



ORLEN

Polski Koncern Naftowy ORLEN
Spółka Akcyjna

REPORT
OF THE SUPERVISORY BOARD OF PKN ORLEN S.A.
FOR THE FINANCIAL YEAR 2016

WARSAW, May 2017

I. COMPOSITION OF THE SUPERVISORY BOARD

As at 1 January 2016, the composition of the Supervisory Board (SB) of PKN ORLEN S.A. was as follows:

Angelina Sarota	Chairperson of the Supervisory Board
Leszek Pawłowicz	Vice-Chairman of the Supervisory Board (independent Member of the Supervisory Board)
Adam Ambrozik	Secretary of the Supervisory Board
Grzegorz Borowiec	Member of the Supervisory Board
Artur Gabor	Member of the Supervisory Board (<i>independent Member of the Supervisory Board</i>)
Cezary Banasiński	Member of the Supervisory Board (independent Member of the Supervisory Board)
Radosław L. Kwaśnicki	Member of the Supervisory Board
Cezary Możeński	Member of the Supervisory Board
Remigiusz Nowakowski	Member of the Supervisory Board

On 28 January 2016, acting on the basis of § 8 Section 2 item 1 of the Articles of Association of Polski Koncern Naftowy ORLEN Spółka Akcyjna, the Minister of The State Treasury removed Mr Remigiusz Nowakowski from the composition of the Supervisory Board.

At a request of the shareholder - the State Treasury, on 29 January 2016 PKN ORLEN S.A. held the Extraordinary General Meeting of PKN ORLEN S.A., during which the following changes in the composition of the Supervisory Board were adopted.

Mr Adam Ambrozik, Mr Cezary Banasiński, Mr Grzegorz Borowiec, Mr Cezary Możeński and Mr Leszek Jerzy Pawłowicz were removed from the composition of the Supervisory Board and Mr Mateusz Bochacik, Mr Adrian Dworzyński, Ms Agnieszka Krzętowska, Mr Remigiusz Nowakowski and Mr Arkadiusz Siwko were appointed as Members of the Supervisory Board.

On 3 June 2016 the Company's Ordinary General Meeting appointed the Supervisory Board of PKN ORLEN S.A. for a new term of three years, in the following composition:

Angelina Sarota	Chairperson of the Supervisory Board
Radosław Leszek Kwaśnicki	Member of the Supervisory Board (Vice-Chairman of the SB in the period from 8 February to 3 June 2016 and from 28 June 2016)
Mateusz Henryk Bochacik	Member of the Supervisory Board (Secretary of the SB in the period from 8 February to 3 June 2016 and from 28 June 2016)

Adrian Dworzyński	Member of the Supervisory Board (<i>independent Member of the Supervisory Board</i>)
Artur Gabor	Member of the Supervisory Board (<i>independent Member of the Supervisory Board</i>)
Agnieszka Krzętowska	Member of the Supervisory Board
Remigiusz Nowakowski	Member of the Supervisory Board
Wiesław Tomasz Protasewicz	Member of the Supervisory Board

On 6 June 2016 Ms Agnieszka Krzętowska made a declaration of an independent Member of the Supervisory Board, confirming that the premises resulting from § 8 Section 5 of the Company's Articles of Association have been met.

On 14 September 2016 Mr Remigiusz Nowakowski resigned from membership in the Supervisory Board of PKN ORLEN S.A. Since 15 September 2016 the Supervisory Board has been composed of 7 Members.

As at 31 December 2016, the afore-mentioned composition of the Supervisory Board of PKN ORLEN S.A. remained unaltered.

II. ACTIVITIES OF THE SUPERVISORY BOARD

In 2016 the Supervisory Board held 13 recorded meetings and adopted 120 resolutions.

In 2016 the average attendance of Members of the Supervisory Board of PKN ORLEN S.A. at meetings of the Supervisory Board reached 97%. In 2016 the Supervisory Board of PKN ORLEN S.A. adopted 3 resolutions on excuse of the absence of Members of the Supervisory Board. No unexcused absence of Members of the Supervisory Board during meetings was recorded in 2016.

The supervisory and control activities of the Supervisory Board in the financial year 2016 covered, among others, the following issues:

- The Supervisory Board removed a Member of the Management Board and appointed the Vice-President and Member of the Management Board (3 resolutions of the SB);
- The Supervisory Board presented the Company in agreements concluded with Members of the Management Board in the scope of the terms and conditions of their employment (5 resolutions of the SB);
- The Supervisory Board approved objective sheets for Members of the Management Board for the years 2016 and 2017 (15 resolutions of the SB);
- The Supervisory Board provided its opinion on the report of the Management Board of PKN ORLEN S.A. on activities of the Company and the financial statements for the financial year ended on 31 December 2015 (1 resolution of the SB);

- The Supervisory Board provided its opinion on the motion of the Company's Management Board regarding the distribution of the net profit for the financial year 2015 (1 resolution of the SB);
- The Supervisory Board provided its opinion on the report of the Management Board on activities of the ORLEN Group for the financial year ended on 31 December 2015 and the consolidated financial statements of the ORLEN Group for the financial year ended on 31 December 2015 (1 resolution of the SB);
- The Supervisory Board provided a positive opinion on motions submitted by the Management Board to be examined by WZS and NWZS (1 resolution of the SB);
- The Supervisory Board provided a positive opinion on the agenda and draft resolutions of the Ordinary General Meeting of PKN ORLEN convened for 28 June 2016 and the agenda and draft resolutions of the Extraordinary General Meeting of PKN ORLEN convened for 24 January 2017 (2 resolutions of the SB);
- The Supervisory Board approved the Strategy of PKN ORLEN and the Mid-Term Plan for the years 2017-2021 (1 resolution of the SB);
- The Supervisory Board provided a positive opinion on the Financial Plan of PKN ORLEN and the ORLEN Group for 2017 (1 resolution of the SB);
- The Supervisory Board selected an entity authorised to audit financial statements (1 resolution of the SB);
- The Supervisory Board seconded Members of the Supervisory Board to fulfil supervisory activities in the scope of the fulfilment by the Company of disclosure obligations related to the application of the corporate governance, defined in the Regulations of Giełda Papierów Wartościowych S.A. in Warsaw ("GPW") and provisions on current and periodic information (1 resolution of the SB);
- The Supervisory Board gave its consent to recapitalisation of ORLEN Upstream Sp. z o.o. in connection with conducting exploration and mining activities (1 resolution of the SB);
- The Supervisory Board expressed its consent to contracting by PKN ORLEN S.A. of financial liabilities exceeding, on the basis of one or a few related legal activities performed in 2016, the equivalent value of one-fifth of the Company's share capital (10 resolutions of the SB);
- The Supervisory Board expressed its consent to the exercise of the voting right by PKN ORLEN S.A. at the General Meeting of UNIPETROL a.s. - in relation to amendments of its articles of association and at the Extraordinary General Meeting of BOP Sp. z o.o. - in relation to amendments of its articles of association (2 resolutions of the SB);
- The Supervisory Board expressed its consent to the exercise of the voting right by PKN ORLEN S.A. at the General Meeting of ORLEN Upstream sp. z o.o. in relation to cross-border merger of ORLEN Upstream sp. z o.o. with its subsidiary ORLEN Upstream International B.V. (1 resolution of the SB);

- The Supervisory Board expressed its consent to the performance of an investment task and contracting liabilities in connection with it, if there arise expenses or charges connected with it that exceed the equivalent value of one half of the Company's share capital (1 resolution of the SB);
- The Supervisory Board expressed its consent to the granting by PKN ORLEN S.A. of the excise tax security (2 resolutions of the SB);
- The Supervisory Board expressed its consent to the sale of real property, perpetual usufruct right or share in real property whose net book value does not exceed one twentieth of the company's share capital (34 resolutions of the SB);
- The Supervisory Board assessed accomplishment of the targets set for 2015 by Members of the Company's Management Board and granted annual bonuses for the financial year 2015 (11 resolutions of the SB);
- The Supervisory Board approved the Regulations of the Bonus Scheme for the Management Board of PKN ORLEN and the principles of setting and settling individual bonus tasks for Members of the Management Board of PKN ORLEN SA for 2017 (2 resolutions of the SB).

The other resolutions adopted by the Company's Supervisory Board were of organisational and orderly nature (23 resolutions of the SB).

The activities of the Supervisory Board were documented in the adopted resolutions and minutes of the meetings of the Supervisory Board in 2016.

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 2016, the following permanent Committees operated within the Supervisory Board:

- Audit Committee
- Development & Strategy Committee
- Corporate Governance Committee
- Appointment & Remuneration Committee
- Corporate Social Responsibility Committee

Changes in the composition of the Supervisory Board of PKN ORLEN S.A. that took place in 2016 resulted in changes of the composition of the Committees. The compositions of the Supervisory Board Committees with changes have been presented in the description of operations of individual Committees.

The detailed area of the activities of the Committees in 2016 was documented in the minutes of the meetings of respective Committees. (in 2016 there were altogether 33 meetings of Supervisory Board Committees).

Audit Committee

As at 1 January 2016 the composition of the Audit Committee was as follows:

Artur Gabor	Chairman of the Committee (<i>independent Member of the Supervisory Board</i>)
Grzegorz Borowiec	Member of the Committee
Radosław L. Kwaśnicki	Member of the Committee
Leszek Pawłowicz	Member of the Committee (<i>independent Member of the Supervisory Board</i>)

In connection with the changes of the composition of the Supervisory Board of PKN ORLEN S.A. that took place in 2016, as at 31 December 2016 the composition of the Audit Committee was as follows:

Artur Gabor	Chairman of the Committee (<i>independent Member of the Supervisory Board</i>)
Adrian Dworzyński	Member of the Committee (<i>independent Member of the Supervisory Board</i>)
Agnieszka Krzętowska	Member of the Committee (<i>independent Member of the Supervisory Board</i>)
Radosław L. Kwaśnicki	Member of the Committee
Wiesław Protasewicz	Member of the Committee

In 2016 the Audit Committee held 11 reported meetings and 2 meetings held jointly with the Development & Strategy Committee.

In 2016 the Supervisory Board authorised the Audit Committee to produce recommendations related to the selection of an audit company in compliance with the procedure for selection of the audit company for the purpose of auditing and reviewing financial statements of PKN ORLEN S.A., approved by the Supervisory Board. In compliance with the authorisation, the Audit Committee went through the process of selection of the audit company and prepared recommendations for the Supervisory Board. The works of the Audit Committee in the scope of the selection of the audit company were chaired by Mr Radosław L. Kwaśnicki. The works in the scope of the selection of the audit company were documented in minutes of meetings (5 minutes) and in the report.

Pursuant to § 13 item 5 of the Regulations of the Supervisory Board, the Audit Committee passed decisions by way of resolutions (6 resolutions).

In 2016 the meetings of the Audit Committee were attended, apart from its members, also by other Members of the Supervisory Board, Members of the Management Board, executive directors and office directors, as well as the certified auditor.

Pursuant to § 15 of the Regulations 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 (within the meaning of the provisions of the Accountancy Act), and to cooperate with the certified auditors of the Company.

The measures applied by the Audit Committee included:

- 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. ;
- providing an opinion on the Financial Plan for 2017;
- quarterly analysis of the results generated by the PKN ORLEN Group in relation to the plan;
- providing an opinion on the motion of the Company's Management Board regarding the proposed distribution of the profit of PKN ORLEN for 2015;
- review of the report of the certified auditor on execution of the procedures related to counting the quantitative indicators resulting from the MBO Regulations for Members of the Company's Management Board for the financial year ending on 31 December 2015;
- analysis of 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;
- review of the information regarding controls and verification procedures conducted by the Control and Security Office;
- discussing the report on important judicial proceedings with participation of PKN ORLEN S.A. and the Group;
- review, on a quarterly basis, of the reports on cybersecurity in PKN ORLEN S.A.;

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

Development & Strategy Committee

As at 1 January 2016 the composition of the Development & Strategy Committee was as follows:

Cezary Banasiński	Chairman of the Committee (<i>independent Member of the Supervisory Board</i>)
Artur Gabor	Member of the Committee (<i>independent Member of the Supervisory Board</i>)
Cezary Możeński	Member of the Committee
Leszek Pawłowicz	Member of the Committee (<i>independent Member of the Supervisory Board</i>)
Remigiusz Nowakowski	Member of the Committee

In connection with the changes of the composition of the Supervisory Board of PKN ORLEN S.A. that took place in 2016, as at 31 December 2016 the composition of the Development & Strategy Committee was as follows:

Wiesław Protasewicz	Chairman of the Committee
Angelina Sarota	Member of the Committee
Agnieszka Krzętowska	Member of the Committee
Artur Gabor	Member of the Committee (<i>independent Member of the Supervisory Board</i>)
Adrian Dworzyński	Member of the Committee (<i>independent Member of the Supervisory Board</i>)

In 2016, the Development & Strategy Committee held 10 reported meetings, including 2 meetings held jointly with the Audit Committee.

In 2016 the meetings of the Development & Strategy Committee were attended, apart from its members, also by other Members of the Supervisory Board, Members of the Management Board, executive directors and office directors, as well as advisors.

The scope of the activity of the Development & Strategy Committee is regulated by § 17 of the Regulations of the Supervisory Board, in accordance with which the Committee is responsible for providing opinions and presenting recommendations to the Supervisory Board on issues regarding planned investments and de-investments with a key impact on the Company's assets as well as providing opinions on the strategy of the Company's development, including long-term financial plans.

Within the scope of its activities in 2016, the Development & Strategy Committee:

- discussed the status of accomplishment of the strategy of PKN ORLEN for 2014- 2017 and the status of implementation of innovative projects;
- analysed the implementation of the strategy in the upstream segment and activities planned in the current market environment;
- became familiar with information on reorganisation of the ORLEN Upstream Group;
- analysed the motion related to the performance of the investment task "Construction of the Metathesis system with infrastructure in PKN ORLEN" and contracting liabilities in connection with it;
- became familiar with the results of the analysis of the possibility of inorganic growth and optimisation of the structure of the PKN ORLEN Group;
- discussed strategic directions of the Company's development for the years 2017-2021, in distribution into particular segments of activities;
- provided an opinion on the Strategy of PKN ORLEN and the Mid-Term Plan for the years 2017- 2021;
- became familiar with the preliminary scenario for the development of the upstream segment for the years 2022-2026;

Corporate Governance Committee

As at 1 January 2016, the composition of the Corporate Governance Committee of the Supervisory Board of PKN ORLEN S.A. was as follows:

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

In connection with the changes of the composition of the Supervisory Board of PKN ORLEN S.A. that took place in 2016, as at 31 December 2016 the composition of the Corporate Governance Committee was as follows:

Adrian Dworzyński	Chairman of the Committee (<i>independent Member of the Supervisory Board</i>)
Mateusz Bochacik	Member of the Committee
Angelina Sarota	Member of the Committee
Radosław L. Kwaśnicki	Member of the Committee

In 2016 the Corporate Governance Committee held 3 reported meetings.

In 2016 the meetings of the Corporate Governance Committee were attended, apart from its members, also by other Members of the Supervisory Board, Members of the Management Board, executive directors and office directors.

The area of the activities of the Corporate Governance Committee is regulated by § 16 of the Regulations of the Supervisory Board, in accordance with which the Committee is responsible for presenting recommendations on the implementation of the principles of corporate governance, providing opinions on the implementation of the principles of corporate governance, providing opinions on the standard-setting documents and proposals of amendments to the Company's corporate documents, as well as preparing such amendments for the Supervisory Board's own documents, monitoring the management of the Company in terms of its compliance with legal and regulatory requirements, including compliance with the Code of Ethics and principles of corporate governance, as well as providing opinions on reports on the observance of the principles of corporate governance prepared for the Warsaw Stock Exchange.

Within the scope of its activities in 2016, the Corporate Governance Committee:

- assessed the manner of fulfilment by the Company of the disclosure obligations related to the application of the principles of corporate governance;
- provided its opinion on the motion of the Management Board related to giving a consent to the exercise of the voting right by PKN ORLEN S.A. at the General Meeting of UNIPETROL a.s. in relation to amendments of the Articles of Association of UNIPETROL, a.s.
- provided its opinion on the motion of the Management Board related to giving a consent to the exercise of the voting right by PKN ORLEN S.A. at the Ordinary General Meeting of Basell ORLEN Polyolefins sp. z o.o. in relation to amendments of its Articles of Association.

Appointment & Remuneration Committee

As at 1 January 2016 the composition of the Appointment & Remuneration Committee was as follows:

Angelina Sarota	Chairperson of the Committee
Cezary Banasiński	Member of the Committee (<i>independent Member of the Supervisory Board</i>)
Grzegorz Borowiec	Member of the Committee
Adam Ambrozik	Member of the Committee

In connection with the changes of the composition of the Supervisory Board of PKN ORLEN S.A. that took place in 2016, as at 31 December 2016 the composition of the Appointment & Remuneration Committee was as follows:

Angelina Sarota	Chairperson of the Committee
Mateusz Bochacik	Member of the Committee
Adrian Dworzyński	Member of the Committee
Agnieszka Krzętowska	Member of the Committee (<i>independent Member of the Supervisory Board</i>)

In 2016 the Appointment & Remuneration Committee held 6 reported meetings.

The meetings of the Appointment & Remuneration Committee were attended, apart from its members, also by other Members of the Supervisory Board and Members of the Management Board.

The scope of the activities of the Appointment and Remuneration Committee is regulated by § 18 of the Regulations of the Supervisory Board, according to which the duty of the Appointment and Remuneration Committee is to support the achievement of the Company's strategic objectives by furnishing the Supervisory Board with opinions and motions related to the development of the management structure, including organisational solutions, the remuneration system and selection of qualified personnel to ensure the Company's success.

Within the scope of its activities in 2016, the Appointment & Remuneration Committee:

- prepared a recommendation in the scope of assessment of individual quality bonus tasks for Members of the Management Board for 2015;
- recommended a proposal of Objective Sheets for Members of the Management Board of PKN ORLEN S.A. for the years 2016 and 2017;
- produced a recommendation of terms and conditions of management contracts for the newly-appointed Vice-President and Member of the Management Board;
- recommended harmonisation of management contracts for all Members of the Company's Management Board;

- discussed the draft Act on the Principles of Shaping Remuneration of Persons Managing Some Companies;
- prepared proposals of management objectives for Members of the Management Board, to be put forward to the Ministry of Energy in connection with the Act on the Principles of Shaping Remuneration of Persons Managing Some Companies of 9 June 2016;

Corporate Social Responsibility (CSR) Committee

In 2016 the composition of the CSR Committee was as follows:

Artur Gabor	Chairman of the Committee (<i>independent Member of the Supervisory Board</i>)
Radosław L. Kwaśnicki	Member of the Committee
Adam Ambrozik	Member of the Committee

In connection with the changes of the composition of the Supervisory Board of PKN ORLEN S.A. that took place in 2016 and resignation of the hitherto Chairman of the Committee, as at 31 December 2016 the composition of the CSR Committee was as follows:

Agnieszka Krzętowska	Chairperson of the Committee (<i>independent Member of the Supervisory Board</i>)
Artur Gabor	Member of the Committee (<i>independent Member of the Supervisory Board</i>)
Mateusz Bochacik	Member of the Committee
Radosław L. Kwaśnicki	Member of the Committee

The scope of works 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 over the implementation of the Company's Corporate Social Responsibility (CSR) strategy, monitoring of management of the Company in terms of compliance with requirements of the Values and Principles of Conduct of PKN ORLEN S.A., periodic assessment of the Company's activities in the field of CSR and adopting an annual report summarising CSR activities completed by the Company.

In 2016 the CSR Committee held 3 reported meetings.

The meetings of the CSR Committee were attended, apart from its members, also by other Members of the Supervisory Board, Members of the Management Board, executive directors and office directors.

Within the scope of its activities in 2016, the CSR Committee:

- assessed the rationality of the sponsoring, charitable and similar activities conducted by the Company;
- became familiar with the status of implementation of the CSR strategy;

IV LIST OF MATTERS DEALT WITH BY THE SUPERVISORY BOARD AS A RESULT OF A MOTION FILED BY THE SHAREHOLDER - THE STATE TREASURY

- The Supervisory Board exercised supervision in the scope of expenses for advertisement in mass media, sponsoring, cultural, social and charitable activities as well as broadly-understood activities in the scope of PR consulting services and marketing services.
- The Supervisory Board exercised supervision related to the degree of adjustment of the Underground Oil and Fuel Storage in Góra to the requirements of the Act on Stocks of Crude Oil, Petroleum Products and Natural Gas and on the Procedures Applicable in Circumstances of a Threat to the Fuel Security of the State and Disruptions on the Petroleum Market of 16 February 2007 (consolidated text, Dz.U. of 2014, item 1695, as amended).
- The Supervisory Board commissioned to carry out an internal audit and internal inspection related.
- The Supervisory Board prepared proposals of a catalogue of general management objectives whose accomplishment determines the level of supplementary remuneration for Members of the Management Board.
- The Supervisory Board exercised supervision over the model, procedure and solutions applicable in PKN ORLEN with regard to the selection of relevant staff for supervisory authorities of subsidiaries in the ORLEN Group.

As part of the fulfilment of the reporting obligation, in 2016 the Supervisory Board of PKN ORLEN S.A. provided the Ministry of State Treasury and next the Ministry of Energy with quarterly information on the Company, signed by the representative of the Minister/Chairperson of the Supervisory Board. Quarterly information on the Company was provided as follows:

- for Q4 2015 - on 28 January 2016,
- for Q1 2016 - on 21 April 2016,
- for Q2 2016 - on 22 July 2016,
- for Q3 2016 - on 20 October 2016.

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

▪ Pertaining to § 8 item 11 points 6 and 6a of the Company's Articles of Association in relation to article 395 § 2 point 1, and § 5 of the Code of Commercial Companies, and article 49 of the Accountancy Act, and § 83 item 7 of the Regulation of the Minister of Finance on current and periodic information provided by issuers of securities and on conditions under which information required by legal regulations of a third country may be recognised as equivalent in relation to § 7 item 7 point 1 of the Company's Articles of Association, the Company's Supervisory Board provided its positive opinion on the report of the Management Board on activities of the ORLEN Group and PKN ORLEN S.A. for 2016.

V OPINION ON FINANCIAL STATEMENTS FOR YEAR ENDED ON 31 DECEMBER 2016.

▪ Pertaining to 382 § 3 of the Code of Commercial Companies and § 8 item 11 point 6 of the Company's Articles of Association in relation to article 395 § 2 point 1 of the Code of Commercial Companies and articles 45 and 53 item 1 of the Accountancy Act, and § 7 item 7 point 1 of the Company's Articles of Association, the Company's Supervisory Board provided its positive opinion on the financial statement of Polski Koncern Naftowy ORLEN Spółka Akcyjna for year ended on 31 December 2016, that was audited by a chartered auditor and consists of:

- - A profit and loss account (included in the statement of profit or loss and other comprehensive income) for the period from 1 January 2016 to 31 December 2016 closed with the net profit of PLN 5 364 455 552.64 (in words: five billion three hundred sixty four million four hundred fifty five thousand five hundred fifty two zloty 64/100);
 - A statement of the financial condition as at 31 December 2016, that at the sides of assets and liabilities shows the amount of PLN 43 072 233 870.09 (in words: forty three billion seventy two million two hundred thirty three thousand eight hundred seventy zloty 9/100);
 - A statement of changes in equity showing the equity increase as at 31 December 2016 by the amount of PLN 4 322 960 304.66 (in words: four billion three hundred twenty two million nine hundred sixty thousand three hundred four zloty 66/100);
 - A cash flow report showing an increase in net cash by an amount of PLN 1 591 145 183.68 (in words: one billion five hundred ninety one million one hundred forty five thousand one hundred eighty three zloty 68/100);
 - Additional information consisting of introduction to the financial statement and additional information and explanations.

▪ Pertaining to § 8 item 11 point 6a of the Company's Articles of Association in relation to article 395 § 5 of the Code of Commercial Companies and articles 55 and 63c item 4 of the Accountancy Act in relation to § 7 item 7 point 1 of the Company's Articles of Association, the Company's Supervisory Board provided its positive opinion on the consolidated financial statement of ORLEN Group for year ended on 31 December 2016, that was audited by a chartered auditor and consists of:

- - A consolidated profit and loss account (included in the statement of profit or loss and other comprehensive income) for the period from 1 January 2016 to 31 December 2016 closed with the net profit of PLN 5 739 707 774.74 (in words: five billion seven hundred thirty nine million seven hundred seven thousand seven hundred seventy four zloty 74/100);
 - A consolidated statement of the financial condition as at 31 December 2016, that at the sides of assets and liabilities shows the amount of PLN 55 558 895 758.16 (in words: fifty five billion five hundred fifty eight million eight hundred ninety five thousand seven hundred fifty eight zloty 16/100);
 - A statement of changes in equity showing the equity increase as at 31 December 2016 by the amount of PLN 5 040 840 161.83 (in words: five billion forty million eight hundred forty thousand one hundred sixty one zloty 83/100);
 - A consolidated cash flow report showing an increase in net cash by an amount of PLN 2 685 170 451.09 (in words: two billion six hundred eight five million one hundred seventy thousand four hundred fifty one zloty 09/100);
 - Additional information consisting of introduction to the financial statement and additional information and explanations.

VI. ASSESSMENT OF THE MOTION CONCERNING THE LEVEL OF DIVIDEND PAYMENT

▪ Pertaining to 382 § 3 of the Code of Commercial Companies and § 8 item 11 point 6 of the Company's Articles of Association in relation to article 395 § 2 point 2 and article 348 § 1 and 4 of the Code of Commercial Companies, and § 7 item 7 point 3 of the Company's Articles of Association, the Company's

Supervisory Board provided its positive opinion on the motion of the Company's Management Board concerning distribution of the net profit generated by PKN ORLEN S.A. in year 2016 in the amount of PLN 5 364 455 552.64 (in words: five billion three hundred sixty four million four hundred fifty five thousand five hundred fifty two zloty 64/100) as follows:

- 1) The amount of PLN 1 283 127 183.00 (in words: one billion two hundred eight three million one hundred twenty seven thousand one hundred eight three zloty 00/100) is to be allocated to dividend payment (PLN 3.00 per share)
- 2) The remaining amount, that is PLN 4 081 328 369.64 (in words: four billion eight one million three hundred twenty eight thousand three hundred sixty nine zloty 64/100) is to be allocated to the Company's supplementary capital.

The Supervisory Board states that the motion presented by the Management Board concerning the distribution of net profit for 2016 corresponds to the Company's strategy and the objectives of its activities.

The Company's Supervisory Board approves the motion presented by the Management Board concerning 14 July 2017 to be set as the dividend records date and 4 August 2017 as the dividend payment date.

VII. ASSESSMENT OF THE SITUATION OF THE COMPANY, INCLUDING THE ASSESSMENT OF THE INTERNAL CONTROL SYSTEM, THE RISK MANAGEMENT SYSTEM, THE COMPLIANCE SYSTEM AND INTERNAL AUDIT FUNCTION.

In compliance with the Good Practices of Companies Listed on the Warsaw Stock Exchange PKN ORLEN S.A. has efficient systems for internal control, risk management, compliance and an internal audit and control function. The simultaneous functioning of all above mentioned elements allows for exercising permanent supervision over the Company's operations and for on-going assessment of its situation.

The Company also has a structured internal control system that consists of comprehensive internal procedures. To manage the procedures, the company uses a dedicated IT system that ensures their coherence through multi-field arrangements and approval on a respective level in the organisation. Being aware of a need to ensure full and coordinated approach to the risk management process and in order to avoid hazards that have not been identified before and to consciously manage the existing hazards, PKN ORLEN S.A. makes use of the popular system of Three Lines of Defence.

The first line of defence consists in risk management performed by business units and control mechanisms in the Company's operating processes, the second line - compliance functions, and the third one - internal audit and control, supporting the other two lines.

1. The first line of defence - the Integrated Enterprise Risk Management System (ERM).

ERM is one of the management tools supporting management processes and contributing to successful accomplishment of strategic and operational targets. It allows to obtain information on key risks (hazards and opportunities) occurring in the organisation and to ensure application of effective methods of risk management.

PKN ORLEN S.A. has implemented a comprehensive Enterprise Risk Management System and the developed solutions comply with the best practices in this scope, based on the standards of COSO (Committee of Sponsoring Organisations). They allow the organisation, on the basis of conscious management of opportunities and hazards, to protect its market position and to further increase the value of PKN ORLEN S.A.

The ERM system covers all major business processes, such as production, logistics or sales, and a number of support processes, such as HR processes, reporting or strategic planning.

The ERM system has been implemented, apart from such key Group companies as Anwil S.A. and ORLEN Deutschland GmbH, also in ORLEN Lietuva and Unipetrol.

Risk management is a permanent process that is subject to modifications due to the constantly changing business environment. Thus, for the purpose of systematisation and optimisation of the risk management process there was developed and implemented the Enterprise Risk Management Policy and Procedure, updated in 2016.

In compliance with the adopted methodology, the risk management process in the ORLEN Group covers:

- identification of risks,
- risk assessment through impact and probability of occurrence of a given event, taking into account both the gross risk assessment (as if no control mechanisms were implemented in relation to a given risk), as well as the net risk assessment (resulting from efficiency of control mechanisms). Within the scope of risk assessment, the risk owner also defines the level of risk appetite facilitating accomplishment of strategic targets,
- working out plans of corrective measures in case of negative evaluation of the functioning of control mechanisms,
- monitoring and reporting.

To provide up-to-date information on the major risks, risk assessment is conducted once a year by individual business areas, which allows to produce a current list of most significant risks. Owners of processes, risks and controls are responsible for the development of the list.

As a result of self-assessment, respective corrective plans are worked out for individual risks and controls in order to make the net risk assessment (including active control mechanisms) equal to the risk appetite required by the organisation.

In order to ensure proper quality of the self-assessment process accomplished by individual business areas, periodic verifications of the correctness of testing of control mechanisms are conducted, which also allows for supervision in the field of compliance for financial and operational risks.

A report is drafted after each completed process of risk self-assessment and testing of control mechanisms, and it is later presented to Members of the Management Board and the Audit Committee of the Supervisory Board. The report presents information on the most significant risks for PKNORLENS.A. and the planned mitigation methods. In 2016 the process of risk self-assessment and testing of control mechanisms in PKN ORLEN S.A. was accomplished thanks to participation of the key managerial staff, which allowed to update the assessment of 525 risks by means of testing 1251 control mechanisms in 83 business processes.

Below there is a specification of tasks accomplished by the Audit, Control and Enterprise Risk Management Office as part of the functioning of ERM (first line of defence), in compliance with the strategy adopted by PKN ORLEN S.A. for the years 2014-2016:

- implementation of the ERM system in ORLEN Lietuva and Unipetrol by means of identification of key risks and control mechanisms, allowing to perform the first self-assessment processes in the following years,
- updating the Risk Profile for PKN for 2015 and conducting another process of risk self-assessment and testing control mechanisms in PKN for 2016,

- completion of the process of risk self-assessment and testing control mechanisms in Anwil and ORLEN Deutschland.

2. Second line of defence - the compliance function.

The compliance function is accomplished in PKN ORLEN S.A. in four dimensions:

- in the scope of the activity of the GA Office:
 - through the internal audit and control function as assessment of compliance of the processes with internal regulations,
 - as part of the ERM system, understood as compliance of the financial and operational risk assessment with regard to the obtained effectiveness of control mechanisms and the applicable ERM Policy and Procedure,
- in the scope of competences of the Audit Office and other Offices of PKN ORLEN S.A. by means of:
 - compliance with integrated management systems (ISO),
 - identification of regulatory risks, in particular the ones related to the sector of the Company's operation.

PKN ORLEN S.A. has prepared and announced the Integrated Management System Policy, subject to periodic assessment as regards its accomplishment and validity as part of the review of the Integrated Management System by heads of organisational units, Executive Directors and Office Directors.

The Integrated Management System that operates in the Company includes results of audits, reviews, reported complaints and claims. Furthermore, preventive/ correcting/corrective actions are undertaken as a result of observations/findings/non-conformities identified within the scope of the above processes. All actions mentioned above are aimed to ensure compliance with the following reference standards: ISO 9001 (quality management system), ISO 14001 (environmental management system), PN-N-18001 (OHS management system) and ISO 27001 (information security management system), ISCC Biomass and Biofuel Certification System, the Company's Production Control System and Food Safety Management System.

On the basis of the reviews, a comprehensive report on the condition of the Integrated Management System in the organisation is prepared on an annual basis, presented to the Management Board and published on the Intranet.

As part of regulatory risk management the Company regularly monitors legislative works on the international, EU and national level in respect to draft legal acts affecting the Company's operations. At the same time, the Company conducts activities aimed at identification of barriers triggering risks for the Company's operations, on the basis of which activities aimed at risk mitigation are initiated.

The analysis of the Company's adjustment to the applicable and drafted legal acts is carried out on an ongoing basis and activities are initiated in order to adjust the Company's operations to the requirements of the national and EU legislation, including legal changes in the functioning in the EU internal market.

Moreover, the Company has also implemented a lobbying strategy on the basis of the applicable legislation and internal regulations of PKN ORLEN SA, which is aimed to ensure that the position of PKN ORLEN S.A. is taken into account at the international level. From time to time reports on the performed activities are drafted and presented to the Management Board.

3. Third line of defence - the internal audit function.

The internal audit and control function is performed by the Audit, Control and Enterprise Risk Management Office, which focuses on conducting independent and objective assessment of the internal control system and analysis of business processes.

The Audit, Control and Enterprise Risk Management Office performs its activities in compliance with the International Internal Audit Standards (The Institute of Internal Auditors - the IIA); their compliance is verified on a periodic basis by a third party that has relevant authorisations. In 2016 compliance was confirmed by KPMG, where the GA Office was confirmed for compliance with international standards and good practices in this scope.

The independence of the Audit, Control and Enterprise Risk Management Office is ensured by respective reporting in the organisational structure, that is in functional respect it reports to the Audit Committee of the Supervisory Board and in administrative respect - to the President of the Management Board.

The Office carries out its tasks (audits, controls and consulting projects) on the basis of annual audit and control plans approved by the Management Board, approved by the Audit Committee of the Supervisory Board and the Supervisory Board. Within the scope of the performed tasks, issues related to compliance are verified on an ongoing basis through assessment of the compliance of processes with internal regulations. The Audit, Control and Enterprise Risk Management Office may also perform *ad hoc* audits commissioned by the Company's Supervisory Board or Management Board.

On the basis of its basic activities, the Audit, Control and Enterprise Risk Management Office provides recommendation for the implementation of solutions and standards intended to mitigate risks related to a failure to achieve the Company's objectives, improve the effectiveness of the internal control system and increase the capacity of business processes.

The Audit, Control and Enterprise Risk Management Office also conducts ongoing monitoring of given recommendations and prepares a report twice a year on progress in implementation of individual recommendations. Additionally, it monitors implementation of recommendations provided by the auditor of the Company's financial statements.

Moreover, reports on audit activities in PKN ORLEN S.A. and the Companies of the ORLEN Group are prepared on a quarterly basis, including detailed description of key observations.

All of the afore-mentioned reports are addressed to the Management Board and the Audit Committee of the Supervisory Board, which allows these authorities to assess the functioning of the whole organisation on an ongoing basis.

The structures of PKN ORLEN S.A. also include a control unit. Within the scope of planned and *ad hoc* activities, its main tasks include identification of hazards related to the risks of abuse. Reports on performed controls are presented to the Management Board and the Audit Committee of the Supervisory Board.

Below there is a specification of key tasks accomplished in the scope of the implementation of the strategy of PKN ORLEN S.A. for the years 2014-2016 by the Audit, Control and Enterprise Risk Management Office as part of the third line of defence;

- rapid and flexible response to the organisation's needs by means of carrying out *ad hoc* inspections and audits, in particular in strategic areas of the Company's operations, including identification of hazards, disclosure of irregularities and provision of information of certain significance to the support of decision-making processes in substantive areas,
- commencement of the performance of advisory projects, including development, together with business areas, of the best process and business solutions that improve the effectiveness of the functioning of PKN ORLEN and the Group Companies, generating considerable financial results (in the form of reduction in the costs of functioning and possibility of generating additional revenue) and present possibilities of tightening processes,
- direct performance of audit activities in ORLEN Lietuva,
- combination and optimisation of dispersed audit functions in Companies from the Unipetrol Group.

4. Statistics of performed activities

- a) In the period from 1 January to 31 December 2016 **internal audit units** of PKN ORLEN S.A. and the Companies from the ORLEN Group completed altogether 45 audit tasks:

The audit activities were conducted in all major areas of the Company's operations, taking into account the assessment of risk significance on the basis of data from the Integrated Enterprise Risk Management System.

Within the scope of the afore-mentioned audit tasks, altogether 160 observations were identified, including 26 in the field of "serious" risks.

All observations were accepted by the Company's Management. Observations related to "serious" risks were presented to the Management Board and the Audit Committee of the Supervisory Board of PKN ORLEN S.A.

- b) In the period from 1 January to 31 December 2016 the **internal control unit** of PKN ORLEN S.A. conducted 27 controls. Moreover, similar functions in the Group conducted altogether 36 controls.

Results of control activities were presented to the Management Board and the Audit Committee of the Supervisory Board of PKN ORLEN S.A.

VIII ASSESSMENT OF THE FULFILMENT OF DISCLOSURE OBLIGATIONS BY THE COMPANY IN RESPECT TO COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLES

In compliance with "Good Practices of Companies Listed on the Warsaw Stock Exchange 2016" the Company's Supervisory Board prepares and presents to the Ordinary General Meeting, as part of annual reporting, inter alia the assessment of the manner of fulfilment by the Company of disclosure obligations related to the application of the corporate governance principles, defined in the Regulations of the Stock Exchange and provisions on current and periodic information provided by security issuers. Below there is a proposal of the assessment that may be presented by the Management Board during a meeting of the Corporate Governance Committee, convened for 14 March 2017.

Assessment of the manner of fulfilment by PKN ORLEN S.A. of disclosure obligations related to the application of corporate governance principles defined in the Regulations of Warsaw Stock Exchange and provisions on current and periodic information provided to issuers of securities

In 2016 PKN ORLEN complied with "Good Practices of Companies Listed on the Warsaw Stock Exchange 2016", applicable to companies listed on the Warsaw Stock Exchange (the "Stock Exchange", "WSE").

The Company duly fulfilled disclosure obligations related to corporate governance principles defined in the Stock Exchange Regulations and provisions on current and periodic information disclosed by issuers of securities.

If the Company does not comply with or incidentally breached a principle included in the Good Practices of Companies Listed on the Warsaw Stock Exchange, a relevant current report is provided in compliance with § 29 Section 3 of the Stock Exchange Regulations via the EBI system administered by the Stock Exchange. In 2016 PKN ORLEN complied with all Good Practices of Companies Listed on the Warsaw Stock Exchange 2016.

Pursuant to § 91 Section 5. item 4) of the Ordinance on current and periodic information provided by issuers of securities and terms and conditions of regarding as equivalent the information required by legal provisions of a non-member state of 19 February 2009 (consolidated text, Dz. U. of 2014, item 133), PKN ORLEN places in the published consolidated and standalone financial statements a declaration on the application of corporate governance principles.

A tag devoted to corporate governance may be found on the Company's website in section Investor relationships/Stock Exchange/ WSE Good Practices (<http://www.orklen.pl/PL/RelacjeInwestorskie/Gielda/Strony/DobrePraktykiGPW.aspx>). The Company's annual reports on compliance with good practices and the Good Practices of Companies Listed on the Warsaw Stock Exchange may be also downloaded here. Apart from that, there is also brief information on good practices applied by the Company and all other information required in the Good Practices of Companies Listed on the Warsaw Stock Exchange.

In compliance with resolution No. 1716/16 dated 28 June 2016, the Supervisory Board of PKN ORLEN S.A. seconded Mr Radosław L. Kwaśnicki, Mr Mateusz Bochacik and Mr Adrian Dworzyński to independently fulfil supervisory activities in the scope of the fulfilment by the Company of disclosure obligations related to the application of the principles of corporate governance, defined in the regulations of the Stock Exchange and provisions on current and periodic information. By 28 June 2016 the following persons had been seconded to perform the afore-mentioned activity: Ms Angelina Sarota and Mr Radosław L. Kwaśnicki.

In 2016 the seconded representatives of the Supervisory Board held a few meetings with representatives of the Company's Management Board and employees. During meetings they discussed issues connected with the adjustment of the Company's internal organisational acts to the amendments to the Good Practices of Companies Listed on the Warsaw Stock Exchange and to provisions on the Company's disclosure obligations on the capital market, applicable from 3 July 2016. Apart from that, they also discussed the new principles of reporting by PKN ORLEN S.A. to the capital market as compared with the rules applicable prior to the effective date of the amended legal provisions. During such meetings they also discussed interpretation doubts arising from new regulations of the European Union.

IX ASSESSMENT OF RATIONALITY OF THE SPONSORING, CHARITABLE AND OTHER SIMILAR ACTIVITIES CONDUCTED BY THE COMPANY.

Sponsoring and charitable activities performed by PKN ORLEN in 2016 were an element of the PKN ORLEN's Strategy approved by the Management Board and the Supervisory Board in November 2014 and an element of a partial strategy of the Marketing Area, that is reported to the Concern's Strategy Committee by Marketing Executive Officer (DW ds. marketingu). Moreover, the activities related to implementation of PKN ORLEN's CSR Strategy were reported at the meeting of the CSR Committee of the Supervisory Board in December 2015 and September 2016. The activities were performed in compliance with the Company's internal regulations and market practices. Undertaken activities and tools used in the area of sponsoring and charity were adjusted to the changing competitive environment during the year.

The adopted and implemented sponsoring and charitable strategy generated positive perception and strong image of PKN ORLEN's brands. It also translated into quantifiable effects.

In 2016 the media value generated by the Concern's marketing activities amounted to more than PLN 267 million¹, which ranked PKN ORLEN as the 4th company in Poland in respect to TV exposure. An essential role was played by sponsoring activities, which also contributed significantly to establishment of the emotional relationship between customer and the brand. It is confirmed by survey. 97% of drivers are aware of the Concern's sponsoring activities, while in case of persons interested in motor sports – this amount equals 100%².

The projects and initiatives undertaken in 2016 contributed to strengthening of the position and enlargement of PKN ORLEN's share in the fuel market. Despite activities undertaken by competitive chains, the volume sales of fuels grew by 5.5%³. In 2016 PKN ORLEN sold 12.0% more litres of VERVA fuel than in 2015⁴. Sales of Stop Cafe products grew by 18.4%⁵.

ORLEN has been the most valuable Polish brand for many years. According to the ranking list published by "Rzeczpospolita" daily, in 2016 the brand value amounted to PLN 3.9 billion⁶. The significant role is played by the Concern's sponsoring activities that have direct impact on the value of the image. It should be emphasized that the value of ORLEN Brand's Reputation Index has been growing systematically and now it is highest among companies in the fuel industry – 66 pts. (in 2014 59 pts)⁷.

The sponsoring and charitable activities affect directly the desired attributes of the brand. And so, matching of attribute "profitable for Poland and Poles" with ORLEN brand increased last year to the level of 74%. At the same time, sponsoring activities support the image of product brands. They result in enhancement of VERVA brand's association with such attributes like "power and dynamics" (78%) or "innovation" (67%)⁸.

Activities performed for the local community in Płock were significantly intensified. They are performed taking into account priorities specified by inhabitants⁹: health care services and safety of citizens, ecological initiatives and promotion of healthy lifestyles, sports and cultural events, as well as widely understood projects for children. The number of such projects grew in 2016 to 52 from 38 in 2015. In 2017 the involvement in activities for Płock will intensify in order to strengthen good relationships with local communities and create PKN ORLEN's image as "a good and active neighbour", also in the context of expectations of the inhabitants resulting from their concerns about air quality in the town.

¹ Research on efficiency of sport sponsoring and product placement, Pentagon Research, monthly measurements taken in years 2012-2016

² Sponsoring Monitor, GfK Polonia, survey performed in October-November in years 2012-2016, sample =800

³ Retail Controlling

⁴ Retail Controlling, QlikView Reporting System

⁵ QlikView – Daily Raport

⁶ Ranking List of Most Valuable Polish Brands, Rzeczpospolita

⁷ Index of Bran Reputation, GfK Polonia, October 2012, December 2015, sample=800 (w including 150 inhabitants of Płock)

⁸ Barometer of ORLEN Brand, GfK Polonia, 2012-2016, cyclical examination performed every 2 months every year on a sample =500

⁹ PKN ORLEN's Image in Płock TNS Polska November – December 2016

For the last two years we have observed a significant increase of perception of ORLEN's brand as a company supporting local initiatives and local communities. Percentage of drivers, who point out to ORLEN as a company undertaking such activities amounts now to 23% (16% in 2015, 13% in 2014)¹⁰.

Almost half of Poles claim that PKN ORLEN is involved in social activities to a sufficient extent. Answers "sufficient" and "rather sufficient" were given by 48% of respondents.¹¹ The percentage of such answers in case of inhabitants of Plock amounted to 65% – the vast majority of them notice PKN ORLEN's support for local initiatives, such as purchase of medical equipment or funding of recreation areas. The charitable activities of the Concern were awarded in numerous competitions and votes.

X ANALYSIS AND ASSESSMENT OF THE FUNCTIONING OF THE ENTITIES FROM THE GROUP AT THE TIME OF THE ASSESSMENT OF THE GROUP'S CONSOLIDATED FINANCIAL STATEMENTS.

The ORLEN Group moves in the direction of enhancement of the position of companies in the area of its basic activities, and development of power and mining sectors. At the same time it focuses on improvement of management, restructuring and consolidation of possessed assets. The undertaken activities are aimed at increase of the market value of the ORLEN Group, enhancement of the position on the home market, and product and geographic expansion. The main investments in development are aimed at further expansion of the product basket and conversion level, generation of new energy output and continuation of projects related to research and mining of hydrocarbons.

At the end of 2016 ORLEN Group consisted of 70 entities, in which the direct or indirect share of PKN ORLEN S.A. was above 20%, including: 59 subsidiaries, 8 co-controlled companies, 3 affiliated companies.

To ensure efficient management of the Group, the principles of holding management were introduced, which means solutions aimed at achievement of common objectives of the companies constituting the ORLEN Group, which are defined by the Holding Company. Such solution is implemented on the basis of the Constitution of the ORLEN Group based on three key regulations: Agreement on cooperation, the Group's Regulation and provisions of Articles of Associations/Agreements of companies belonging to the ORLEN Group. The Constitution provided general legal grounds for segment management in the ORLEN Group. It uniformed the principles of disclosure of information, ensured efficient monitoring of key business decisions and uniformed organisational standards. It also defined the legal grounds for creation of a coherent strategy within the ORLEN Group. The interests of the Capital Group and the Company's interests were adjusted thanks to more detailed specification of the purpose of operation of the Company in agreements and Articles of Association of the Companies as business activities aimed at accomplishment of the mission and strategy of the Capital Group. Efficient corporate supervision of PKN ORLEN over the Group's companies is based on supervision of the operating activities of the companies, financial supervision, and formal and legal supervisions.

RESULTS OF THE ORLEN GROUP

Revenues from sales of the ORLEN Group in 2016 amounted to PLN **79 553 million** and decreased by (9,9)% (y/y), which reflects the fall of oil prices and consequently fall in quotations of the main products offered by the ORLEN Group.

Operating profit plus depreciation before the impact of changes in oil prices on evaluation of inventories (so called EBITDA LIFO) and net revaluation write-offs of fixed assets¹² in 2016 reached the record level of PLN **9 412 million** and was higher by PLN **674 million** (y/y) and included:

¹⁰ Corporate Image Survey, TNS Polska, December 2016, sample=2000

¹¹ Index of Bran Reputation, GfK Polonia, October 2012, December 2015, sample =800 (including 150 inhabitants of Plock)

¹² Dissolution of net impairment write-offs of fixed assets in 2016 amounted to PLN 145 million and resulted mainly from dissolution of revaluation write-off of refinery assets of Unipetrol Group in the Q4 2016 in the amount of PLN 315 million and establishment of revaluation write-off of mining assets of ORLEN Upstream Group in Poland in the amount of PLN (73) and assets of ORLEN Oil in the amount of PLN (55) million.

Net revaluation write-offs of fixed assets in 2015 amounted to PLN (993) million and referred mainly to revaluation write-off of mining assets of ORLEN Upstream Group in Poland in the amount of PLN (429) million as recognized in Q2 2015, revaluation write-off of refinery assets of Unipetrol

- **PLN (631) million (y/y)** – negative impact of macroeconomic factors consisted mainly of the effects of lower fuel margins with simultaneous positive impact of Brent/Ural price difference, margins on petrochemical products and decrease of PLN/USD and PLN/EUR rates.
- **PLN (880) million (y/y)** – negative effects of the volume that was recorded despite higher total volume sales, which resulted mainly from lower sales of high-margin petrochemical products in Unipetrol Group due to unavailability of the ethylene installation after a breakdown in August 2015 (until re-launch in November 2016).
- **PLN 2 185 million (y/y)** – positive impact of the other factors, including in particular:
 - PLN 1 157 million (y/y) – no negative effects from 2015 in relation to settlement of repurchase of the 5th and 6th tranches of mandatory stock,
 - PLN 1 252 million (y/y) – positive change in the balance on other operating activities after deletion of asset revaluation write-offs related mainly to recognition of revenues from insurers for breakdown of the ethylene installation in August 2015 in Unipetrol Group in the amount of PLN 1 280 million.

Taking into account net changes in write-offs of fixed assets, EBITDA LIFO of the ORLEN Group for 2016 amounted to PLN 9 557 million.

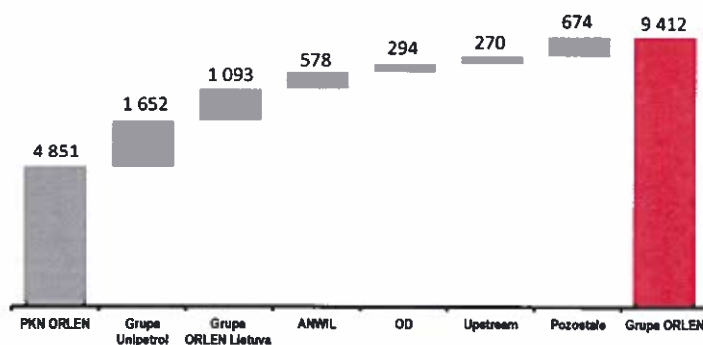
The positive impact of oil prices on evaluation of stock amounted to PLN 85 million in the discussed period. In result, EBITDA of the ORLEN Group for 2016 amounted to **PLN 9 642 million**.

Taking into account depreciation costs in the amount of PLN (2 110) million, the operating profit of the ORLEN Group in 2016 amounted to PLN 7 532 million.

Net financial costs in 2016 amounted to PLN (645) million and covered mainly negative net exchange rate differences in the amount of PLN (542) million, net interests costs in the amount of PLN (157) million and a positive net impact of the settlement and evaluation of financial instruments in the amount of PLN 58 million. Taking into account the income tax payable in the amount of PLN (1 147) million, the net profit of the ORLEN Group for 2016 reached **PLN 5 740 million** and was higher by PLN 2 507 million as compared to the profit generated in 2015.

RESULTS OF KEY ENTITIES OF THE ORLEN GROUP IN YEAR 2016

EBITDA LIFO of the key entities of the ORLEN Group before revaluation write-offs of fixed assets.



1. **PKN ORLEN S.A. – EBITDA LIFO amounted to PLN 4 851 million and was higher by PLN 468 million (y/y):**

Group in the Q3 2016 in the amount of PLN (93) million in relation to the breakdown of the ethylene installation in August 2015, and mining write-offs in Canada in the amount of PLN (423) million as recognized in Q4 2015.

- **PLN (141) million (y/y)** – negative impact of macroeconomic factors consisted mainly of the effects of lower fuel margins with simultaneous positive impact of Brent/Ural price difference, margins on petrochemical products and decrease of zloty exchange rate in relation to foreign currencies.
 - **PLN 5 million (y/y)** – positive effects of the volume that was reached mainly due to higher sales in the retail segment, while petrochemical volume sales was lower in result of a cyclical refurbishment downtime of Olefin installation.
 - **PLN 604 million (y/y)** – positive impact of the other factors, including in particular:
 - PLN 1 157 million (y/y) – no negative effects from 2015 in relation to settlement of repurchase of the 5th and 6th tranches of mandatory stock,
 - PLN (553) million (y/y) – mainly the impact of lower trade margins in the field of refining products and negative impact of the balance of other operating activities in the amount of PLN (92) million (y/y) in result of environmental provisions and economic risk provisions.
- 2. Unipetrol Group – EBITDA LIFO amounted to PLN 1 652 million and was lower by PLN (112) million (y/y):**
- **PLN (359) million (y/y)** – negative impact of macroeconomic factors in the refinery files with simultaneous positive impact of Brent/Ural price difference,
 - **PLN (1 199) million (y/y)** – negative impact of lower volumes of sales in result of a breakdown and stoppage of the Fluid Catalytic Cracking installation of Kralupy refinery and downtime of the ethylene installation in Litvinov until November 2016 after a breakdown in August 2015,
 - **PLN 1 446 million (y/y)** – positive impact of the other factors, including in particular balance of other operating activities in result of recognition of revenues from insurers for breakdown of the ethylene installation in the amount of PLN 1 280 million, and net changes in write-off related to reassessment of stock up to the net realisable value.
- 3. ORLEN Lietuva Group – EBITDA LIFO amounted PLN 1 093 million and was higher by PLN 20 million (y/y):**
- **PLN (393) million (y/y)** – negative impact of macroeconomic factors related to lower fuel margins that was partially compensated with positive impact of Brent/Ural price difference and changes in FX rates,
 - **PLN 282 million (y/y)** – positive impact of higher sales volumes by sea and by land,
 - **PLN 131 million (y/y)** – other factors including positive impact (y/y) of write-off related to reassessment of stock up to the net realisable value and negative impact of trade margins in result of growing competition, mainly from importers from Finland, Belarus and Russia.
- 4. Anwil – EBITDA LIFO amounted to PLN 578 million and was higher by PLN 7 million (y/y):**
- **PLN 283 million (y/y)** – positive impact of macroeconomic factors in the field of fertilisers and plastics, and decrease of PLN value in relation to foreign currencies,
 - **PLN (190) million (y/y)** – negative volume effect related to lower sales of fertilisers and PCV in result of downtime of the manufacturing installations lined with downtime of Olefin installations in PKN ORLEN,
 - **PLN (86) million (y/y)** – negative impact of other factors, including mainly lower trade margins on fertilisers with simultaneous positive impact of the balance of other operating activities.

- 5. ORLEN Deutschland – EBITDA LIFO amounted to PLN 294 million and was higher by PLN 58 million (y/y):**
- **PLN 51 million (y/y)** – positive impact of margins on fuels,
 - **PLN 5 million (y/y)** – higher margins on sales of non-fuel goods and services,
 - **PLN 12 million (y/y)** – increase in the volume of retail sales,
 - **PLN (10) million (y/y)** – higher costs of operation of petrol stations, including the ones related to the effects described above.
- 6. ORLEN Upstream Group – EBITDA LIFO amounted to PLN 270 million and was higher by PLN 191 million (y/y):**
- **PLN (37) million (y/y)** – negative impact of macroeconomic factors related to reduction of oil and gas prices on global markets,
 - **PLN 205 million (y/y)** – positive impact of bigger production of hydrocarbons on the Canadian and Polish markets, including in result of acquisition of companies Kicking Horse Energy Ltd. and FX Energy at the end of 2015,
 - **PLN 23 million (y/y)** – positive impact of other factors included mainly the result on other operating activities in the amount of PLN 47 million, including mainly due to allocation of the purchase price of FX Energy.
- 7. Other: PLN 674 million** – results of the other companies of the ORLEN Group and consolidation adjustments, including mainly: **PLN 298 million** – share of entities subject to consolidation by means of equity method – Basell ORLEN Polyolefins, **PLN 126 million** – ORLEN Południe, **PLN 86 million** – ORLEN Paliwa, **PLN 57 million** – ORLEN Asphalt, **PLN 43 million** – IKS Solino, **PLN 28 million** – ORLEN Serwis.

SYNTHETIC FINANCIAL DATA OF KEY ENTITIES IN THE ORLEN GROUP IN YEARS 2014-2016.

PKN ORLEN

The subject of PKN ORLEN's business consists of oil processing, production of oil-refining and petrochemical products, wholesale and retail sales of petroleum products. The company was established in result of a merger of Centrala Produktów Naftowych, which was the main distributor of engine fuel, with the fuel producer, Polski Koncern Naftowy, in September 1999. On 12 April 2000 the Company changes its name into Polski Koncern Naftowy ORLEN Spółka Akcyjna.

Basic financial and operating data of PKN ORLEN (as presented for the purpose of consolidation of the ORLEN Group).

Specification	unit of measurement	2016	2015	2014	change	change in %
1	2	3	4	5	6=(3-4)	7=(3-4)/4
Sales volume	thousands tons	30 967	30 766	27 659	201	0,7%
Revenues from sales	PLN million	53 633	60 466	76 972	(6 833)	(11.3%)
Operating profit according to LIFO plus depreciation (EBITDA LIFO) before revaluation write-offs¹	PLN million	4 851	4 383	2 891	468	10.7%

Operating profit plus depreciation (EBITDA)	PLN million	5 011	2 869	648	2 142	74.7%
Net profit/(loss)	PLN million	5 364	1 048	(4 672)	4 316	411.8%
Equity	PLN million	22 168	17 846	16 302	4 322	24.2%
Total assets	PLN million	43 072	36 981	37 978	6 091	16.5%
Employment as at 31 December	persons	4 786	4 651	4 543	135	2.9%

1) (Establishment) / reversal of revaluation write-offs of fixed assets in 2016, 2015 and 2014 amounted respectively to: PLN (5) million, PLN (7) million and PLN 29 million.

UNIPETROL GROUP

Unipetrol a.s. is the holding company of Unipetrol Group that was established in 1994 in result of restructuring of the Czech petroleum industry. Besides Unipetrol a.s. the Group's member include: Kaucuk, Chemopetrol, Benzina, Ceska Rafinerska, Unipetrol Trade, Spolana, Paramo, Unipetrol Rafinerie. In 2005 PKN ORLEN purchased 62.99% of shares in Unipetrol a.s.

The main subject of Unipetrol Group's business consists of oil processing, production and distribution of oil-refining, petrochemical and chemical products.

Basic financial and operating data of Unipetrol group (as presented for the purpose of consolidation of the ORLEN Group).

Specification	unit of measurement	2016	2015	2014	change	change in %
1	2	3	4	5	6=(3-4)	7=(3-4)/4
Sales volume	thousands tons	7 321	7 222	6 042	99	1.4%
Revenues from sales	PLN million	14 179	16 669	18 873	(2 490)	(14.9%)
Operating profit according to LIFO plus depreciation (EBITDA LIFO) before revaluation write-offs¹	PLN million	1 652	1 764	1 230	(112)	(6.3%)
Operating profit plus depreciation (EBITDA)	PLN million	1 939	1 615	200	324	20.1%
Net profit/(loss)	PLN million	1 308	1 072	(72)	236	22.0%
Equity	PLN million	6 794	5 571	4 336	1 223	22.0%
Total assets	PLN million	11 215	8 576	7 437	2 639	30.8%
Employment as at 31 December	persons	4 576	3 831	3 878	744	19.4%

1) (Establishment) / reversal of revaluation write-offs of fixed assets in 2016, 2015 and 2014 amounted respectively to: PLN 300 million, PLN (111) million and PLN (752) million.

ORLEN LIETUVA GROUP

AB ORLEN Lietuva is the holding company of ORLEN Lietuva Group and it was registered in the Lithuanian Registration Court on 24 January 1991 as AB Mazeikiu Nafta. On 15 December 2006 PKN ORLEN purchased the majority package of the company's shares from Yukos International UK B.V., and on 29 April 2009 it became the only owner in result of purchase of the company's shares from the Government of the Lithuanian Republic. Since 1 September 2009 the company operates under the legal name of AB ORLEN Lietuva.

The main subject of AB ORLEN Lietuva's business consists of oil processing, production of oil-refining products and wholesale of the company's products on the local market and their export by land and sea through the Klajpedos Nafta terminal.

Basic financial and operating data of ORLEN Lietuva group (as presented for the purpose of consolidation of the ORLEN Group).

Specification	unit of measurement	2016	2015	2014	change	change in %
1	2	3	4	5	6-(3-4)	7-(3-4)/4
Sales volume	thousands tons	9 465	8 639	7 737	826	9.6%
Revenues from sales	PLN million	14 279	15 578	19 589	(1 299)	(8.3%)
Operating profit according to LIFO plus depreciation (EBITDA LIFO) before revaluation write-offs¹	PLN million	1 093	1 073	(194)	20	1.9%
Operating profit plus depreciation (EBITDA)	PLN million	1 006	1 102	(4 365)	(96)	(8.7%)
Net profit/(loss)	PLN million	944	888	(4 575)	56	6.3%
Equity	PLN million	1 639	1 206	253	433	35.9%
Total assets	PLN million	3 485	2 291	1 918	1 194	52.1%
Employment as at 31 December	persons	1 582	1 569	1 650	13	0.8%

1) (Establishment) / reversal of revaluation write-offs of fixed assets in 2016, 2015 and 2014 amounted respectively to: PLN (10) million, PLN 1 million and PLN (4 181) million.

ANWIL

ANWIL S.A. was established on 15 March 1993 in result of transformation of state enterprise into a sole-shareholder company of the Treasury. As 31 December 2016 the company's share capital was fully paid-in by PKN ORLEN.

The subject of ANWIL S.A.'s business is production of nitrogen fertilisers, plastics (polyvinyl chloride, PVC granulates, mixtures and plates) and chemicals for processing industry and agriculture (ammonia, chlorine, nitric acid, industrial salt, sodium hydroxide).

Basic financial and operating data of ANWIL (as presented for the purpose of consolidation of the ORLEN Group).

Specification	unit of measurement	2016	2015	2014	change	change in %
1	2	3	4	5	6-(3-4)	7-(3-4)/4
Sales volume	thousands tons	1 650	2 091	1 898	(441)	(21.1%)
Revenues from sales	PLN million	2 474	3 385	3 291	(911)	(26.9%)
Operating profit according to LIFO plus depreciation (EBITDA LIFO) before revaluation write-offs¹	PLN million	578	571	297	7	1.2%
Operating profit plus depreciation (EBITDA)	PLN million	575	564	79	11	2.0%
Net profit/(loss)	PLN million	533	408	2	125	30.6%
Equity	PLN million	1 234	1 095	863	139	12.7%
Total assets	PLN	1 594	1 607	1 590	(13)	(0.8%)

	million					
Employment as at 31 December	persons	1 244	1 939	2 843	(695)	(35.8%)

1) (Establishment) / reversal of revaluation write-offs of fixed assets in 2016, 2015 and 2014 amounted respectively to: PLN (3) million, PLN (7) million and PLN (218) million.

Write-off of 2014 in the amount of PLN (154) million was reversed within the scope of the consolidation procedures due to the fact that ANWIL's assets are classified on the level of the ORLEN Group in the petrochemicals segment and tests are performed within this segment.

ORLEN DEUTSCHLAND

ORLEN Deutschland was established in result of purchase of a chain of petrol stations in northern and eastern Germany by PKN ORLEN from Deutsche BP in December 2002. As 31 December 2016 the company's share capital was fully paid-in by PKN ORLEN.

ORLEN Deutschland operates mainly in the field of retail sales of fuel in Germany and wholesale of middle distillates.

Basic financial and operating data of ORLEN Deutschland.

Specification	unit of measurement	2016	2015	2014	change	change in %
1	2	3	4	5	6=(3-4)	7=(3-4)/4
Sales volume	thousand tons	2 640	2 603	2 621	37	1.4%
Revenues from sales	PLN million	13 704	13 924	15 965	(220)	(1.6%)
Operating profit according to LIFO plus depreciation (EBITDA LIFO) before revaluation write-offs¹	PLN million	294	236	230	58	24.6%
Operating profit plus depreciation (EBITDA)	PLN million	129	95	91	34	35.8%
Net profit/(loss)	PLN million	518	467	458	51	10.9%
Equity	PLN million	1 622	1 423	1 567	199	14.0%
Total assets	PLN million	146	140	143	6	4.3%

ORLEN UPSTREAM GROUP

Company ORLEN Upstream sp. z o.o. is the holding company in the Upstream Group. As 31 December 2016 the company's share capital was fully paid-in by PKN ORLEN.

The subject of the company's business consists of: exploration and prospection of hydrocarbon deposits, mining of oil and natural gas.

Basic financial and operating data of ORLEN Upstream Group (as presented for the purpose of consolidation of the ORLEN Group).

Specification	unit of measurement	2016	2015	2014	change	change in %
1	2	3	4	5	6=(3-4)	7=(3-4)/4
Sales volume	thousan	558	310	258	248	80.0%

	ds tons					
Revenues from sales	PLN million	460	253	340	207	81.8%
Operating profit according to LIFO plus depreciation (EBITDA LIFO) before revaluation write-offs¹	PLN million	270	79	191	191	241.8%
Operating profit plus depreciation (EBITDA)	PLN million	197	(773)	(131)	970	-
Net profit/(loss)	PLN million	(189)	(802)	(139)	613	76.4%
Equity	PLN million	2 768	2 577	1 855	191	7.4%
Total assets	PLN million	3 946	3 745	2 549	201	5.4%
Employment as at 31 December	persons	146	126	112	20	15.9%

1) (Establishment) / reversal of revaluation write-offs of fixed assets in 2016, 2015 and 2014 amounted respectively to: PLN (73) million, PLN (852) million and PLN (322) million.

XI ASSESSMENT OF THE USE OF THE COMPANY'S FIXED ASSETS IN ITS ACTIVITIES.

1. Real properties used for the purpose of current activities of PKN ORLEN S.A. in 2016

As at 01.01.2016 PKN ORLEN S.A. had 311 real properties for sale/rent of the total net book value of PLN 251 million.

In 2016 the company sold 22 real properties of the total net book value of PLN 8.7 million for the net price of PLN 18.64 million. Moreover, in result of issued administrative decisions on permissions for road investments, the Company has lost a legal title (expropriation) to 8 real properties of the total net book value of PLN 6.26 million and received a net compensation in the amount of PLN 15.58 million.

Furthermore, if real properties or their parts are not used directly for the Company's current activities, they may be let or hired. As at the end of 2016, 64 agreements were concluded for the total value of annual lease rent of PLN 2.5 million. The agreements referred to real properties of the total net book value of ca. PLN 103 million.

2. Essential components of fixed assets, for instance machines and equipment, which are not used for ongoing activities and which are not planned to be used, in respect to possible disposal or liquidation, letting for lease or hire.

In PKN ORLEN no essential unnecessary items of assets were identified (other than specified above), including machines and equipment that are not used currently in the current activities.

XII SELF-ASSESSMENT OF THE WORK OF THE SUPERVISORY BOARD OF PKN ORLEN S.A.

The composition and diverse competences held by Members of the Supervisory Board are what guarantees effective supervision over all areas of the activity conducted by PKN ORLEN S.A. The Supervisory Board of this term has strengthened legal competences thanks to selection of active lawyers, economists and experienced managers. The vast and diverse professional experience of Members of the Supervisory Board allows for comprehensive perception and assessment of

business information and intentions of the Management Board. There have been ensured parity of independent members (3) and diversity of the composition of the Board as regards the participation of men and women and age.

2016 was the time of very active and hard work of the Supervisory Board, due to strengthened supervision in the scope of the implementation of the Company's strategy, in particular in the area under the price pressure of the mining sector, key power investments in Płock and Włocławek and the new Metathesis investment. The Supervisory Board exercised supervision (inter alia) over meeting the declared time limits for commencement or performance of the afore-mentioned investments. The above stemmed (inter alia) from the necessity to assess and prepare the Company for the implementation of the Strategy for the years 2017-2021 in the times of the variability and unpredictability in the oil sector in the world.

The selection of an auditor as part of a competitive and transparent procedure, in compliance with the new legal requirements resulting from Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and guidelines prepared for companies with participation of the State Treasury by the Minister of Energy, required the Supervisory Board to establish the principles and conduct a purchasing procedure, which was completed thanks to considerable discipline and hard work of the Supervisory Board in the time allowing for smooth hand-over of tasks between auditors.

Apart from meetings, the Supervisory Board also discussed issues as part of Committees, but due to the necessity to well prepare and analyse the materials for the meeting of the committees and the Supervisory Board itself, and to make decisions on time, the Supervisory Board also worked with the Management Board under a workshop procedure.

Three Members of the Supervisory Board were seconded to individually fulfil supervisory activities in the scope of the fulfilment by the Company of disclosure obligations related to the application of the corporate governance, defined in the Regulations of Giełda Papierów Wartościowych S.A. in Warsaw ("GPW") and provisions on current and periodic information.

The Supervisory Board actively reacted to the expectations of the Company's main shareholder as regards the exercise of supervision over particular segments of the Company's activity or types of matters. It also commissioned internal controls in this scope.

It cooperated on an ongoing basis with the Auditor, who attended each meeting of the Audit Committee.

Members of the Supervisory Board made every effort to attend meetings of all committees, including the ones in which they do not fulfil any function, which improved the decision-making process and handling with cases during meetings of the Supervisory Board.

The Management Board perfectly cooperated with the Supervisory Board by providing it with necessary information and preparing materials, and by responding flexibly to the expectations of the Supervisory Board in the scope of workshop meetings, held apart from standard meetings.

Members of the Supervisory Board take an active part in seminars and conferences focusing on corporate governance for the purpose of updating and improving their knowledge of the changing legal environment of the activity of supervisory boards in Poland and abroad.

Moreover, they take an active part in the Company's life and events sponsored by it, in order to build a positive corporate image, in consultations with the Management Board.

The temporal and substantive involvement of Members of the Supervisory Board in the Company's matters considerably exceeds the market standards in this scope.

Warsaw, 2017

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