0.3 billion.

Taking into account the aforementioned non-cash write-downs, EBITDA LIFO of the ORLEN Group for 2014 amounted to PLN (-) 0.1 billion.

As a consequence of the fall in the quotation of petroleum on global markets, visible especially in the second half of 2014, the non-cash impact of revaluation of stock – the so-called LIFO effect, amounted to PLN (-) 2.6 billion. As a result, the reported EBITDA result for 2014 was negative and amounted to PLN (-) 2.7 billion.

Taking into account the amortisation costs in the amount of PLN (-) 2.0 billion, the loss resulting from operational activity in 2014 amounted to PLN (-) 4.7 billion.

The net financial costs in 2014 amounted to PLN (-) 1.5 billion and concerned mainly exchange losses in the amount of PLN (-) 1.5 billion (including reclassification (-) 0.8 billion in relation to the cease of the application of net investment hedge accounting in ORLEN Lietuva). The net costs of interest in the amount of PLN (-) 0.2 billion were compensated mainly by the positive effect of the settlement and evaluation of financial instruments.

Taking into consideration the tax burdens, the net loss of the ORLEN Group in 2014 amounted to PLN (-) 5.8 billion, which is a result of the non-cash impact of the revaluation of stock in regard to the fall in prices of petroleum on global markets and write-downs of the value of fixed assets.

The investment outlays of the ORLEN Group in 2014 in relation to the purchase of fixed assets amounted to PLN 3.8 billion and PLN 0.7 billion due to the purchase of the exploration company Birchill.

As part of the investment activity, the implementation of key investment projects was continued, in relation to the construction of the CCGT power station in Włocławek, the flue gas catalytic denitrogenation and dust collection unit, flue gas desulphurisation unit and metathesis unit in PKN ORLEN. In 2014 also the construction of Visbreaker Vacuum Flasher was finalised in ORLEN Lietuva Group.

The ORLEN Group remains one of the leaders in unconventional gas resources exploration in Poland and at the end of 2014 had 9 exploration licences at its disposal. Before the end of 2014, 11 drillings were carried out on unconventional resources, including 7 vertical drillings and 4 horizontal drillings.

An important factor for the further development of the exploration segment was also the acquisition of exploration assets of the Birchill Exploration company through the subsidiary company TriOil, located in the area of Ferrier/Strachan and the merging of those companies. The purchase of new assets together with utilisation of the licences in place resulted in doubling of the “2P” reserves (certain and probable) to the value of 49.5 million boe.

As part of the optimisation process of the ownership structure PKN Orlen took over from the ORLEN Lietuva Group the Lithuanian company AB VENTUS Nafta which manages 26 petrol stations, changes in the area of production and sales of asphalt and oil were implemented, as a consequence of which at the beginning of 2015 the production assets of ORLEN Asphalt and ORLEN Oil were integrated with PKN ORLEN. In 2014, also the procedure of merging Rafineria Trzebinia and Rafineria Nafty Jedlicze was carried out, as a result of which at the beginning of 2015 the company ORLEN Południe S.A. was established. The company Petrolot Sp. z o.o. in 2014 commenced its activity based on new business model and focused on providing services of aviation fuels storage and aircraft refuelling, while the sales of aviation fuels were conducted directly through PKN ORLEN. Last year, environmental assets were consolidated, including the purchase by ORLEN Eko Sp. z o.o. the organised part of the enterprise EkoNaft Sp. z o.o. from Rafineria Trzebinia S.A. and merging with the company CHEMEKO Sp. z o.o. As part of focusing on the basic activity, shares in ORLEN Medica Sp. z o.o. were sold to the PZU Group.

THE RESULTS OF PKN ORLEN as the parent entity of ORLEN Group

EBITDA LIFO for PKN ORLEN in 2014 amounted to PLN 2.9 billion, increasing by PLN 0.8 billion (annually) as a result of:

- The positive effect of changes in macroeconomic factors in the downstream segment at the level of PLN 0.8 billion (annually),
- The negative effect of the lower volume sales at the level of PLN (-) 0.2 billion (annually) mainly as a consequence of the still visible influence of the so-called grey market,
- The positive influence of the other factors at the level of PLN 0.2 billion (annually), including mainly:
 - The effect of net transactions of repurchase and sale of mandatory stock from 2013 and 2014 in the amount of around PLN 0.3 billion (annually),
 - The change in the balance of other operational activity in the amount of PLN (-) 0.1 billion (annually) resulting mainly from the revaluation of the reserves for the risks relating to the activity conducted and future employee benefits, as well as the lack of compensation received in 2013b for the loss of income incurred by PKN ORLEN as a result of the reduction in ethylene receipt by Anwil due to a breakdown and the income realised in 2013 on the sale of a customer database to ORLEN Paliwa Sp. z o.o.

As a result of the decline in the value of petroleum on global markets, observed especially in the second half of 2014, the non-cash effect of stock revaluation – the so-called LIFO effect amounted to PLN (-) 2.3 billion.

As a result, the reported EBITDA profit for 2014 was PLN 0.6 billion.

Taking into account the amortisation costs in the amount of PLN (-) 1.0 billion, the loss resulting from operational activity in 2014 amounted to PLN (-) 0.4 billion.

The net financial costs in 2014 amounted to PLN (-) 4.5 billion and included mainly write-downs of the value of shares in associated entities in the amount of PLN (-) 5.0 billion relating mainly to ORLEN Lietuva, the net exchange losses from the revaluation of loans and other items in foreign currencies in the amount of PLN (-) 0.5 billion, net interest costs in the amount of PLN (-) 0.2 billion on the dividends received from the companies of the ORLEN Group in the amount of PLN 1.1 billion.

Non-cash write-downs of the value of investments of PKN ORLEN in ORLEN Lietuva resulted from an adjustment of the forecast of the results of ORLEN Lietuva included as part of the abovementioned Strategy of the ORLEN Group for the years 2014-2017.

Taking into account tax settlement, the net loss of PKN ORLEN for 2014 amounted to PLN (-) 4.7 billion and resulted mainly from non-cash effects of the revaluation of stock due to the fall in prices of petroleum on global markets and write-downs on the value of the financial tangible assets.

THE INTERNAL CONTROL SYSTEM AND SYSTEM FOR MANAGEMENT OF RISK

The Audit Committee of the Supervisory Board and the Supervisory Board assessed the internal control system in collaboration with the Audit and Corporate Market Management Office, which is responsible for the supervision and implementation of internal audit within ORLEN Capital Group. As part of the implemented tasks, the Audit and Corporate Market Management Office carried out an independent and objective evaluation of internal inspections and an analysis of business processes.

The tasks of the Office are carried out on the basis of the annual audit plans accepted by the Management Board and approved by the Audit Committee of the Supervisory Board and the Supervisory Board. In 2014, the Office supervised and implemented in ORLEN Capital Group 64 audit tasks in total, as part of which 66 essential observations were identified. Audit tasks were carried out in accordance with international standards of professional practices of internal auditing.

In 2014, the Audit and Corporate Market Management Office also monitored audit recommendations, including recommendations of an external auditor, as part of which 93 essential recommendations were reviewed in total.

The Audit and Corporate Market Management Office, in accordance with the implemented Policy and Procedure of Corporate Market Management in PKN ORLEN S.A. also supervises corporate market management processes and provides (for the purpose of their ongoing implementation) tools and methodological support for the participants in the procedures of risk assessment and control mechanism testing. The Corporate Market

Management System is one of the management tools which improves the efficiency of the implementation of strategic and operational objectives. Periodical evaluation of the key corporate risks implemented on the basis of verification of the efficiency of control mechanisms ensures that the internal control system in PKN ORLEN is effective and enables for the Risk Profile to be kept up to date. Regardless of the control procedures testing by the process participants, the Audit and Corporate Market Management Office carries out ongoing monitoring of the quality of control mechanisms testing. Additionally, in order to improve and build conscious risks management, the Office also implements the long-term strategy relating to the implementation of the system in the key companies of ORLEN Group.

The Control and Security Office (CASO), which functions within the framework of PKN ORLEN, in 2014 implemented tasks in the scope of physical security and institutional internal control in PKN ORLEN. In regard to the first aspect, the functioning of the activity of ORLEN Ochrona Sp. z o.o was supervised, and visual surveillance and access systems were developed and supervised. In addition, fuel distribution processes were controlled within the petrol stations and fuel terminals network. Thorough quality control was possible due to the use of a mobile CASO laboratory.

With regard to institutional internal control, scheduled and ad-hoc inspections and verification proceedings were carried out. Additionally, in 2014 the "Anticorruption Policy" was formulated, which, after being implemented in 2015, shall be an efficient tool ensuring compliance with the adopted rules and internal and external regulations within the Concern. In total, CASO carried out 62 verification proceedings in 2014.

Warsaw, March 2015

.....
Angelina Sarota
Chairwoman of the Supervisory Board
Of PKN ORLEN S.A.