



Polski Koncern Naftowy ORLEN
Spółka Akcyjna

POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA

MANAGEMENT BOARD REPORT ON THE OPERATIONS

FOR THE YEAR ENDED 31 DECEMBER 2013

2013

Table of contents:

1.	BASIC INFORMATION ON POLSKI KONCERN NAFTOWY ORLEN S.A. („PKN ORLEN“)	4
1.1	PKN ORLEN	4
1.2	Mission, values and rules of conduct, corporate social responsibility	5
1.3	Management Board of PKN ORLEN	7
1.4	The most important events in 2013 and until the publication of the Management Board Report	8
1.5	Awards and distinctions	9
2.	PKN ORLEN ORGANISATION	11
2.1	Basis for preparation of the Management Board Report on the Operations of PKN ORLEN	11
2.2	Agreement with the entity authorized to conduct audit of financial statements	11
2.3	Capital and organisational relations in PKN ORLEN	11
2.4	The rules of PKN ORLEN organisation and management and changes throughout the year 2013	12
2.5	Specification of significant contracts until the publication date of the Management Board's Report	13
2.6	Significant proceedings in front of court, body appropriate for arbitration proceedings or in front of public administration bodies	15
2.7	Significant transactions concluded on other than arms-length terms	16
2.8	Employment, policy and personnel programs implemented within PKN ORLEN	16
2.9	Remunerations of management and supervisory bodies	19
3.	PKN ORLEN ACTIVITIES	22
3.1	Activities in the refining segment	22
3.1.1	Market trends, position and competitors	22
3.1.2	Research and technological development	23
3.1.3	Basic products and merchandise	24
3.1.4	Sources of supply	25
3.2	Activities in the retail segment	26
3.2.1	Market trends, position and market environment	26
3.2.2	Core products, merchandise and services	26
3.2.3	Sources of supply	28
3.3	Activities in petrochemical segment	28
3.3.1	Market trends, position and competitors	28
3.3.2	Technological research and development	28
3.3.3	Core products, goods and services	28
3.3.4	Sources of supply	29
3.4	Activities in the upstream segment	29
3.4.1	Market trends, position and competitors	29
3.4.2	Operating activities' projects	30
3.5	Activities in the power industry segment	33
3.5.1	Market trends, position and competitors	33
3.5.2	Realisation of conducted projects	34
3.6	The risk management and the description of basic risks and threats of conducted operations	34
3.6.1	The functioning of the Corporate and Market Risk Management System	34
3.6.2	Risks and threats of conducted operations of PKN ORLEN	35
3.7	Environmental protection	36
3.8	Occupational health and safety	37
4.	PRESENT AND FORECASTED FINANCIAL SITUATION OF PKN ORLEN	39
4.1	Principles of presentation separate financial statements	39
4.2	Basic economic and financial values and factors and unusual events with significant influence on the achieved financial result	39
4.2.1	Separate statement of profit or loss and other comprehensive income	39
4.2.2	Statement of financial position	43

4.2.3	Statement of cash flows	45
4.2.4	Differences between financial results disclosed in annual report and previously Publisher forecasts of financial results for the year	46
4.2.5	Macroeconomic factors affecting the financial results and sensitive analysis	46
4.3	Financial resources management.....	50
4.3.1	General management rules.....	50
4.3.2	Loans, borrowings and debt securities.....	50
4.3.3	Issue of securities and application of the proceeds from the issue	51
4.3.4	Borrowings granted and received.....	51
4.3.5	Sureties, guarantees and other contingent liabilities.....	51
4.3.6	Working capital management.....	52
4.3.7	Financial instruments.....	52
4.3.8	Selected financial ratios	52
4.4	Assessment of the possibility of investment projects implementation	53
4.5	Perspectives for development in the next financial year.....	53
5.	ORLEN GROUP STRATEGY AND DEVELOPMENT PLANS.....	55
5.1	The assumptions of the ORLEN Group strategy for 2013-201	55
5.2	Strategy implementation in particular segments	55
5.3	The summary of strategic actions realisation in 2013.....	56
6.	SHAREHOLDERS AND SHARES.....	58
6.1	Shareholding structure in PKN ORLEN	58
6.2	Number of shares of PKN ORLEN and other entities of the ORLEN Group held by the management and supervisory personnel of PKN ORLEN	58
6.3	Employee stock option scheme monitoring system	58
6.4	Share repurchase.....	58
6.5	Dividend policy	58
6.6	Ratings	59
6.7	PKN ORLEN on the Stock Exchange	59
7.	CORPORATE GOVERNANCE	62
7.1	A set of applied Corporate Governance rules.....	62
7.2	Description of key features of PKN ORLEN's internal audit and risk management systems related to the process of financial reporting.....	64
7.3	Specification of Corporate Governance rules which PKN ORLEN does not apply and its explanation	66
7.4	PKN ORLEN's shareholders with a significant stake.....	66
7.5	PKN ORLEN's shareholders vested with special control rights and voting right restrictions.....	67
7.6	Rules for amending PKN ORLEN's Articles of Association	69
7.7	Proceedings of PKN ORLEN's general meeting of shareholders, its key powers and shareholders' rights and their exercise.....	69
7.8	Composition and proceedings of the management and supervisory authorities in PKN ORLEN and their committees	72
7.9	Description of the remuneration policy and the rules for its determination	82
	Glossary of selected technical and financial definitions	84

1. BASIC INFORMATION ON POLSKI KONCERN NAFTOWY ORLEN S.A. („PKN ORLEN”)

1.1 PKN ORLEN

Polski Koncern Naftowy ORLEN S.A. (“PKN ORLEN”; “the Parent Company”; “the Company”) together with the companies being members of the ORLEN Group is the leading producer and distributor of refining and petrochemical products. PKN ORLEN consequently pursues project intended to gain strong market position in upstream and power industry segments.

The Company was founded by incorporation of Centrala Produktów Naftowych, leading distributor of engine, fuels, and fuel producer - Polski Koncern Naftowy, which took place in September 1999. On 12 April 2000, the Company changed its business name to Polski Koncern Naftowy ORLEN Spółka Akcyjna.

Main areas of PKN ORLEN’s operations:

RAFINING



PKN ORLEN is one of the largest oil industry companies in the Central and Eastern Europe. The Company manages refineries in Poland, the Czech Republic and Lithuania. The biggest integrated refining and petrochemical complex is located in Plock. It is considered as one of the most modern and efficient objects of this kind in Europe.

PKN ORLEN and the ORLEN Group entities distribute on a wholesale basis refining products by using effective logistics infrastructure consisting of: fuel terminals, land and sea reloading centres, product pipeline networks as well as railway and road transport.

PETROCHEMICAL



The key installation of PKN ORLEN petrochemical segment is the Olefin installation of the maximum production capacity of approximately 700 thousand tonnes of ethylene and 380 thousand tonnes of propylene per year. Monomers produced by PKN ORLEN are the input for the polymers installation in the Basell ORLEN Polyolefins Sp. z o.o. and for the polychloride installation in the ANWIL Group. Other products are placed on both the Polish market and for export (the Czech Republic, Denmark, Deutschland, Lithuania).

In 2011, PKN ORLEN launched one of the most modern worldwide installations for the production of terephthalic acid (“PTA”) – which made it one of the key suppliers of this product in the region.

RETAIL



PKN ORLEN at the end of 2013 had 1,778 fuel stations on the Polish market. The retail activity is also conducted on the German, Czech, Lithuanian markets and total retail chain includes of over 2,700 fuel stations.

UPSTREAM



PKN ORLEN together with its subsidiary ORLEN Upstream Sp. z o.o. is involved in the crude oil and natural gas including the so-called shale gas exploration projects. In Poland, PKN ORLEN possesses 10 concessions to land and sea exploration of crude oil and natural gas. The current priority is to evaluate and exploit gas from unconventional sources.

On 14 November 2013, Canadian exploitation and extraction company TriOil Resources Ltd, seated in Calgary, Alberta Province joined the ORLEN Group.

POWER INDUSTRY



PKN ORLEN produces electricity and heating power, which is mostly consumed for its own productions purposes.

Also a project involving the construction of a gas and steam plant in Wloclawek of the capacity of 463 MWe with scheduled launch deadline for the end of 2015 is implemented.

In 2013, PKN ORLEN, for the seventh time was elected a laureate of the ranking of “Most precious Polish Brands MARQA”, organized by the daily *Rzeczpospolita*. From the moment of the appearance of the ORLEN brand, which was 13 years ago, the Company has been consistently building its strength and position through a number of communication activities that are expected to provide a consistent and integral image. The ORLEN brand was valued to PLN 3.9 billion.

At the end of 2013 PKN ORLEN employed 4,409 people.

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

Values and rules of conduct

The internal culture of the organization is mainly based on the universal values. Once followed, they enhance to achieve the company's objectives and at the same time protect against irregularities in the business conduct. In 2012, a document called "Values and Rules of Conduct at PKN ORLEN S.A." was adopted, the **mission and credo** of PKN ORLEN were updated:

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

CREDO: ORLEN, FUELLING THE FUTURE



OUR CORE VALUES



RESPONSIBILITY

We respect our customers, shareholders, the natural environment and local communities.



PROGRESS

We explore new possibilities.



PEOPLE

We are characterised by our know-how, teamwork and integrity.



ENERGY

We are enthusiastic about what we do.



DEPENDABILITY

You can rely on us.

"Values and rules of conduct at PKN ORLEN S.A." is a manual concerning the Company's internal as well as external relations contacts. It is complementary to the business strategy of PKN ORLEN while showing the employees the way how they are to achieve the objectives. It focuses on building the relations and mutual trust in the organization and provides the employees with a chance to explain their doubts or irregularities discovered. If any such question arises, the first instance to be referred to should always be the immediate superior and if the nature of the case renders such contact impossible the employees could address the Ethics Committee or the Ethics Officer with concurrent guarantee of anonymity and confidentiality, or use the Anonymous System of Irregularities Reporting.

The new approach to the issue of ethics places the ORLEN Group amongst the leaders ready to challenge the future. A potential of positive energy created due to the above described solutions translates into the market results and attainment of business goals.

Corporate Social Responsibility (CSR)

The CSR Report prepared in accordance with the Global Reporting Initiative (GRI) standards thoroughly presents the economic, social and environmental results. Moreover, it also addresses the issues of respecting human rights, employment and fair work as well as corruption counteracting.

The corporate social responsibility is also one of the ways to effective and efficient achieving of assumed targets and objectives. The activity of PKN ORLEN is dedicated to improve standards in the area of health protection, safety, education and raising. The range of implemented actions is extremely wide and involves, among others, providing support to current and ex-employees, family-type children's homes, sponsoring scholarships, educational programmes, assisting non-governmental organizations.

Constant care of people is reflected through social campaigns, programmes addressed to current and ex-employees or projects for local communities carried out by PKN ORLEN and by established by PKN ORLEN foundation: ORLEN – DAR SERCA. The mission of corporate Foundation, one of the first on the Polish market, is to manage activities which are significant value added activities for equaling educational opportunities for children, without parental care, and active partnership with local communities, implemented through by encouraging and

supporting young people in the educational process, involvement in improvement of safety and health protection projects. Since its establishment, in 2001, the Foundation takes care of family-type children's homes, provides funds for talented youth and support state units as well as fire brigade units. The Foundations builds partnership and develops its programmes through a dialogue with interested parties in open communication.

Corporate environmental responsibility is not only the compliance with the environmental standards but it is also education. It also involves the implementation of environment management systems and investing in innovative, environment friendly technologies, which ensure benefits and competitive advantage on the market. Environmental protection is to be seen at every stage of PKN ORLEN's activity. Since 1997, within the Responsible Care programmes dozens of voluntary commitments for environment were implemented. The environmental education is also a very important element of environmental activities, regarding to the employees, customers, suppliers and local communities. For more details regarding the environmental issues see [point 3.7](#) of the foregoing Report.

PKN ORLEN fully implements a transparent policy of respecting human rights and no discrimination. Those principles are implemented in many ways by the processes of recruitment, training, health care, employment of persons with disabilities.

The recruitment processes ensure equal chances to all participants, the actions undertaken comply with applicable procedures, corporate governance and corporate social responsibility principles. The employees regardless their age, sex, place of work, experience, may participate in training and development programmes and have equal access to the wide scope of medical services, falling beyond the scope of occupational health services.

Following the principles of respecting personal dignity of people with disabilities, the employer pays special attention to providing them with equal chances at the workplace, which includes without limitation, creating appropriate work conditions, chances for professional promotion, or removing social barriers in the place of work. For more details regarding the issues of employment policy and HR programmes see [point 2.8](#) of the foregoing Report.

PKN ORLEN, as a transparent company, is active in promoting the issues relating to the corruption counteracting. The document titled "Values and Rules of Conduct at PKN ORLEN" comprehensively addresses all ethical issues and matters concerning the applied anticorruption procedures. The significant role in conducting the open anticorruption policy is also played by the Ethics Committee and the Ethics Officer as well as a system for reporting abuses.

In 2013, PKN ORLEN, for the second time in a row was awarded the "Silver CSR Leaf" for meeting high standards of the Corporate Social Responsibility. The Company was also ranked first in the category "Fuels, Power Industry and Upstream" in the seventh edition of prestigious Ranking of Responsible Companies providing a list of the biggest companies in Poland assessed from the perspective of quality in management of corporate social responsibility.

1.3 Management Board of PKN ORLEN



Dariusz Jacek Krawiec
President of the
Management Board
Chief Executive Officer

On 18 September 2008, Mr. Dariusz Jacek Krawiec was appointed President of the Management Board and CEO of the Company. On 24 March 2011, for the first time in the history of PKN ORLEN, Mr Dariusz Jacek Krawiec was reappointed by the Supervisory Board for the Board's President for the next term of office. On 6 March 2014 was appointed for the Board's President for the third term of office starting after General Shareholders Meeting (GSM) which will approve the financial statements of the Company for 2013.

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



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

In June 2008, Mr Sławomir Jędrzejczyk was appointed as Member of the Management Board of PKN ORLEN. He served as the Member of the Management Board until September 2008, on 18 September he became Vice-President of the Management Board. On 24 March 2011 Mr Sławomir Jędrzejczyk was reappointed by the Supervisory Board of PKN ORLEN to the position of Vice-President of the Management Board, for three year term of office, starting from 30 June 2011. On 6 March 2014, Mr Sławomir Jędrzejczyk was appointed for the Board's Vice-Presidency of the third term of office starting after the General Shareholders Meeting (GSM) which will approve the financial statements of the Company for 2013.

Mr Sławomir Jędrzejczyk is in charge of finance, controlling, accounting, supply chain management, investor relations, M&A, and IT departments. His main responsibilities include implementing strategy relating to value increase, relations with capital market, providing financing, and increasing cash flows through operating excellence, divestments, and increasing projects improving working capital. Currently, he serves as Vice-Chairman of the Supervisory Board of Unipetrol, a.s. Since 1 January 2014 acts as a Member of the Board of Directors of TriOil Resources Ltd., Canada.

He is a graduate of the Łódź University of Technology and obtained the title of Certified Auditor of ACCA association. In 2005 - 2008, he served as President of the Management Board of Emitel. Previously for companies listed on WSE as: the Director of Controlling in Telekomunikacja Polska S.A. and Member of the Board – Chief Financial Officer of Imexmetal S.A. and in Audit and Management Consulting Department of Price Waterhouse.



Piotr Chelmiński
Member of the
Management Board,
Petrochemical Operations

Mr Piotr Chelmiński was appointed the Member of PKN ORLEN Management Board responsible for Petrochemical Operations, effective from 10 March 2012. On 6 March 2014 Mr Piotr Chelmiński was appointed for the next term of office starting after the General Shareholders Meeting (GSM) which will approve the financial statements of the Company for 2013. Mr Piotr Chelmiński is a graduate of the Warsaw University of Agriculture. During his professional career he has accumulated years of experience holding various positions on the Management Boards of Polish and foreign-owned companies, including listed companies. In the years 1995 – 1996 he served as Vice-President for sales, marketing and export of Okocimskie Zakłady Piwowskie S.A. From 1996 to 1999 he worked for Eckes Granini GmbH & Co. KG as Regional Director for Central and Eastern Europe region and as President of its subsidiary, Aronia S.A. During 1999 – 2001 he has been a Member of the Board of Directors, Browar Dojlidy Sp. z o.o. From 2001 to 2002 he held the position of the Member of the Board of Directors and Member of the Supervisory Board of Werner & Merz Polska Sp. z o.o. In 2001 – 2006 he served as Member of the Board of Directors and as Member of the Supervisory Board – direct operational supervision of Sales and Marketing, Kamis-Przemyśle S.A. From 2006 to 2009 he served as Vice-President for Sales and Marketing, Gamet S.A. in Toruń and as Member of the Board of Directors, Gamet Holdings S.A. Luxembourg. He was entrusted with the post of President of Directors and CEO at Unipetrol a.s. in December 2009. Currently, he serves as Chairman of the Supervisory Board of ANWIL S.A. and Member of the Supervisory Board of Basell ORLEN Polyolefins Sp. z o.o. and Unipetrol a.s.



Krystian Pater
Member of the
Management Board,
Refinery Operations

In March 2007, Mr Krystian Pater was appointed the Member of the Management Board of PKN ORLEN. On 24 March 2011 he was reappointed by the Supervisory Board of PKN ORLEN to the position of Member of the Management Board, for three year term of office, starting from 30 June 2011. On 6 March 2014, Mr Krystian Pater was appointed for the next term of office starting after the General Shareholders Meeting (GSM) which will approve the financial statements of the Company for 2013.

He is a graduate of the Nicolaus Copernicus University in Toruń, Faculty of Chemistry. He has completed post-graduate courses in Chemical Engineering and Equipment at the Warsaw University of Technology (1989), Management and Marketing at the Paweł Włodkowic University College (1997), Petroleum Sector Management (1998) and Enterprise Value Management (2001-2002) at the Warsaw School of Economics. Since 1993, he was involved in Petrochemia Płock S.A. and later on, in PKN ORLEN, where from 2005 to 2007 he served as Executive Director responsible for Refining Production. Currently, he is Member of the Management Board of AB ORLEN Lietuva and Member of the Supervisory Board of Unipetrol a.s. Additionally, he serves as Vice-President of the Management Board of Scientific Association of the Oil and Gas Industry Engineers and Technicians, Member of the Management Board of EUROPIA, CONCAWE and Chairman of the Association of Oil Industry Workers in Płock.



Marek Podstawa
Member of the
Management Board, Sales

Mr Marek Podstawa was appointed to the position of Member of PKN ORLEN Management Board in charge of Sales, effective from 19 March, 2012. On 6 March 2014, Mr Marek Podstawa was appointed for next term office starting after the General Shareholders Meeting (GSM) which will approve the financial statements of the Company for 2013.

From January 2009, he served as Executive Director for Retail Sales at PKN ORLEN. He is a graduate of University of Science and Technology in Cracow. He holds MBA title granted by the University of Minnesota/Warsaw School of Economics. He has an extensive track record of leading international teams and large expertise in strategy development, finance, project management as well as crisis management. From 1990 to 1992 he worked at Centralne Zakłady Automatykacji Hutnictwa, then, till 1996 he worked in DuPont Conoco Poland. After conversion of the company in ConocoPhillips consortium he worked in retail, wholesale, marketing, business development, unification of financial management systems, including Europe and US until 2008. He was promoted to Director for Wholesale Programs and thereafter he became Director for Strategic Planning at the company's head office in Houston. From 2009 to 2010 he was a member of the Management Board of Benzina s.r.o. Currently, he serves as Chairman of the Supervisory Board of ORLEN Deutschland GmbH

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

The most important events in 2013.

FEBRUARY 2013

On 27 February 2013 **deposit agreement** from 26 November 1999 (with further amendments) concluded with The Bank of New York Mellon, constituting **PKN ORLEN's global depositary receipts ("GDR") was terminated**. In relation to the Deposit Agreement termination the quotation of the GDRs on the Official List of the London Stock Exchange was canceled and the GDRs were withdrawn from trading on London Stock Exchange plc Main Market for listed securities as of 27 February 2013.

MARCH 2013

On 4 March 2013 deposit agreement from 10 April 2001 (with further amendments) concluded with The Bank of New York Mellon, constituting PKN ORLEN's American depositary receipts ("ADR") was terminated.

On 19 March 2013 the contract was executed between PKN ORLEN and consortium of companies - ORLEN Projekt and Fisia Babcock Environment GmbH for construction of Flue Gas Desulphurization ("FGD") in Heat and Power Plant of the Production Plant in Plock. The estimated value of the contract is over PLN 410 million. As a result of implementation of new technological solutions, the SO₂ emission will decrease by 97%. Start up of the new installation is planned for the end of 2015.

On 28 March 2013 the agreement between PKN ORLEN and Ashby Sp. z o.o. (that has been concluded on 28 March 2012) regarding gathering and keeping of mandatory reserves of **crude oil** expired. Therefore, and in accordance with applicable regulations regarding the maintenance of mandatory reserves in Poland, PKN ORLEN acquired crude oil owned by Ashby Sp. z o.o. The value of the transaction was approximately USD 366 million (representing PLN 1,194 million at the average National Bank of Poland exchange rate for USD/PLN as at 27 March 2013). The acquisition price of crude oil has been hedged with a forward contract. The settlement of the hedging transaction increased the value of the acquired raw material by approximately USD 38 million (representing PLN 123 million at the average National Bank of Poland exchange rate for USD/PLN as at 27 March 2013). Additionally, within the duration of the contract regarding gathering and maintenance of crude oil reserves, Ashby Sp. z o.o. incurred charges to PKN ORLEN for inventory maintenance guarantees.

MAY 2013

On 28 May 2013, PKN ORLEN informed about **issue of first series of bonds** within the public bond issue programme, included in the prospectus approved by the Polish Financial Supervision Authority on 24 May 2013 and announced the final terms and conditions of the offer and the final terms and conditions of issue for this series of the bonds. In Series A up to 2,000,000 unsecured, bearer, dematerialized bonds through registration in the deposit operated by the Central Securities Depository of Poland were offered.

The detailed information regarding the bonds issue was presented in the [point 4.3.3](#) of the foregoing Report.

JUNE 2013

On 3 June 2013, PKN ORLEN informed about **issue of second series of bonds** within the public bond issue programme, included in the prospectus approved by the Polish Financial Supervision Authority on 24 May 2013 and announces the final terms and conditions of the offer and the final terms and conditions of issue for this series of the bonds. In Series B up to 2,000,000 unsecured, bearer, dematerialized bonds through registration in the deposit operated by the Central Securities Depository of Poland were offered.

The detailed information regarding the bonds issue was presented in the [point 4.3.3](#) of the foregoing Report.

On 27 June 2013 PKN ORLEN concluded with Neon Poland Sp. z o.o. ("Neon") **the agreement for the sale of crude oil and the agreement for order of gathering and keeping of crude oil mandatory reserves**.

On the basis of the sales agreement PKN ORLEN sold crude oil valued approximately USD 314 million (that is PLN 1,045 million at the average National Bank of Poland exchange rate for USD/PLN as at 27 June 2013). The crude oil price was established according to market quotations.

On the basis of the agreement for gathering and keeping of inventories Neon will be providing service of keeping of crude oil mandatory reserves to PKN ORLEN account, whereas PKN ORLEN will guarantee storage of inventories in current location. The Agreement for gathering and keeping of inventories was concluded for the period to 29 January 2015, however it included the possibility of its renewal for the next period.

Above agreements were concluded after receiving by PKN ORLEN the approval of Material Reserves Agency for the transaction.

Neon is a special purpose vehicle, established at the request of RBS Polish Financial Advisory Services Sp. z o.o., which is a subsidiary of Royal Bank of Scotland plc.

On 27 June 2013 the Ordinary General Meeting of PKN ORLEN appointed **the Supervisory Board of PKN ORLEN for a new term of office**. Ms Angelina Anna Sarota was elected to the position of Chairman of the PKN ORLEN Supervisory Board. The following Supervisory Board Members of PKN ORLEN were also elected: Mr Cezary Banasiński, Mr Grzegorz Borowiec, Mr Artur Gabor, Mr Michał Gołębiowski, Mr Cezary Możejński and Mr Leszek Jerzy Pawłowicz.

JULY 2013

On 18 July 2013, Supervisory Board appointed Mr Leszek Pawłowicz to **Vice-Chairman of Supervisory Board** and Mr Michał Gołębiowski to **Secretary of Supervisory Board**, as well as appointed following committees:

- Audit Committee: Artur Gabor – Chairman, Grzegorz Borowiec, Michał Gołębiowski, Leszek Pawłowicz,
- Strategy and Development Committee: Cezary Banasiński – Chairman, Artur Gabor, Cezary Możejński, Leszek Pawłowicz, Angelina Sarota,
- Nomination and Remuneration Committee: Angelina Sarota – Chairman Cezary Banasiński, Grzegorz Borowiec, Michał Gołębiowski,
- Corporate Governance Committee: Cezary Możejński – Chairman, Michał Gołębiowski, Angelina Sarota.

AUGUST 2013

On 30 August 2013 **Fitch Ratings has upgraded PKN ORLEN's foreign long-term rating** from „BB+/positive outlook” to „BBB-/stable outlook”. The full list of ratings assigned by the Fitch Agency is presented in [point 6.6](#) of the foregoing Report.

NOVEMBER 2013

On 6 November 2013, PKN ORLEN informed about **issue of third series of bonds** within the public bond issue programme, included in the prospectus approved by the Polish Financial Supervision Authority on 24 May 2013 and announced the final terms and conditions of the offer and the final terms and conditions of issue for this series of the bonds. In Series C up to 2,000,000 unsecured, bearer, dematerialized bonds through registration in the deposit operated by the Central Securities Depository of Poland were offered.

The detailed information regarding the bonds issue was presented in [point 4.3.3](#) of the foregoing Report.

On 6 November 2013 **Moody's Investors Service upgraded PKN ORLEN's credit rating to Baa3 from Ba1**. The rating outlook is stable. Moreover the Agency upgraded PKN ORLEN's baseline credit assessment to ba1 from ba2. Substations of rating agency decision are described in [point 6.6](#) of the foregoing Report.

On 14 November 2013, PKN ORLEN informed about **issue of fourth series of bonds** within the public bond issue programme, included in the prospectus approved by the Polish Financial Supervision Authority on 24 May 2013 and announced the final terms and conditions of the offer and the final terms and conditions of issue for this series of the bonds. In Series D 1,000,000 unsecured, bearer, dematerialized bonds through registration in the deposit operated by the Central Securities Depository of Poland were offered.

The detailed information regarding the bonds issue was presented in [point 4.3.3](#) of the foregoing Report.

The most important events in 2014 until the publication of the Management Board Report.

JANUARY 2014

On 28 January 2014 **the agreement for gathering and keeping of crude oil mandatory reserves**, concluded on 28 December 2012 between PKN ORLEN and Whirlwind Sp. z o.o. ("Whirlwind"), has expired.

Therefore, and in accordance with applicable regulations regarding the maintenance of mandatory reserves in Poland, PKN ORLEN acquired crude oil owned by Whirlwind. The value of the transaction was approximately USD 396 million (PLN 1,223 million at the average National Bank of Poland exchange rate for USD/PLN as at 27 January 2014).

On the day of signing the agreement the acquisition price of crude oil has been hedged with a forward contract. The settlement of the hedging transaction decreased the value of the acquired raw material by USD 11 million (representing PLN 34 million at the average National Bank of Poland exchange rate for USD/PLN as at 27 January 2014).

Additionally, within the duration of the contract regarding gathering and maintenance of crude oil reserves, Whirlwind incurred charges to PKN ORLEN for inventory maintenance guarantees.

Whirlwind is a special purpose vehicle, established at the request of RBS Polish Financial Advisory Services Sp. z o.o., which is a subsidiary of Royal Bank of Scotland N.V.

MARCH 2014

On 6 March 2014 the Supervisory Board of PKN ORLEN **appointed to the Management Board of PKN ORLEN** following persons:

- Mr Dariusz Jacek Krawiec President of the Management Board,
- Mr Sławomir Jędrzejczyk Vice-President of the Management Board,
- Mr Piotr Chelmiński Member of the Management Board,
- Mr Krystian Pater Member of the Management Board,
- Mr Marek Podstawa Member of the Management Board,

for the common three year term of office starting the day after present common term of office of the Management Board of the Company expires, that is after the day of the General Shareholders Meeting of the Company approving the financial statements for 2013.

Key information concerning commercial agreements is provided in [point 2.5](#) of the foregoing Report.

1.5 Awards and distinctions

Awards and distinctions granted in 2013.

MARCH 2013

PKN ORLEN for the second time obtained „**Top Employers Polska 2013**” title. The certification process was conducted by the Corporate Research Foundation Institute.

PKN ORLEN's fuel station in Gnilec, located by the A2 highway, was awarded in the second edition of “**The Gasoline Station of the 2013**” in the “Catering on the gasoline station” category, organised by the Brog Marketing. The experts of fuel market in Poland appreciated the station for modernity and rich catering offer.

APRIL 2013

PKN ORLEN came first in the “Fuels, power industry and upstream” business category of the 7th edition of prestigious **Ranking of Reliable Companies**. Prepared by Dziennik Gazeta Prawna under the substantial patronage of the Reliable Business Forum and Leon Kozminski University, the Ranking of Reliable Companies composes of the largest companies in Poland, evaluated against the quality of corporate social responsibility (CSR) management”.

MAY 2013

Belonging to PKN ORLEN gasoline stations were recognised as the **Trusted and Most Friendly to the Environment Gold Brand**. Bliska stations objects were honored with the **Crystal Emblem of Trusted Brand**, in the largest European poll - European Trusted Brands 2013.

Since 1999, continuously, PKN ORLEN is a leader of the largest companies ranking the **List of 500** of the Polityka weekly.

PKN ORLEN for the second time in a row was awarded “**Silver CSR Leaf**” for meeting high standards in respect of Corporate Social Responsibility. PKN ORLEN was shortlisted amongst 20 firms classified in the “Polityka” weekly's ranking.

PKN ORLEN became the **best managed company in the Central and Eastern Europe** in the oil/gas/chemicals/petrochemicals category according to independent analysts from leading international banks, consulting firms and research institutes taking part in the **9th edition of the “Best CEE Companies” ranking, published by the British financial magazine Euromoney**. PKN ORLEN first appeared in the ranking in 2006, and has already been classified 5 times as the best managed company in Poland with the most convincing and coherent strategy.

JUNE 2013

PKN ORLEN for the first time became the winner of the **Golden Issuer's Website**, distinguishing the companies keeping the investor relations, via the Internet, in the best way. The Company was appreciated mainly for complexity, high quality of presented materials and innovativeness of applied technologies. The "Golden Issuer's Website" competition is addressed to all companies listed on the Warsaw Stock Exchange, including NewConnect market.

AUGUST 2013

PKN ORLEN, for the eighth time in a row became **the leader of the TOP 500** largest Central and Eastern Europe companies ranking, prepared by analysts from Coface. PKN ORLEN is the leader of the ranking continuously, since its first edition in 2006. The TOP 500 ranking is leaded by the Coface platform in the Central and Eastern Europe countries.

OCTOBER 2013

PKN ORLEN received a special award **"The Best of The Best"** in **"Best Annual Report 2012"** competition, organized by the Institute of Accounting and Taxation. The company also received a special distinction of the Educational Campaign "Citizens Shareholders. "Invest Knowingly" for achieving the highest score in the history of the competition and keeping the financial reporting, from shareholders' and inventors' point of view, in an exemplary way. The special award "The Best of the Best" is granted to the companies, which got the highest distinction in the "The Best Annual Report" competition three times.

PKN ORLEN received the **"Gold Card of Safe Occupation Leader"**. It is the highest national distinction granted by the Safe Occupation Leaders Forum for applying methods regarding security issues in 2012 - 2013. The experts appreciated PKN ORLEN's actions for implementation and propagation of scientific and technical achievements and improvement of employees' qualifications regarding occupational health and safety as well as occupational accidents rates and occupational diseases.

NOVEMBER 2013

Appointed by PKN ORLEN, ORLEN Foundation – DAR SERCA, received the main award in the **"Good scholarships 2013"** competition in "Companies' scholarship programmes" category. Competition organizers, which distinguish the best scholarship initiatives appreciated executed by the Foundation programme "The Masters of Chemistry".

PKN ORLEN got the first place in ranking **"The most desired employers of 2013 in the opinion of specialists and managers"** in the category of: Power Industry, Gas, Fuels and Chemistry. The survey was conducted by Antal International company under the patronage of Business Centre Club.

PKN ORLEN was once again ranked among the **Leaders of the Philanthropy**. The company was ranked IV in the category of companies, which in 2012 donated the most funds for the social objectives.

DECEMBER 2013

PKN ORLEN was re-elected to an elite group of companies being members of **RESPECT Index** portfolio covering firms which are socially responsible. The Company has been listed on the index since the moment of its creation, i.e. since 2009..

PKN ORLEN for the seventh time in a row became the winner of the **Most Valuable Polish Brands Ranking**. The organizer of the contest, prepared on the basis of financial criteria and consumers' opinion poll, was the daily "Rzeczpospolita".

Awards and distinction granted in 2014 until the publication of the Management Board Report.

FEBRUARY 2014

President of the Management Board, Mr Dariusz Jacek Krawiec and PKN ORLEN distictned as **"The one, who changes our industry"** for high level of management in PKN ORLEN and consequent realisation of set, ambitious objectives. The competition takes place under the patronage of Nowy Przemysł monthly.

MARCH 2014

PKN ORLEN for the third time obtained **"Top Employers Polska 2013"** title. The certification process was conducted by the Corporate Research Foundation Institute.

PKN ORLEN was distictned with **"The World's Most Ethical Company 2014"** awarded for promoting good practice and ethics in business and management with respect to the highest standards in relations with employees, business partners, investors and market regulators

2. PKN ORLEN ORGANISATION

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

The foregoing Report covers the reporting period from 1 January until 31 December 2013 and the comparative period from 1 January to 31 December 2012. The Management Board Report was prepared in compliance with the separate financial statements and current and periodical reporting.

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

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

With respect to Regulations of the Giełda Papierów Wartościowych w Warszawie S.A. § 29 sections 1, 2, 3 and 5 are applicable.

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

The entity authorized to conduct audit of financial statements of PKN ORLEN for 2013 was KPMG Audyt Sp. z o.o.

For further details on the agreement signed with the entity authorized to conduct audit of financial statements see note 2.2 to the Separate Financial Statements for the year 2013.

2.3 Capital and organisational relations in PKN ORLEN

PKN ORLEN with its registered office in Płock, at Chemików 7 St. is the Parent Company of the ORLEN Group.

PKN ORLEN runs a broad range of activities mainly comprising:

- production activity – processing of crude oil and manufacturing of refinery, petrochemical and chemical products and semi finished products,
- commercial activity – retail and wholesale trade of fuels and other refinery and petrochemical products,
- services-related activity – storage of crude oil and fuels, road and rail transport, maintenance and overhaul services, laboratory, protection, medical, design, administrative, insurance and financial services,
- business activity related to the exploration and recognition of hydrocarbon resources,
- business activity comprising manufacturing, transfer, distribution and trade in electricity

As at 31 December 2013, the Parent Company held, directly or indirectly, shares in 90 companies, of which in:

- 78 subsidiaries,
- 7 jointly controlled companies,
- 5 associated companies.

As compared to the end of 2012 the number of subsidiaries, jointly controlled companies, as well as associated companies of ORLEN Group increased by 2.

PKN ORLEN strengthens its position in the companies of the core business, coordinates their operations by segment management and carries out restructurings and consolidations of assets held.

TABLE 1: Changes in respect of PKN ORLEN capital relations in 2013.

TYPE OF TRANSACTION / COMPANY	TRANSACTION DATE	NUMBER OF SHARES ACQUIRED/ DISPOSED OF	SHARE IN THE CAPITAL AFTER THE TRANSACTION
ACQUISITION OF SHARES BY PKN ORLEN:			
ORLEN Projekt S.A.	10 January 2013	20	99.77%
ORLEN Oil Sp. z o.o. ¹⁾	date of agreement - 16 December 2013 transfer of ownership - 10 January 2014	36 278	100.00%
ORLEN Asfalt Sp. z o.o. ¹⁾	date of agreement - 16 December 2013 transfer of ownership - 10 January 2014	21 270	100.00%

1) Actual transfer of ownership was executed in 2014

Number of entities shares held by the Parent Company and consolidation methods are presented in note 5 to the Consolidated Financial Statements for 2013.

2.4 The rules of PKN ORLEN organisation and management and changes throughout the year 2013

Major objective of PKN ORLEN is to achieve the strategic goals, including creation of stable financial foundations, increased efficiency and value of ORLEN Group, including in particular development of upstream and energy segments as well as maintaining dividend policy for Shareholders.

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

The performance of the above activities is possible thanks to the full implementation of the so called ORLEN Group's Constitution which includes the Agreement for Cooperation within the ORLEN Group together with the Regulations of the ORLEN Group in 34 companies.

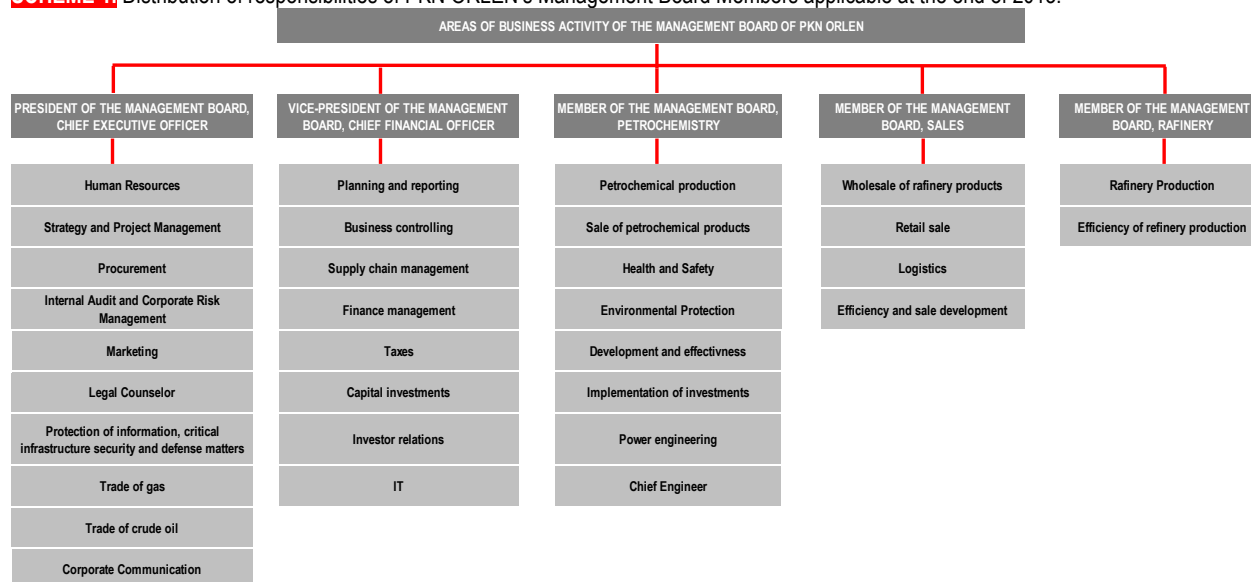
The main advantages of implementation of the Constitution include further improvement of PKN ORLEN's management efficiency through harmonisation of principles of information provision and ensuring the effective monitoring of key business decisions as well as harmonisation of organisational standards.

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

In 2013, within the ORLEN Group management, the Corporate Governance Rules were implemented in the ORLEN Group companies. The range of rights and duties of PKN ORLEN's organizational units was specified, which result from new rules of companies assignment to particular directors and organizational divisions of PKN ORLEN and exercising business supervision over the operating activity of the companies.

Within the Parent Company in 2013 the following organizational scheme was applicable:

SCHEME 1. Distribution of responsibilities of PKN ORLEN's Management Board Members applicable at the end of 2013.



Major changes in PKN ORLEN organisation and management in 2012 were related to:

- on 26 February 2013 the Office of Corporate Communication and Executive Officer of Marketing area within the Chief Executive Officer division were separated,
- on 3 April 2013 the Chief Engineer area within the Petrochemistry division was created and change of the Development and Effectiveness Office scope of responsibility took place,
- on 3 April 2013 supervision over processes of planning, monitoring and reporting on realisation of the National Indicative Target was entrusted to the Executive Officer of Supply Chain Management,

- conducting of activities related to the optimisation of fuels sales within the ORLEN Group resulting in transfer of wholesale sales and customer services from PKN ORLEN to ORLEN Paliwa Sp. z o.o.
- implementation of Petrolot Sp. z o.o. business model change related to the transfer of trade activities to PKN ORLEN since 1 January 2014. PKN ORLEN took charge over jet fuel supply for airports arising from agreements concluded by Petrolot that remains as the ground handling agent.

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

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

CONTRACTS FOR RAW MATERIAL SUPPLY

TO THE BENEFIT OF PKN ORLEN:

- On 1 February 2013 the contract was executed between PKN ORLEN and Rosneft Oil Company, for the supply of approx 6.0 million tonnes of REBCO crude oil annually by the "Druzhba" pipeline to PKN ORLEN. The contract is in force and effect from 1 February 2013 until 31 January 2016. In the cases described in the Contract, crude oil may be supplied by sea to Gdansk. The expected value of supplies within the term of the Contract amounts to approximately USD 15,000 million (that is approximately PLN 46,000 million at the average NBP exchange rate for USD/PLN as at 31 January 2013).

- On 19 August 2013 the spot contract was executed between PKN ORLEN and Devonoil S.A. for supply of crude oil to PKN ORLEN. The estimated net value of the contract amounts to approximately USD 80 million (approximately PLN 254 million at the average NBP exchange rate for USD/PLN as at 19 August 2013).

The estimated total value of the contracts executed between PKN ORLEN and Devonoil S.A. within the last 12 months amounts to approximately USD 761 million (approximately PLN 2,428 million at the average NBP exchange rates for USD/PLN as at the execution dates of individual contracts).

- On 17 September 2013 the spot contract was executed between PKN ORLEN and Mercuria Energy Trading S.A. for supply of crude oil to PKN ORLEN. The estimated net value of the contract amounts to approximately USD 20 million (approximately PLN 64 million at the average NBP exchange rate for USD/PLN as at 17 September 2013).

The estimated total value of the contracts executed between PKN ORLEN and Mercuria Energy Trading S.A. from 22 December 2012 until 17 September 2013 amounts to approximately PLN 2,258 million.

- On 12 December the spot contract was executed between PKN ORLEN and Vitol S.A. for supply of crude oil to PKN ORLEN. The estimated net value of the contract amounts to approximately USD 79 million (approximately PLN 241 million at the average NBP exchange rate for USD/PLN as at 12 December 2013).

The estimated total value of the contracts executed between PKN ORLEN and Vitol S.A. from 12 September 2013 until 12 December 2013 amounts to approximately USD 751 million (approximately PLN 2,327 million at the average NBP exchange rates for USD/PLN as at the execution dates of individual contracts).

TO THE BENEFIT OF ORLEN LIETUVA:

- On 22 April 2013 the spot contract was executed between PKN ORLEN and Glencore Energy UK Ltd for supply of crude oil to AB ORLEN Lietuva. The estimated net value of the contract amounts to approximately USD 73 million (approximately PLN 230 million at the average NBP exchange rate for USD/PLN as at 22 April 2013).

The estimated total value of the contracts executed between PKN ORLEN and Glencore Energy UK Ltd from 18 December 2012 until 22 April 2013 amounts to approximately USD 802 million (approximately PLN 2,503 million at the average NBP exchange rates for USD/PLN as at the execution dates of individual contracts).

- On 26 July 2013 the spot contract was executed between PKN ORLEN and Shell International Trading and Shipping Company Limited („STASCO") for supply of crude oil to AB ORLEN Lietuva. The estimated net value of the contract amounts to approximately USD 79 million (approximately PLN 250 million at the average NBP exchange rate for USD/PLN as at 26 July 2013).

The estimated total value of the contracts executed between PKN ORLEN and STASCO from 17 April 2013 until 26 July 2013 amounts to approximately USD 740 million (approximately PLN 2,402 million at the average NBP exchange rates for USD/PLN as at the execution dates of individual contracts).

- On 29 July 2013 the spot contract was executed between PKN ORLEN and TOTS A Total Oil Trading S.A. for supply of crude oil to AB ORLEN Lietuva. The estimated net value of the contract amounts to approximately USD 79 million (approximately PLN 251 million at the average NBP exchange rate for USD/PLN as at 29 July 2013).

The estimated total value of the contracts executed between PKN ORLEN and PKN ORLEN's subsidiaries on one side and companies being members of the Total Group within the last 12 months amounts to approximately PLN 2,922 million.

- On 27 August 2013 the spot contract was executed between PKN ORLEN and Gunvor S.A. for supply of crude oil to AB ORLEN Lietuva. The estimated net value of the contract amounts to approximately USD 80 million (approximately PLN 253 million at the average NBP exchange rate for USD/PLN as at 27 August 2013).

The estimated total value of the contracts executed between PKN ORLEN and PKN ORLEN's subsidiaries on one side and companies being members of the Gunvor S.A. Group in a period from 1 September 2012 to 27 August 2013 amounts to approximately PLN 2,475 million.

- On 11 September 2013 the spot contract was executed between PKN ORLEN and Vitol S.A. for supply of crude oil to AB ORLEN Lietuva. The estimated net value of the contract amounts to approximately USD 83 million (approximately PLN 265 million at the average NBP exchange rate for USD/PLN as at 11 September 2013).

The estimated total value of the contracts executed between PKN ORLEN and Vitol S.A. from 7 February 2013 until 11 September 2013 amounts to approximately USD 753 million (approximately PLN 2,438 million at the average NBP exchange rates for USD/PLN as at the execution dates of individual contracts).

- On 31 October 2013 the spot contract was executed between PKN ORLEN and Glencore Energy UK Ltd for supply of crude oil to AB ORLEN Lietuva. The estimated net value of the contract amounts to approximately USD 78 million (approximately PLN 238 million at the average NBP exchange rate for USD/PLN as at 31 October 2013).

The estimated total value of the contracts executed between PKN ORLEN and Glencore Energy UK Ltd. from 23 April 2013 until 31 October

2013 amounts to approximately USD 779 million (approximately PLN 2,474 million at the average NBP exchange rates for USD/PLN as at the execution dates of individual contracts).

TO THE BENEFIT OF UNIPETROL GROUP:

- On 17 May 2013 the spot contract was executed between PKN ORLEN and Lukoil International Trading And Supply Company for supply of crude oil to Unipetrol RPA s.r.o. The estimated net value of the contract amounts to approximately USD 107 million (approximately PLN 346 million at the average NBP exchange rate for USD/PLN as at 17 May 2013).
The estimated total value of the contracts executed between PKN ORLEN and Lukoil from 25 January 2013 until 17 May 2013 amounts to approximately USD 808 million (approximately PLN 2,596 million at the average NBP exchange rates for USD/PLN as at the execution dates of individual contracts).
- On 21 June 2013 the contract was executed between PKN ORLEN and Rosneft Oil Company for supply maximum 8.28 million tonnes of REBCO crude oil by the "Druzhba" pipeline to Unipetrol RPA s.r.o. The contract is in force and effect from 1 July 2013 until 30 June 2016.
The expected value of supplies until 30 June 2016 amounts to approximately USD 6,200 million (approximately PLN 20,400 million at the average NBP exchange rate for USD/PLN as at 20 June 2013).
- On 31 January 2014 the contract was executed between Unipetrol RPA s.r.o. and Shell Czech Republic therefore with Unipetrol RPA s.r.o. will purchase reserves of crude oil and refining products from Shell Czech Republic. The estimated net value of the contract amounts to approximately CZK 1,575 million (approximately PLN 243 million at the average NBP exchange rate for CZK/PLN as at 31 January 2014).
The estimated total value of the contracts executed between PKN ORLEN and PKN ORLEN's subsidiaries on one side and companies being members of the Shell Group from 27 June 2013 until 31 January 2014 amounts to approximately PLN 9,107 million.

CONTRACTS FOR THE SALE OF PRODUCTS

- On 8 January 2013 the annual contract was executed between PKN ORLEN and BP Europa SE for the sale by PKN ORLEN of gasoline and diesel oil from 1 January 2013 until 31 December 2013. The estimated net contract value amounts to PLN 6,750 million.
The estimated total value of the contracts executed between PKN ORLEN and PKN ORLEN's subsidiaries on one side and companies being members of the BP group from 5 May 2012 until 8 January 2013 amounts to approximately PLN 8,550 million.
- On 8 January 2013 the annual contract was executed between PKN ORLEN and Lukoil Polska Sp. z o.o., for the sale by PKN ORLEN of gasoline and diesel oil from 1 January 2013 until 31 December 2013. The estimated net contract value amounts to PLN 1,550 million.
The estimated total value of the contracts executed between PKN ORLEN and PKN ORLEN's subsidiaries on one side and companies being members of the Lukoil group from 24 November 2012 until 8 January 2013 amounts to approximately PLN 3,440 million.
- On 8 January 2013 the annual contract was executed between PKN ORLEN and Shell Polska Sp. z o.o., for the sale by PKN ORLEN of gasoline and diesel oil from 1 January 2013 until 31 December 2013. The estimated net contract value amounts to PLN 2,300 million.
- On 23 May 2013 the spot contract was executed between PKN ORLEN and OW Supply&Trading A/S, for the sale by PKN ORLEN of heavy heating oil. The estimated net value of the contract amounts to USD 104 million (approximately PLN 338 million, at the average NBP exchange rate for USD/PLN as at 23 May 2013).
The estimated total value of the contracts executed between PKN ORLEN and PKN ORLEN's subsidiaries on one side and companies being members of the Wrist group from 7 June 2012 until 23 May 2013 amounts approximately to PLN 2,436 million.
- On 10 January 2014 the annual contract was executed between PKN ORLEN and BP Europa SE, for the sale by PKN ORLEN of gasoline and diesel oil from 1 January 2014 until 31 December 2014. The estimated net contract value amounts to PLN 6,500 million.
The estimated total value of the contracts executed between PKN ORLEN and PKN ORLEN's subsidiaries on one side and companies being members of the BP group from 5 June 2013 until 10 January 2014 amounts to approximately PLN 8,660 million.
- On 10 January 2014 the annual contract was executed between PKN ORLEN and Lukoil Polska Sp. z o.o., for the sale by PKN ORLEN of gasoline and diesel oil from 1 January 2014 until 31 December 2014. The estimated net contract value amounts to PLN 1,550 million.
The total value of the contracts executed between PKN ORLEN and PKN ORLEN's subsidiaries on one side and companies being members of the Lukoil group from 27 December 2013 until 10 January 2014 amounts to approximately PLN 2,370 million.
- On 17 January 2014 the spot contract was executed between PKN ORLEN and OW Supply&Trading A/S, for the sale by PKN ORLEN of heavy heating oil from 1 January 2014 until 31 December 2015. The estimated net value of the contract amounts to USD 906 million (approximately PLN 2,771 million, at the average NBP exchange rate for USD /PLN as at 17 January 2014).
The estimated total value of the contracts executed between PKN ORLEN and PKN ORLEN's subsidiaries on one side and companies being members of the Wrist group from 24 May 2013 until 20 January 2014 amounts approximately to PLN 3,941 million.

OTHER CONTRACTS

- On 30 January 2014 the agreement was signed between PKN ORLEN and Kolporter Sp. z o.o. S.K.A. ("Kolporter") for the delivery by Kolporter non-fuel goods to PKN ORLEN fuel stations. The estimated net value of the agreement in the period of first five years amounts to approximately PLN 3,300 million.

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

2.6.1 Proceedings in which PKN ORLEN acts as a defendant

Proceedings with the total value exceeding 10% of the equity

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

The claim regarded the payment of a compensation for losses related among others to alleged unfair competition of PKN ORLEN included in Agrofert Holding a.s. claim and alleged illegal violation of reputation of Agrofert Holding a.s. in relation to purchase by PKN ORLEN of UNIPETROL a.s. shares

On 21 October 2010 the Court of Arbitration in Prague overruled the entire claim of Agrofert Holding a.s. against PKN ORLEN regarding the payment of PLN 2,945 million translated using exchange rate as at 31 December 2013 (representing CZK 19,464 million) with interest and obliged Agrofert Holding a.s. to cover the cost of proceedings born by PKN ORLEN. The Court of Arbitration ruling dated 21 October 2010 ended the last of four arbitration proceedings initiated by Agrofert Holding a.s.

On 3 October 2011 PKN ORLEN received from the common court in Prague (Czech Republic) claim which overruled the sentence of the Arbitration Court attached to the Economic Chamber of the Czech Republic and Agricultural Chamber of the Czech Republic in Prague issued on 21 October 2010. After the court proceedings the complaint was dismissed by the court in Prague with the ruling of 24 January 2014.

In the opinion of PKN ORLEN the decision included in the judgment of the Arbitration Court dated 21 October 2010 and in the judgment of the court in Prague dated 24 January 2014 are correct and will take all necessary means to remain the judgment in force.

Agrofert may appeal against court's decision within 15 days since the reception of the reasons. The reasons for court's decision have not been delivered to PKN ORLEN yet.

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

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

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

Court proceedings in which PKN ORLEN acts as a defendant:

The subject of the court proceedings concerns settlement of the contentious system fee for the period from 5 July 2001 to 30 June 2002. The obligation to settle power transfer fee results from the electricity sale agreement between ENERGA – OPERATOR S.A. and PKN ORLEN which was signed without determining contentious issues concerning system fee.

In 2003 ENERGA – OPERATOR S.A. called on PKN ORLEN to compromise agreement and then filed a law suit against PKN ORLEN. In 2004 the Court issued a decision obliging PKN ORLEN to pay a liability connected with the so-called system fee to ENERGA – OPERATOR S.A. of PLN 46 million. In its objection to the precept PKN ORLEN filed for entire dismissal of the suit.

On 25 June 2008 the District Court pronounced its verdict and dismissed the suit of ENERGA – OPERATOR S.A. entirely as well as sentenced the reimbursement of court proceeding costs in favor of PKN ORLEN. In September 2008 ENERGA – OPERATOR S.A. appealed against the above sentence. On 10 September 2009 after the examination of ENERGA – OPERATOR S.A. appeal, the Court of Appeals in Warsaw announced a change in the sentence of the District Court in Warsaw dated 25 June 2008. Payment of PLN 46 million increased by interest and refund of proceedings' costs was adjudged to the benefit of ENERGA – OPERATOR S.A.

On 30 September 2009 PKN ORLEN made the payment. On 4 February 2010 the Company submitted an annulment with was accepted for recognition by the Supreme Court.

On 28 January 2011 the Supreme Court after conducting annulment proceeding overruled the previous verdict and decided to revoke the claim to reexamination by the Court of Appeal. In March 2011 ENERGA – OPERATOR S.A. repaid part of the claimed amount of PLN 30 million. On 4 August 2011, the Court of Appeals in Warsaw revoked the first instance authority sentence and submitted the case to reexamination by the District Court in Warsaw. On 28 November 2011 Energa-Operator S.A. paid to PKN ORLEN the amount of PLN 46 million, as a partial return of the original amount paid by PKN ORLEN S.A. due to the sentence of Court of Appeals in Warsaw dated 10 September 2009.

During the retrial, court hearings were held on 30 April 2012 and 19 November 2012. In addition, opinion has been prepared by an expert witness for the damages calculation. On 2 July and on 21 November 2013 the hearing in front of the Regional Court in Warsaw were held where evidence was analyzed. The court set the date of next hearing on 31 March 2014.

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

In 2004 the District Court in Warsaw summoned PKN ORLEN as a co-defendant in a court case PSE – Operator S.A. (legal successor of PGE Polska Grupa Energetyczna S.A., former Polskie Sieci Elektroenergetyczne) against ENERGA – OPERATOR S.A. On 4 February 2014 on the

hearing in front of the Court of Appeals in Warsaw PSE Operator S.A. and Energa-Operator S.A. entered into an court settlement on the claims covered by the court proceeding which finished the court proceeding. Due to the settlement the Court of Appeals discharged the proceedings. The settlement does not result in liabilities directly for PKN ORLEN, as it acted only as an outside intervener.

2.6.2 Court proceedings in which the Company acts as plaintiff

– Arbitration proceedings against Yukos International UK B.V.

On 15 July 2009 PKN ORLEN submitted in the Court of Arbitration by the International Chamber of Commerce ("ICC") the request for arbitration proceedings against Yukos International UK B.V., seated in the Netherlands, in connection with purchase transaction of AB ORLEN Lietuva (previously AB Mazeikiu Nafta) shares.

Claims of PKN ORLEN concerned inconsistency of Yukos International's statements with the actual state of AB ORLEN Lietuva at the closing date of the purchase of AB ORLEN Lietuva shares by PKN ORLEN.

On 14 September 2009 Yukos International submitted a response to PKN ORLEN's request for arbitration proceedings. In its response Yukos International appealed to dismiss all PKN ORLEN's claims and adjudge it with proceeding costs refund. On the first seating of the Arbitration Court in London, PKN ORLEN and Yukos International agreed i.e. proceedings schedule and extent of competence of the Arbitration Court. On 3 May 2010, according to the schedule PKN ORLEN issued a law suit in which it demands from Yukos International a reimbursement of PLN 753 million at exchange rate as at 31 December 2013 (representing USD 250 million) with interest and costs of proceedings. The amount was deposited in the escrow account as a part of the payment for AB ORLEN Lietuva shares in order to secure the potential claims of PKN ORLEN towards Yukos International. On 31 December 2010 Yukos International submitted a response to the law suit, in which PKN ORLEN's claim was considered as unjustified and appealed for dismissal of all claims and for refund of proceeding costs. On 29 April 2013 PKN ORLEN received the decision of the Court of Arbitration by the International Chamber of Commerce ("ICC") dismissing the claims of PKN ORLEN and obliged PKN ORLEN to cover the costs incurred by Yukos International. On 28 May 2013 PKN ORLEN appealed to High Court of Justice, Queen's Bench Division, and Commercial Court in London to dismiss above-mentioned decision from 15 April 2013. On 18 July 2013 PKN ORLEN received the High Court of Justice, Queen's Bench Division, Commercial Court decision that overruled PKN ORLEN's claim. The case was closed.

– Arbitration proceedings against Basell Europe Holding B.V.

On 20 December 2012 PKN ORLEN sent an arbitration call to Basell Europe Holding B.V. regarding ad hoc proceeding relating to Joint Venture Agreement signed in 2002 between PKN ORLEN and Basell Europe Holding B.V. PKN ORLEN seeks compensation in its own favor or, depending on the court's decision, in favor of Basell Orlen Polyolefins Sp. z o.o. The compensation regards the price of goods manufactured by Basell Orlen Polyolefins sp. z o.o. which are acquired by Basell Sales & Marketing Company B.V. (entity related to Basell Europe Holdings B.V. in the meaning of abovementioned Joint Venture Agreement) with the purpose of re-sell within own network. The arbitration proceeding will take place in London Court of ad hoc Arbitration Tribunal. On 10 June 2013 the Court of Arbitration issued the Procedural Order in which he confirmed the constitution of the Court of Arbitration, and also established the first, incomplete schedule of arbitration proceedings. On 22 August 2013 PKN ORLEN filed a lawsuit against Basell Europe Holding B.V. On 1 November 2013 Basell Europe Holdings B.V. submitted a response to the claim, appealing to dismiss all PKN ORLEN's claims. On 27 February 2014 PKN ORLEN submitted its statement on this case (Statement of Reply), according to which claimed amounts were updated in the way that PKN ORLEN requests from Basell Europe Holdings B.V. to Basell Orlen Polyolefins Sp. z o.o. the amount of PLN 124 million translated using exchange rate as of 31 December 2013 (representing EUR 30 million) plus interest, or alternatively, from Basell Europe Holdings B.V. to PKN ORLEN the amount of PLN 57 million, provided that the amounts may be adjusted by arbitration proceedings. A hearing is scheduled on 2-6 June 2014

2.7 Significant transactions concluded on other than arms-length terms

There were no significant transactions in PKN ORLEN concluded with related parties on other than arm's length terms in 2013.

2.8 Employment, policy and personnel programs implemented within PKN ORLEN

As at the end of 2013 there were 4,409 persons employed in PKN ORLEN, and as compared to 2012 employment rate decreased by 36 persons.

TABLE 2 Employment structure in PKN ORLEN in professional groups divided by education, gender and type of work.

EMPLOYMENT STRUCTURE IN PROFESSIONAL GROUPS	2013	2012
- by education		
University	55.3%	53.2%
Secondary	37.8%	39.3%
Vocational	6.0%	6.5%
Primary	0.9%	1.0%
- by gender		
Women	19.1%	18.9%
Men	80.9%	81.1%
- by type of work		
Blue collars	44.3%	45.0%
White collars	55.7%	55.0%

In the employment structure of PKN ORLEN in 2013, just as in 2012, the majority were represented white collar workers. There were no changes in employment structure by education among total employed persons in 2013 in comparison to 2012 and the biggest group represented employees with university degree. In 2013 the main group represented men, totalling 80.9% of the total employed

Personnel policy („HR”)

At the end of 2012, the Policy for management of potential of employees was adopted. As a part of the Policy in PKN ORLEN were implemented: values system, recruitment, adaptation and training procedures, rules concerning foreign mobility, so called remuneration benchmark and assumptions to payroll system building. Consistent implementation of adopted Policy solutions in a number of companies will increase the level of HR standards, as well as allow for consistent management of the HR functions in PKN ORLEN.

Recruitment policy

In 2013, the recruitment policy of PKN ORLEN was continued and focused on acquiring high-class specialists whose knowledge and competences together with experience and professionalism of the current employees will ensure continuity and the highest level of business processes implemented by PKN ORLEN and enable the transformation of PKN ORLEN into an integrated fuel and power company. The main focus was to gain key competence in the upstream and power industry segments. In the power industry segment the main focus was to acquire technical experts for the new investment involving a gas and steam power unit in Włocławek. Given the technical innovation of the investment it was necessary to gain staff from abroad.

The actions were undertaken focused on the cooperation with the academic environment and on raising interest among students and graduates in their development in the above areas of PKN ORLEN's operations. The Company took part in the Job Fairs on technical universities and assisted students and graduates in gaining their first professional experience through providing internships and traineeships. Furthermore, the educational programmes were implemented in the form of workshops addressed to the students, with particular attention paid to the upstream area.

The so called Adaptation Programme was continued, thanks to which newly hired employees become familiar with the Company's activities and organisational culture. Apart from the inaugural meeting and participation in workshops together with experts and specialists, as part of performed activities newly hired employees participate also in e-learning training, outlining the history as well as organisational and employees-related issues. In 2013, of the Adaptation Programme was extended by interactive training programme outlining the values and rules of conduct as well as a meeting of newly hired employees with Ethics Officer.

Development and trainings

The development and training activities focused, as in the previous year, on strengthening the employees' abilities in the area of securing the achievement of business goals and shaping of the desired organisational culture. The key goal of training and development activities in the past year was development of managerial competences. In 2013 multi-module academy of leadership development in a form of workshops shaping managerial competences in team management area, creation of its potential, feedback and coaching in manager job was implemented as well as lectures on the Value ideas.

In 2013, the key development programmes were continued, including the project for talents and development workshops for the employees of production and logistic area (Champions League, Development Programme for operators). As part of all training and development activities, more than 9 thousand trainings were performed, including trainings dedicated to the ORLEN Group's entities.

Student and internship programs

PKN ORLEN takes care of the professional development of not only its employees but also young persons, graduates of higher education institutions and secondary schools, giving them the opportunity to obtain first professional experience thanks to participation in traineeship and internship programmes.

PKN ORLEN organises individual, group and diploma internships. Following the year 2002, PKN ORLEN, in cooperation with Job Centres all over the country, implements the Internship Programmes, as part of which students participate in several months' paid internships in various company areas. In 2013, PKN ORLEN once again founded three paid traineeships in the all-Poland competition "Win an internship" organized by PwC Polska. In 2013, more than 350 persons participated in total in traineeships and internships in PKN ORLEN.

Apart from traineeship or internship programmes, the following educational and informative activities were targeted at pupils and students in 2013:

- "Knowledge Day with ORLEN" – a series of meetings in higher education institutions aimed to provide information on activities and innovativeness of PKN ORLEN. During such meetings, experts from PKN ORLEN discussed issues relating to production of refining and petrochemical products and the students were given the possibility to confront their theoretic knowledge with the best market practices,
- open day in the Recruitment Team "Question about recruiting" aimed to create the culture of openness and access to information, support the local job market and support in respect of education, thanks to which pupils, students and graduates are given the opportunity to obtain wider information concerning the application methods,
- representation of PKN ORLEN on job fair: Engineering Job Fairs in Warsaw, Job Fairs in Plock, Academic Job Fairs in Lodz, Job Fairs of AGH University of Science and Technology, Job Fairs of Silesian University of Technology,
- participation in Case Week project – case study "Supply Chain Management of PKN ORLEN operating activities – challenges, optimisation, tools" organised by the representatives of the finance area for students of Warsaw University of Technology.

HR functions development

The function of HR Business Partner, which was implemented in prior years, simplifies to a great extent the introduction of HR solutions as well as other projects important for the companies. In 2013, HR Business Partners extensively supported the implementation of PKN ORLEN Values.

Social dialogue and benefits

PKN ORLEN cares for social dialogue based on the independence of parties, acting in compliance with law, as well as trust, mutual will to compromise and obeying the adopted rules. The rules of social dialogue applicable in PKN ORLEN are based on the internal regulations and on commonly applicable law, enabling to build constructive and firm solutions in cooperation with the employees' representatives.

PKN ORLEN provides its employees with social support in the form of various benefits and allowances, e.g. granting additional funds for holiday or stay in health resorts, rehabilitation, child care, leisure time for children and youths, layette school, recreation and sport activities, and offering cultural and educational activities, non-reimbursable allowances, returnable housing loans, and purchase of Christmas gifts for the employees' kids.

Medical care

The Company provides a widely understood preventive care, including preventive medical care falling beyond the scope of occupational medicine: consultations with specialist physicians, ambulatory treatment, diagnostic tests, rehabilitation, vaccination, preventive health care programmes offered in cooperation with ORLEN Medica in Plock and Military Institute of Medicine in Warsaw.

Family Friendly Employer

Being a company, which implements modern solutions aimed at keeping balance between professional activity and family life, in 2013 PKN ORLEN introduced project "Family Friendly Employer" offering such solutions as two additional days for taking care of a child up to 3 years old, an additional hour for breastfeeding a baby, providing women staying on their maternity and parental leaves with information on the firm's life, ensuring fast access to pediatrician – special telephone number with the option of telephone consultation, additional tests during pregnancy either physiological or pathological, rooms for breastfeeding mothers.

Awards and certificates

Personnel policy and practices were surveyed by independent organisations. Basic benefits, additional benefits, working conditions, trainings and development, professional career development and the company's organisational culture management were analysed. The assessments resulted in awarding in 2013 the following distinctions:

- "Top Employers 2013" certificate – awarded through multistage certification process by the independent external organization, Corporate Research Foundation (CRF);

- Universum TOP 10 Ideal Employer 2013 Student Survey certificate – awarded based on the results of survey conducted on more than 25 thousand persons;
- I place in the category of: Power Industry, Gas, Fuels, Chemistry in survey “The most desired employers of 2013 in the opinion of experts and managers” by Antal International under patronage of Business Centre Club;
- the title of the “Employer for Engineer 2013” – students of technical universities assessed PKN ORLEN as the best Employer for an Engineer;
- a place in ten companies, distinguished with the Company for an Engineer title – yearly ranking, which presents the list of most valued by the technical personnel companies.

2.9 Remunerations of management and supervisory bodies

TABLE 3: Remuneration paid to the Company's Management Board Members fulfilling their function in 2013 and in previous years (in PLN thousand).

ITEM	2013	2012
Remuneration of Members of the Company's Management Board, including:		
- remuneration and other benefits	6 388	6 454
Dariusz Krawiec	1 524	1 666
Sławomir Jędrzejczyk	1 405	1 404
Piotr Chelmiński ¹⁾	1 250	951
Krystian Pater	1 105	1 104
Grażyna Piotrowska-Oliwa ²⁾	-	240
Marek Podstawa ³⁾	1 104	871
Piotr Wielowieyski ⁴⁾	-	218
- bonuses for prior year	5 499	4 186
Dariusz Krawiec	1 440	1 440
Sławomir Jędrzejczyk	1 320	1 320
Piotr Chelmiński	918	-
Krystian Pater	1 020	910
Marek Podstawa	801	-
Grażyna Piotrowska-Oliwa	-	516
Remuneration of Members of the Company's Management Board holding functions in prior years, including:	219	862
Wojciech Kotlarek	-	292
Grażyna Piotrowska-Oliwa	219	-
Marek Serafin ⁵⁾	-	570
Total:	12 106	11 502

1) for the period from 10 March 2012

2) for the period of performing the function from 30 June 2011 until 18 March 2012

3) for the period from 19 March 2012

4) delegated for temporary performance of the activity of a Management Board Member from 9 December 2011 until 9 December 2012

5) remuneration paid due to non-competition clause

As at 31 December 2013 and as at the 31 December 2012 the remuneration due to severance pay of the former Management Board Member Mr Marek Serafin of PLN 570 thousand remains unpaid.

TABLE 4. Bonuses potentially due to the Company's Management Board Members for a given year to be paid in the next year (in PLN thousand).

ITEM	2013	2012
Dariusz Krawiec	1 240	1 440
Sławomir Jędrzejczyk	1 137	1 320
Piotr Chelmiński	889	918
Krzysztof Pater	796	1 020
Marek Podstawa	887	801
Grażyna Piotrowska-Oliwa	-	219
Total:	4 949	5 718

The amount of bonuses was estimated on a basis of forecasted accomplishment of the goals by the Management Board Members for 2013.

TABLE 5. Remuneration of the key executive personnel of PKN ORLEN (in PLN thousand).

ITEM	2013	2012
Remuneration and other benefits of members of key executive personnel	33 720	31 023

Increase in remuneration and other benefits of members of the key executive personnel in the Company results mainly from creation of new areas related to: production processes (Chief Engineer), sales (Effectiveness and Sales Development in the ORLEN Group Office; Trade of Gas Office) and internal communication (Corporate Communication Office).

In 2013 key executive personnel bonuses system was updated in order to relate it with new PKN ORLEN Values 'system as well as ensure higher flexibility and incentive character of bonuses. The regulations applicable to PKN ORLEN Management Board and directors reporting directly to the Management Board of PKN ORLEN and other key positions have certain common features. The persons subject to the above mentioned systems are remunerated for the accomplishment of individual goals set at the beginning of the bonus period by the Supervisory Board for the Management Board Members and, by the Management Boards for the key executive personnel members. Bonuses systems are consistent with the Company's Values, promote the cooperation between individual employees in view to achieve the best possible results for the ORLEN Group.

The goals so-said are qualitative or quantitative and are accounted for following the end of the year for which they were set, on the rules adopted in the applicable Bonus System Regulations. Moreover, bonus regulation gives the possibility to distinguish employees, who significantly contribute to generated results.

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

Members of PKN ORLEN Management Board who in 2013 and 2012 held functions on Management and Supervisory Boards of the subsidiaries, companies under joint control and associated companies belonging to the ORLEN Group did not collect any remuneration in this respect, except for Unipetrol a.s., where the remuneration due for holding the function were transferred to the ORLEN's Foundation Dar Serca (Gift of the Heart). As at 31 December 2013 four PKN ORLEN Management Board Members sat on the Supervisory Board of Unipetrol a.s.

TABLE 6. Remuneration of the Members of the Supervisory Board of PKN ORLEN (in PLN thousand).

ITEM	2013	2012
Remuneration of the Company's Board Supervisory members, including:		
Angelina Sarota ¹⁾	180	149
Cezary Banasiński ²⁾	153	145
Paweł Białek ³⁾	76	88
Grzegorz Borowiec	153	149
Artur Gabor	154	150
Michał Gołębiowski ⁴⁾	158	145
Marek Karabula ⁵⁾	-	36

Krzysztof Kolach ⁶⁾	-	4
Maciej Mataczyński ⁷⁾	97	191
Cezary Możejko ⁸⁾	78	-
Leszek Pawłowicz	156	153
Piotr Wielowieyski ⁹⁾	-	8
Janusz Zieliński ¹⁰⁾	-	4
Total:	1 205	1 222

1) from 27 June 2013 – Chairman of the Supervisory Board

2) for the period of performing function from 12 January 2012

3) for the period of performing function from 30 May 2012 until 26 June 2013

4) for the period of performing function from 12 January 2012

5) for the period of performing function until 28 March 2012

6) for the period of performing function until 12 January 2012

7) for the period of performing function until 26 June 2013

8) for the period of performing function from 27 June 2013

9) for the period of performing the function from 1 January 2011 until 8 December 2011 and for the period from 10 March 2012 until 28 March 2012, from 9 December 2011 until 9 March 2012 delegated for temporary performance of the activities of a Management Board Member

10) for the period of performing function from 11 January 2012

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

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

The description of the remuneration policy of PKN ORLEN Management Board and principles of its determination are presented in details in [point 7.9](#) of the foregoing Report.

3. PKN ORLEN ACTIVITIES

3.1 Activities in the refining segment

3.1.1 Market trends, position and competitors

The economic slowdown in the European Union member states, the oversupply of the refining capacities, the controversial climate policy, and the increasing competition from producers of fuels from Russia and the Middle East, as well as the shale gas revolution in the USA have been putting pressure on the European refining sector for several years.

According to the data provided by IHS Cera, the demand for fuels in Europe had been continuously decreasing since 2008, in 2013, it was lower by approximately (-) 10% as compared to 5 years earlier and by (-) 1.3% as compared to in 2012. The use of the production capacity ratio, which amounted to approximately 75% in Europe in 2013 and was lower by (-) 6 p.p. than in 2012, decreased further. The implementation of new investment projects in the Middle East poses a serious threat to European producers of fuels. It is more and more visible, especially in Russia that producers of fuels have been pursuing a policy aimed at increase of production of more processed products instead of selling raw materials. Production sites, which previously failed to comply with the fuel quality criteria imposed by the European Union, are gradually modernised. Additionally, as a result of increased production of hydrocarbons from unconventional deposits in the USA, Europe is losing the option to export the oversupply of gasoline to the American market.

What also present a challenge for the refining industry in Europe are the EU requirements regarding the production of biofuels and the reduction of carbon dioxide emissions. Adapting production processes to the Community law with respect to the share of biocomponents and other renewable fuels in the total amount of fuels consumed in transport, high penalties for the failure to achieve the required levels, or cancelling tax reliefs related to the consumption of biocomponents and biofuels during production of fuels, exert a significant impact on the costs of European fuel concerns. Additionally, strict laws on environmental protection and greenhouse gas emissions contribute to the weakened competitiveness of European refineries in comparison to enterprises from China, India or the USA.

Polish fuel companies, after the modernisations carried out over the past years, have relatively modern technological installations. The production capacities of Polish refineries with respect to gasoline fully satisfy the domestic demand and a portion of the production is additionally exported. In the case of diesel oil, periodic supply shortages are compensated by import.

Taking into account above challenges, the development pillars of the refining segment in the strategy for the period 2013-2017 include a further improvement of efficiency through optimisation of crude oil processing and fuel yields, reducing the energy consumption of processes and enhancement of the asset value through optimum investment expenditures and implementation of high-profitability projects, and the simultaneous observance of high environmental protection standards.

PKN ORLEN owns the largest refining and petrochemical complex in the ORLEN Group, processing capacity of which amounted to over 15 million tonnes of crude oil in 2013, is located in Plock. It is one of the most modern integrated production sites in Central-Eastern Europe with the total processing capacity of conversion units at the level of 16.3 million tonnes per year. According to the ranking list prepared by Wood Mackenzie, the complex was classified as the so-called Super-Site that is a strategic refinery, characterised by a significant processing depth of crude oil, integrated with petrochemical activity and generating high margins. Crude oil is supplied mainly via the Druzhba Pipeline and by sea with the use of the Pomorski Pipeline

The major PKN ORLEN's competitors in the region are:

- Grupa Lotos, with its registered office in Gdańsk, is the second largest refinery in Poland. The refinery's processing capacity amounts to 10.5 million tonnes per year.
- Mitteldeutschland refinery in Leuna/Spargau owned by the Total Group, located in south-eastern Germany approximately 150 km from the Polish-German border, is the most modern German refinery. The refinery's processing capacity amounts to 12 million tonnes per year.
- PCK refinery in Schwedt, located north-east of Berlin, approximately 20 km from the Polish-German border. The refinery is owned by international fuel concerns: Shell, BP, Eni, Total and Rosneft. The refinery's processing capacity amounts to approximately 12 million tonnes per year.
- Slovnaft refinery is an integrated refining, distribution and petrochemical group with the dominant position in the Slovak Republic, located near Bratislava, approximately 350 km to the south from the Polish border. The processing capacity amounts to approximately 6.0 million tonnes per year.
- Mozyr refinery is one of two refineries located in Belarus with the processing capacity amounting to approximately 12 million tonnes per year.

The efficient logistics infrastructure is the crucial component of PKN ORLEN's competitive advantage on the fuel market and ensures the energy safety of the state.

PKN ORLEN uses a network of complementary infrastructure components: fuel terminals, land and sea loading centres, a network of product pipelines, as well as road and railway transport.

In 2013 PKN ORLEN transported 55% of fuels by pipelines, 23% using rail transport and 22% by tank trucks.

In 2013 the pipeline transport was the basic form of raw material and product transmission for PKN ORLEN. The overall length of pipelines used, including own and leased ones, in Poland, Czech Republic and Lithuania amounted to more than 2.1 thousand km. On the Polish market PKN ORLEN use 570 km of pipelines owned by Przedsiębiorstwo Eksploatacji Rurociągów Naftowych "Przyjaźń" and its own transportation infrastructure Płock, Ostrów Wielkopolski – Wrocław with a length of 379 km. For operational purposes of receipt, storage, dispatch and loading of fuels in 2013 PKN ORLEN used in aggregate 25 objects in Poland (own fuel terminals and third parties centres). Total storage capacity within own infrastructure and based on concluded agreements amounted to approximately 7 million m3 at the end of 2013.

SCHEME 2. Logistics infrastructure of PKN ORLEN in Poland.



3.1.2 Research and technological development

In 2013, PKN ORLEN completed a range of research and development projects in connection with new products, technologies and development, as well as pursuant to the applicable laws regarding environmental protection as well as production and sales of chemicals. The works were performed both on its own and in cooperation with research institutions and centres, higher education institutions, and entities pursuing research and development activities.

The major works performed on commission of PKN ORLEN included the development of a recipe for fuel composition for the Heat and Power Plant in Płock and for heavy heating fuel with the use of low-grade fractions of asphaltene and aromatic solvents. As part of those activities, analyses of synergy between the Visbreaking technology, which is used in Litvinov and Mazeiku refineries, and the Hydrocracking (H-Oil) technology, which is used in the Płock Plant, were carried out in cooperation with Výzkumný ústav anorganické chemie a.s. (VUANCh). Additionally, the conformity assessment of electric power determination in combination with heat energy in the Heat and Power Plant in Płock for 2012 in light of Directive 2004/8/EC was performed, and the reports on CO₂ emissions in selected refinery systems were reviewed.

PKN ORLEN satisfies the requirements of **REACH** (Registration, Evaluation and Authorisation of Chemicals) resolution (resolution (UE) 1907/2006 of European Parliament and European Union Council) which main objective is to ensure a high level of human health and environment protection with simultaneous support of competitiveness, innovativeness, and propagation of development of alternative methods of evaluation of threats caused by substances. A part of execution of the resolution's tasks, producers and importers of substances are obliged to its registration in European Chemicals Agency (ECHA).

As at 31 December 2013 the ECHA data base contained 237 registration documentations submitted by the ORLEN Group.

3.1.3 Basic products and merchandise

The basic macroeconomic ratios and the situation on the fuel market deteriorated in 2013 in comparison to the previous year. The estimates of GUS (Central Statistical Office) indicate a decrease in GDP dynamics from 1.9% in 2012 to 1.6% in 2013 and indicate that unemployment rate remained at the stable 2012 level of 13.4%. According to SAMAR, passenger car and cargo van manufacturing dropped by (-) 10% (y/y) in Poland in 2013. According to GUS data, the demand for transport services also decreased, primarily as a result of an unfavourable situation in the construction industry.

According to Agencja Rynku Energii S.A. (Energy Market Agency), the deterioration of the Polish economy's condition contributed to preservation of the declining trends in gasoline consumption – by (-) 3.6% (y/y) and diesel oil consumption – by (-) 2.9% (y/y). The gasoline consumption reduction was an effect of the declining trend, which had been maintaining for several years as well as fast-growing LPG market. The diesel oil consumption decrease was additionally exacerbated by the so-called “shadow economy”, which, according to the data provided by the Polish Organisation of Oil Industry and Trade (POPiHN), amounted to approximately 10-12% of the domestic consumption of that fuel.

Despite unfavourable market signals, PKN ORLEN's wholesale on the Polish market increased by 3.7% (y/y) and amounted to 9,103 thousand tonnes in 2013.

The growth in the sales of light distillates by 10.1% (y/y) was an effect of higher gasoline sales dynamics which resulted from new contracts concluded by PKN ORLEN with operators running fuel stations chains on the Polish market.

The sales of medium distillates, higher by 6.6% (y/y), arose mainly from higher sales of diesel oil with lower sales of light heating oil and Jet A-1 aviation fuel. High volume of diesel oil sales, despite lower consumption and the impact of the so-called “shadow economy”, resulted mainly from the price policy that is adapted to the current market trends.

The growth in the sales of heavy fractions by 9.6% (y/y) included primarily volume of heavy heating oil and resulted mainly from increased activity in maritime markets.

The difficult situation of the refining industry across Europe required taking a range of measures to enhance the position of PKN ORLEN on the domestic market. The centralisation process of sales and wholesale customer service was successfully completed in ORLEN Paliwa Sp. z o.o. Those actions aimed at increasing the efficiency of wholesale operations, ordering and enhancing particular sales channels and further improving the customer service quality.

The increased capital involvement in Petrolot Sp. z o.o. created new opportunities for the sales of aviation fuels and airport services on all domestic markets. Since 2014, the sales of aviation fuel for aircraft were transferred from Petrolot Sp. z o.o. to PKN ORLEN's wholesale area. This will enable the strengthen of PKN ORLEN's position as the leader on the Polish aviation fuel market and the expansion of the sales offer on foreign markets.

In 2013, PKN ORLEN commenced regular maritime sales of heavy fuel oil with its own management of carriage. The continued development of a specialised maritime trade unit leads to a continuous enhancement of competences with this respect, enable the systematic improvement of sales performance, and builds PKN ORLEN's image as a trading entity with an increasingly stronger position on the European market.

TABLE 7 Assortment sales of PKN ORLEN in the refining segment (in PLN millions / thousands of tonnes)

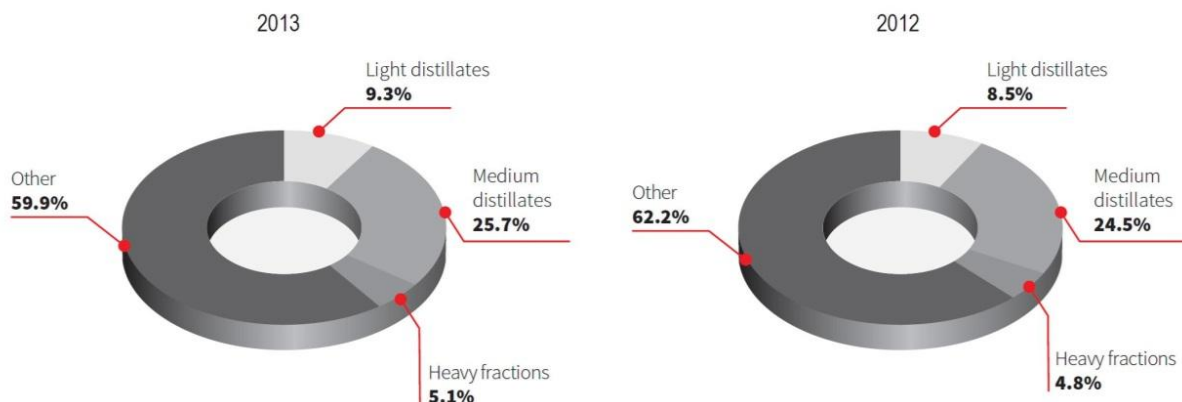
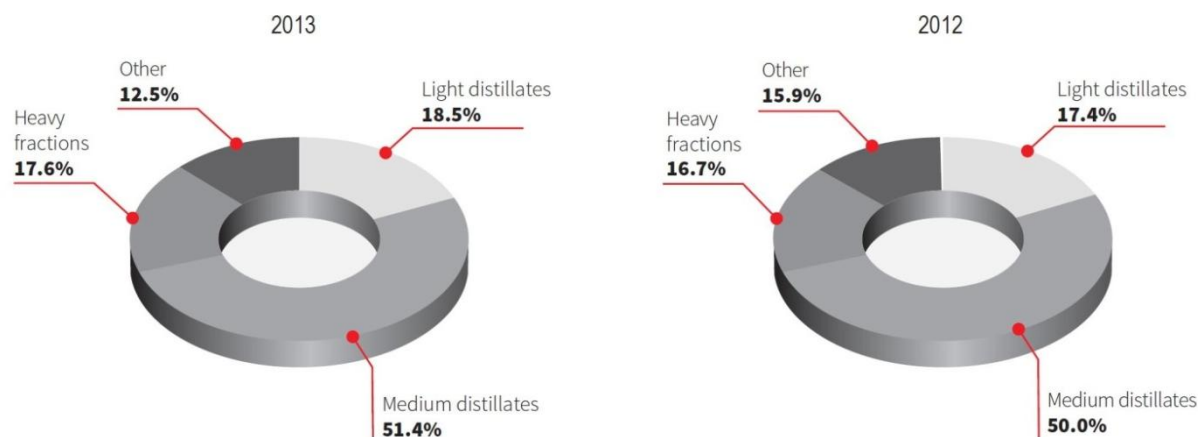
SALES	2013		2012		CHANGE %	
	VALUE	VOLUME	VALUE	VOLUME		
1	2	3	4	5	6=(2-4)/4	7=(3-5)/5
Refining Segment						
Light distillates ¹⁾	5 375	1 685	5 220	1 530	3.0%	10.1%
Medium distillates ²⁾	14 898	4 677	15 062	4 388	(1.1%)	6.6%
Heavy fractions ³⁾	2 927	1 605	2 933	1 464	(0.2%)	9.6%
Other ⁴⁾	34 645	1 136	38 164	1 394	(9.2%)	(18.5%)
Total	57 845	9 103	61 379	8 776	(5.8%)	3.7%

1) Gasoline, LPG

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

3) Heavy heating oil

4) Other value – includes revenues from sales of crude oil to the ORLEN Group of PLN 32,080 million in 2013 and PLN 34,700 million in 2012 as well as revenues from sales of mandatory reserves for total amount of PLN 1,045 million in 2013 and PLN 2,434 million in 2012. Other volume- contains mainly vacuum distillates and residue, raffinate

DIAGRAM 1. Assortment structure of sales revenues of PKN ORLEN in the refining segment.

DIAGRAM 2 Assortment structure of sales volume of PKN ORLEN in the refining segment.


3.1.4 Sources of supply

In 2013 three long-term contracts to supply crude oil to the Plock refinery (executed with Mercuria Energy Trading S.A., Rosneft Oil Company and Souz Petroleum S.A.) were in force. Each contract provides the possibility to re-negotiate prices annually, in case of no agreement on this matter, the contract may be terminated. The contracts are fixed-term what ensures safety and continuity of raw material supply to the refinery plant and contain supply guarantee clauses based on financial guarantees. Existing long-term contracts provide almost 80% of PKN ORLEN's crude oil supplies.

Under the contracts signed in 2013, raw material was mainly supplied to the refinery in Plock by companies operating on the Russian crude oil market and traders operating on the international crude oil market. Consequently, the REBCO crude oil, which PKN ORLEN acquired in 2013, was supplied to Plock mostly from Russia and to a small extent from Norway and the Great Britain.

The above crude oil supply destinations did not materially change as compared to 2012.

In 2013, the share of Mercuria Energy Trading S.A. and Rosneft Oil Company in crude oil supplies exceeded 10% of PKN ORLEN sales revenues for each company individually and amounted to 29.5% of the total sales revenues

3.2 Activities in the retail segment

3.2.1 Market trends, position and market environment

In 2013, no significant changes to the structure of the retail fuels market were noted. Previous leaders of individual markets maintained their positions. At the same time, it was another year in which the fuel companies were struggling with a disadvantageous trend in fuel consumption on almost all markets. The so called "shadow economy" issue whose negative impact was reflected in the results in Poland and in the Czech Republic remained unsolved.

Pressure on optimisation of operations remained visible, covering apart from the cost side also the income side related to non-fuel sales and service sales – mainly food. The trend concerned all segments of the stations. The premium stations chains continued development activities and economical ones were introducing or expanding their food offer.

No major changes to the number of stations took place on the markets of PKN ORLEN's operation. New locations compensated for a decrease in the number of stations related to closing of stations which were unprofitable or incompliant with technical requirements. The number of independent stations which commence cooperation with large international chains is decreasing. In Central and Eastern Europe, a stable increase of share of fuel sales at hypermarkets is also noted (approximately 530 stations on the markets operated by the ORLEN Group), putting additional pressure on activities of traditional operators. In Poland, the year 2013 was the last year when the stations were adapted to the new environmental standards entering into force at the beginning of 2014. It is estimated that as a result of the imposed regulations approximately 10% of stations operating in 2013 should be excluded from operations. It refers mainly to "no-brand" players as most of the big fuel station chains have adapted their facilities to the new environmental requirements over the last years.

In 2013, the retail chain was expanded by 11 facilities and comprised of 1,778 fuel stations as at the end of 2013. The executed investment programme, focused on opening of new fuel stations as well as modernisation of the existing ones, the further development of catering and corporate loyalty programmes contributed to strengthen the leader position and increase in the share¹ in the Polish market of the fuels retail sale by 0.7 pp to the level of 35.4%.

PKN ORLEN in 2013 continued the development of the franchise network, by increasing the number of the stations in the DOFO canal by 11 (y/y) to 440. The share of this canal in the entire chain amounted to about 25%. During the year, 16 new CODO fuel stations were launched (including 4 service areas). Simultaneously, after performing detailed business analyses, 16 objects were removed from the chain. Further 36 CODO fuel station were built from scratch in previous locations.

Most of the stations (1,263) are Premium stations operating under the ORLEN brand. The next 358 facilities are economical stations operating under the BLISKA brand. In 2013, the decision was made to focus on the Premium segment and to commence the rebranding process of BLISKA stations to become ORLEN brand. The main aim of this initiative is to ensure the Clients a broader access to the Premium fuels, the non-fuel products and enable them to join the Vitay loyalty programme. As a part of the above activities, branding of 113 BLISKA stations in CODO and DOFO channels was changed to Premium in 2013. Remaining 157 stations, operating in the so called simplified format, will be incorporated into one of the above groups or removed from the chain in course of the future development and investment operations.

3.2.2 Core products, merchandise and services

The sales volume of the retail segment in 2013, despite disadvantageous market trends, related to lower sales consumption, the activity of "shadow economy" and competitors activities, was realised on the similar level to the one from the previous year and amounted to 4,499 thousand tonnes.

Increase of the efficiency of the stations was also noted – the average annual sale on PKN ORLEN's stations reached the level of 3.5 million litres and was by 1% higher than in 2012. Extending the use of fleet cards on highway payments, allowing the fleet clients to join the VITAY loyalty programme and the success of the BiznesTank programme had a significant impact on reaching new groups of business clients and an increase of the fleet volume by over 4 p.p. (y/y) to over 30%. By the end of 2013 the MikroFlota programme was also activated which enable enter by the market of micro-companies in Poland which so far has not been covered by fuel cards.

The sale revenues on non-fuel products and services remained at similar level as in the previous year. Despite increasing competition of discount stores, the average level of non-fuel sales per one effective own station of PKN ORLEN increased by over 3% (y/y). Actions aiming to increase competitiveness, through development of new formats within store and food products were also taken and the first effects of these actions should be visible as early as in 2014.

The year 2013 brought further development of food services within PKN ORLEN's chain. Due to continuous increase and adaptation of the offer to the changing demands of the clients, sales revenues increase of over 5% (y/y) was noted in this segment. The number of Stop Cafe and Stop Cafe Bistro was also increased by 234 (y/y), to reach 1,047 by the end of 2013.

The prizes and awards received in 2013 were the proof and confirmation of the high standard of services on PKN ORLEN fuel stations as well as of recognition of the chain by its clients. The indicator of success of the implemented food concept was the Fuel Station in Gnilec winning the prize in the category of "Food at the Gasoline Station" in the competition "**Gasoline Station of 2013**" held annually by Brog Marketing. PKN ORLEN was again awarded with the "**Service Quality Star 2013**" in the category of fuel stations as part of the Polish Service Quality Programme and the "**Trustworthy Brand**" title of the Reader's Digest monthly.

¹ Retail sales volume of gasoline and diesel oil in relation to retail consumption of gasoline and diesel oil.

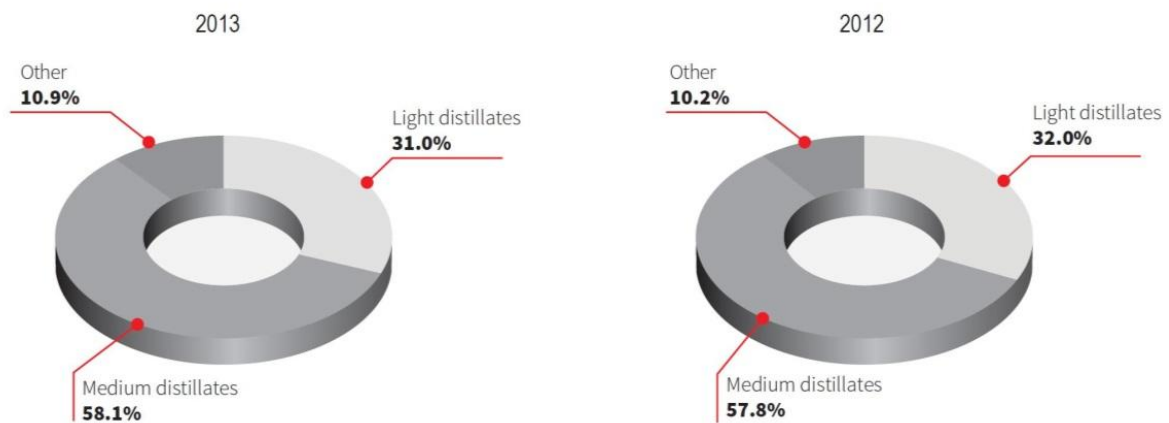
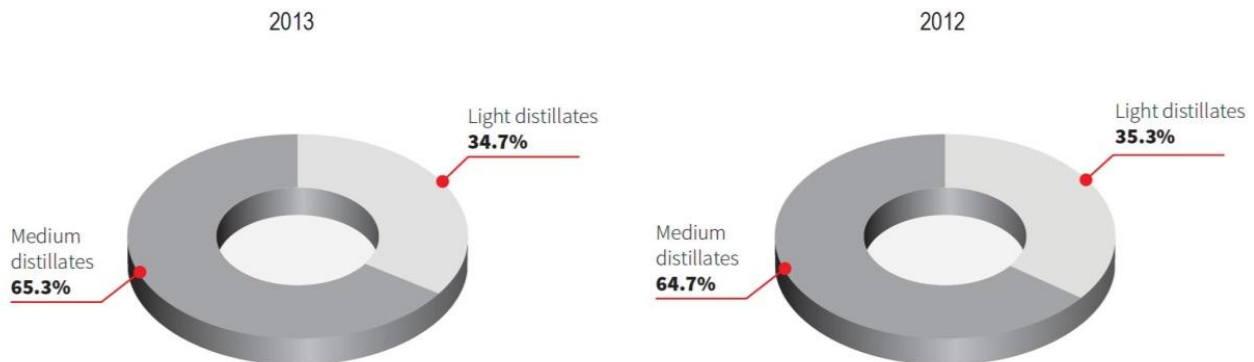
TABLE 8. Assortment sales of PKN ORLEN in the retail segment (in PLN millions / thousands of tonnes).

SALES	2013		2012		CHANGE %	
	VALUE	VOLUME	VALUE	VOLUME		
1	2	3	4	5	6=(2-4)/4	7=(3-5)/5
Retail Segment						
Light distillates ¹⁾	5 780	1 563	6 322	1 593	(8.6%)	(1.9%)
Medium distillates ²⁾	10 815	2 936	11 406	2 923	(5.2%)	0.4%
Other ³⁾	2 036	0	2 020	0	0.8%	-
Total	18 631	4 499	19 748	4 516	(5.7%)	(0.4%)

1) Gasoline, LPG

2) Diesel oil

3) Other value – includes sales revenues of non-fuel merchandises and services.

DIAGRAM 3. Assortment structure of sales revenues of PKN ORLEN in the retail segment.

DIAGRAM 4. Assortment structure of sales volume of PKN ORLEN in the retail segment.


3.2.3 Sources of supply

The majority of motor fuels sold by PKN ORLEN are produced in the refining segment. PKN ORLEN also purchases, for reselling purposes, primarily imported ready-made fuels from other domestic sellers and foreign companies.

3.3 Activities in the petrochemical segment

3.3.1 Market trends, position and competitors

Changes to the market of petrochemical products are of global nature. New production capacities are located in regions which have advantageous cost due to cheaper raw materials (United States, Middle East) and are close to the target markets (China and South-East Asia). Development of gas production in the United States changed the image of the world petrochemical industry. Production installations in the United States and Middle East which base on ethane produced from natural gas are more competitive due to availability of cheap raw material, low energy consumption, high ethylene yield factor and due to limitation of low profit products. The start-up of new production units (based on light production input) and reconfiguration of the existing installations operating on oil production input to ethane production input will lead to a decrease of production of associated products, such as propylene, butadiene and aromas, resulting in the forced decisions to invest in alternative production methods for these products.

In view of development of new production technologies, some European manufacturers declared in 2013 their readiness to modernise their installations in order to diversify the production input and some of them announced their intentions to close down economically inefficient ones or to limit their operations.

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

Full integration of the refining and petrochemical installations in PKN ORLEN as well as the pipeline infrastructure connecting PKN ORLEN and the ANWIL Group and BOP are the significant element of the competitive advantage in this segment.

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

3.3.2 Technological research and development

The most important reports on the development and research activities of PKN ORLEN covered analyses of potential for modernisation of polypropylene columns and the oil column in order to increase the utilisation of Olefin II installation as well as assessment of the potential PTA sewage treat installation for repeated use. As part of execution of the guidelines of the Act of 28 April 2011 on the greenhouse gas emission rights trading system, PKN ORLEN carried out verification of the annual reports on CO₂ emission for Olefin II installation. These reports will form the basis for amortisation of rights granted in the National Allocation Plan of CO₂ emissions for particular production installations.

3.3.3 Core products, goods and services

The sales volume in the petrochemical segment of PKN ORLEN increased in 2013 by 10.2% (y/y). The increase was achieved by a higher sale of PTA in effect of higher availability of manufacturing installations and intensification of PTA sales on the non-pet market (polyester fibres and foils, powder coatings and resins, plasticisers).

Higher (y/y) sales of monomers were caused by lack of influence of the periodical overhaul turnaround of petrochemical installations in the III quarter of 2012.

The increased sales of aromas were mainly the result of higher export sales to clients in Germany and the Czech Republic.

Increased sales of the other products were mainly the effect of increased sales of glycol as a result of improving market situation.

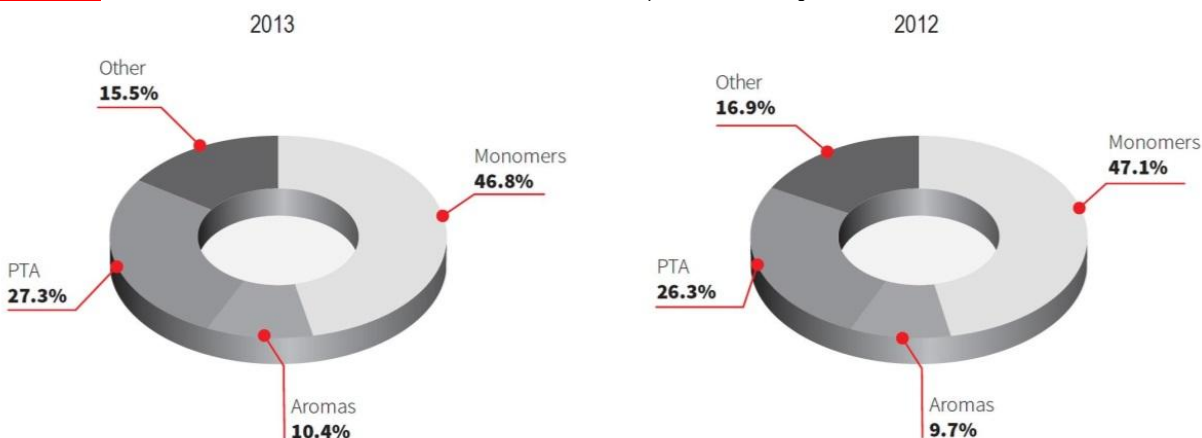
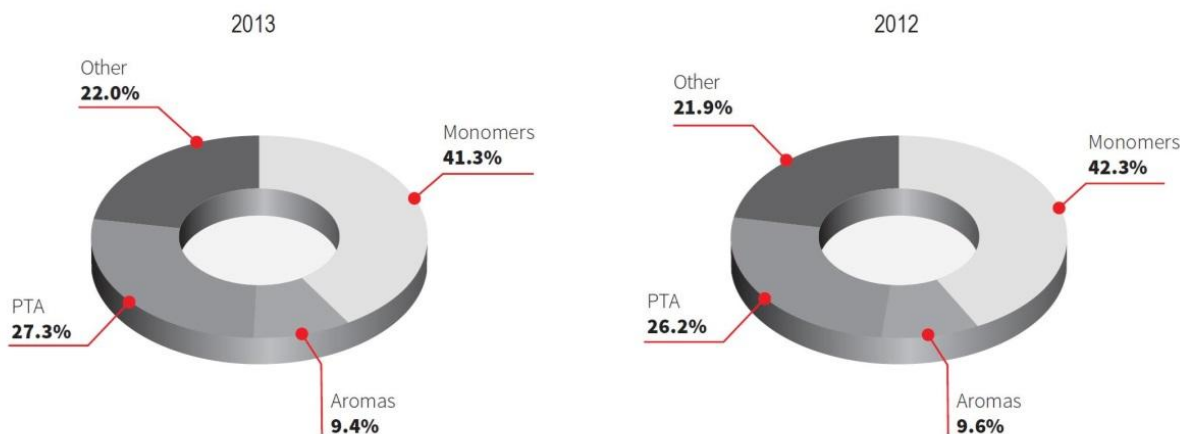
TABLE 9: Assortment sales of PKN ORLEN in the petrochemical segment (in PLN millions / thousands of tonnes).

SALES	2013		2012		CHANGE %	
	VALUE	VOLUME	VALUE	VOLUME		
1	2	3	4	5	6=(2-4)/4	7=(3-5)/5
Petrochemical Segment						
Monomers ¹⁾	3 510	840	3 363	781	4.4%	7.6%
Aromas ²⁾	776	192	694	177	11.8%	8.5%
PTA	2 048	556	1 875	484	9.2%	14.9%
Other ³⁾	1 161	448	1 208	405	(3.9%)	10.6%
Total	7 495	2 036	7 140	1 847	5.0%	10.2%

1) Ethylene, propylene

2) Benzene, toluene, paraxylene

3) Acetone, butadiene, phenol, glycols, ethylene oxide, other

DIAGRAM 5. Assortment structure of sales revenues of PKN ORLEN in the petrochemical segment.

DIAGRAM 6. Assortment structure of sales volume of PKN ORLEN in the petrochemical segment.


3.3.4 Sources of supply

Strong integration of the refining and petrochemical segments in PKN ORLEN provides a competitive advantage in respect of raw materials supply. The gasoline for pyrolysis, transferred from the refining segment, constitutes the main production input for the petrochemical segment for olefins installations. Paraxylene, produced on petrochemical installations in PKN ORLEN constitutes the basic input for terephthalic acid production.

3.4 Activities in the upstream segment

3.4.1 Market trends, position and competitors

According to the International Energy Agency, natural gas is the raw material whose significance in the world consumption of fuels will be systematically increasing. In the period between 1970 and 2012, the global consumption of natural gas increased over three times to 3.3 trillion m³. The role of the blue fuel for economic development may be certified by the effects of the shale gas boom in the United States. Production of natural gas from non conventional deposits (shale gas, tight gas, coalbed methane) may constitute even up to 71% of the total natural gas production in the USA in 2035.

Natural gas, beside crude oil, is the main fuel used by the European Union countries. According to forecasts of the International Energy Agency, the share of natural gas in the structure of primary power consumption will increase from 21% in 2011 to approximately 25% in 2035 and the annual natural gas consumption in Europe in years 2011-2035 will increase by 80 billion m³ to 605 billion m³ in 2035.

Basing on the estimates of the International Energy Agency, Poland may be within the top 20 countries with the highest potential of shale gas deposits, of approximately 4.2 trillion m³ of gas. According to the report of the National Geological Institute of 21 March 2012, the explorable deposits of shale natural gas are estimated to be 346 billion to 768 billion m³ and shale oil – 215 million to 268 million tonnes.

The Polish “shale strip” is located on the coast, between Słupsk and Gdańsk, in the direction of Warsaw, as far as Lublin and Zamość at the Polish-Ukrainian border. The potential “shale gas” deposits may be located on the depth of 1200-2500 m in the northern part of this strip and 2500-4500 m in its southern part. Exploration of unconventional gas deposits is possible by means of vertical drillings, and then by means of multiple hydraulic fractured horizontal drillings, as well as of a construction of surface infrastructure to be used for preparation of gas for transportation purposes.

The potential deposits of hydrocarbons in Poland as well as the status of exploring and continuous development of new extracting technologies resulted in the need for revision of the “Geology and Mining Law Act” as well as adoption of a new “Act on the special hydrocarbon tax” and amendment of the “Act on tax on extraction of some minerals” and other related acts.

Draft of “Geology and Mining Law Act” provides for a simplification of the process of license assignment – there will be only one license for exploration and prospecting of hydrocarbons as well as extraction from the deposit.

The new hydrocarbon tax system will be based on 3 fiscal instruments:

- special hydrocarbon tax of progressive rate between 0 to 25% of the profit from the upstream operations;
- tax on extraction of some minerals, calculated on the value of extracted natural gas,
- corporate income tax as per current applicable rates.

Projects of above acts were adopted by the Council of Ministers in March 2014 and will come into force after their publication in the Official Journal.

According to the data as at the end of 2013, the Minister of the Environment upheld 218 concessions for exploration and/or prospecting of natural gas and crude oil deposits in Poland, including:

- 83 for exploration/prospecting of gas/oil in the conventional/unconventional deposits, tight gas/oil and shale gas/oil types,
- 13 exclusively for exploration and prospecting of gas/oil in unconventional deposits,
- 122 relating to exploration and prospecting of conventional oil and gas deposits and methane from coal deposits.

According to The Ministry of the Environment, until 3 March of 2014 the companies exploring and prospecting of natural gas and crude oil deposits in Poland, performed 57 exploration drillings for shale gas, including: ORLEN Upstream (9 drillings, including 2 horizontal), Lane Energy (6 drillings, including 2 horizontal), PGNiG (12 drillings, including 2 horizontal), Marathon Oil (6 drillings), BNK Petroleum (5 drillings), San Leon Energy (5 drillings), Talisman Energy (3 drillings), Chevron Corp. (4 drillings), ENI (3 drillings), ExxonMobil (2 drillings) and Wisent Oil & Gas / Petrolinvest (2 drillings).

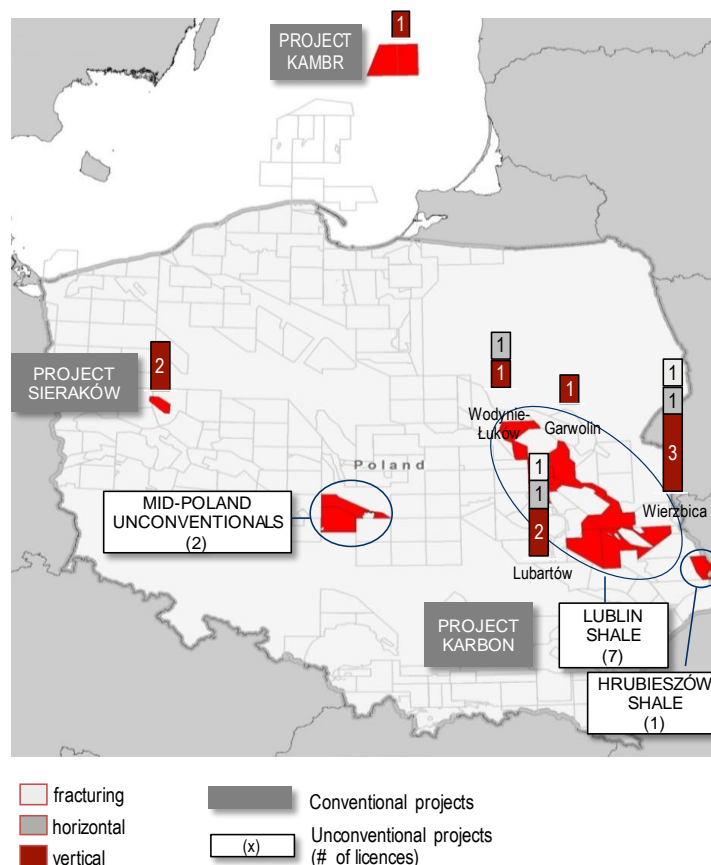
In the Central and Eastern Europe, hydrocarbon prospecting is also carried out in Ukraine. The shale natural gas potential deposits are also located in Lithuania, Hungary, Romania, Moldavia and Bulgaria. However, in Bulgaria, the new prospecting license process was suspended and drilling works with the use of hydrauling fracturing was banned.

3.4.2 Operating activities' projects

The strategy of the ORLEN Group for years 2013-2017 includes intensification of exploration and extracting activities, in order to guarantee the access to own deposits of oil and natural gas, including in particular those from unconventional sources. These operations consequently lead to structuring of a diversified portfolio of prospecting and exploration projects. Upon purchase of the Canadian company, TriOil Resources in November 2013, PKN ORLEN joined the group of oil and gas producers.

PKN ORLEN through its subsidiary ORLEN Upstream Sp. z o.o. remains one of the leaders of unconventional gas deposits exploration in Poland, holding 10 exploration concessions covering the total area of approximately 9 thousand km². The areas covered by exploration represent almost 10% of all areas, where unconventional gas is explored in Poland.

SCHEME 3. Exploration projects on conventional and unconventional deposits in Poland.



Unconventional projects

As part of the Lublin Shale project focused on unconventional deposits continued to carry out drilling and research works in 2013. In 2013 four new drillings were performed:

- Stręczyn-OU1 and Dobryniów-OU1 under Wierzbica concession,
- Uścimów-OU1 under Lubartów concession,
- Stoczek-OU1 under Wodynie-Łuków concession.

From the drillings performed during the year core samples were collected which were subject to detailed analyses.

Two multi-stage hydraulic fracturing treatments were performed together with trials:

- Syczyn-OU2K under Wierzbica concession,
- Berejów-OU2K under Lubartów concession.

As a part of Hrubieszow Shale and Mid-Poland Unconventionals projects, in 2013 the emphasis was placed on the preparation and acquisition of seismic data as well as processing new 2D data.

Under unconventional projects at the end of December 2013, 8 drillings were completed, including 6 vertical drillings and 2 horizontal drillings. From November 2013 works on another vertical drilling were performed and completed at the beginning of 2014. In March 2014 third horizontal drilling was completed.

Conventional projects

As part of the project in Polish Lowlands near Sieraków, carried out jointly with PGNiG S.A., a prospecting drilling was executed in 2013 and analysis of data obtained from the borehole was carried out in order to verify the prospects for the area and to update the programme of works.

In 2013, the location was determined and preparatory works were carried out for execution of a prospecting drilling for the Karbon Project which is aimed to verification of the hydrocarbons accumulations presence and to estimate the potential hydrocarbon deposits within the Lublin basin.

Additionally, 2D seismic data was acquired regarding the Belżyce concession. The acquired data is currently under interpretation. Preparatory works for acquisition of 2D seismic data for Lublin concession were also carried out.

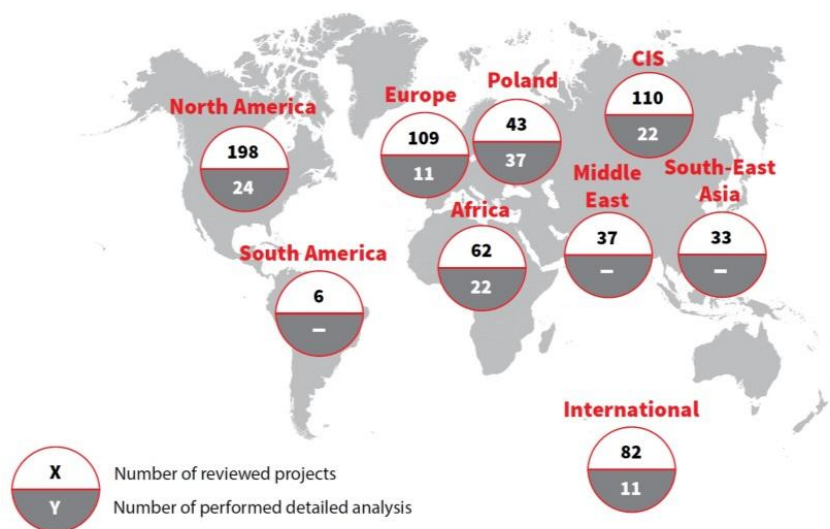
In 2013 in cooperation with Kuwait Energy Company (KEC) – carried out the Kambr Project in 2013 aiming at prospecting works within the Latvian zone of the Baltic Sea shelf. An exploring drilling was completed by means of a semi-submerged drilling platform, to achieve a full set of geophysical measurements, including a detailed analysis. Due to a negative assessment of hydrocarbon saturation in the borehole, the decision was made to stop any further exploring works within this project

Under conventional projects at the end of December 2013 3 exploration and prospecting drillings were completed, including 2 prospecting drillings under Sieraków project and 1 exploration drilling under project conducted on Baltic Sea.

Acquisition projects, M&A projects

Within the upstream segment development the projects related to potential acquisition of deposits located abroad or acquisition of shares in and cooperation with, experienced partners were considered. Since 2009 till the end of 2013, 127 comprehensive analyses of potential acquisition projects in numerous locations were carried out. In effect, TriOil Company was acquired in November 2013.

SCHEME 4. Analysed acquisition and M&A projects.

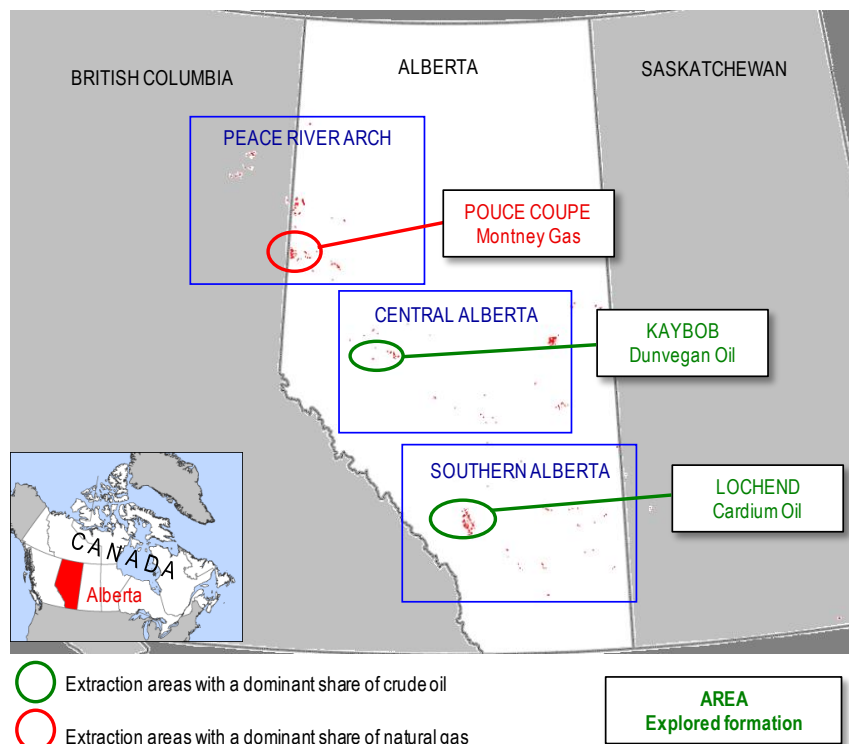


Activities in Canada

In Canada, through TriOil, PKN Orlen operates in field of extraction by means of horizontal drilling and hydraulic fracturing technologies. In 2013, 21 operations of such kind were carried out, in effect resulting in the average production for 4th quarter of 2013 on the level of 3.8 thousand of barrels of oil equivalent per day ("boe/day"); 60% were liquid hydrocarbons (oil and condensate).

The transaction executed on the stable Canadian market matches the risk profile defined in the strategy. Confirmed profitability of extraction and long term operation reduce the operational risks of the investment. In addition, effectiveness of the used horizontal drilling and multi-stage hydraulic fracturing technologies will enable the exchange of experience and forwarding of the best Canadian practices to the extracting operations in Poland. The Canadian market is characterized by very good access to high developed drilling and servicing services as well as access to qualified staff with experience in extracting of unconventional sources. A stable tax system and friendly regulatory environment are also significant.

SCHEME 5. Concessions for exploring and prospecting of hydrocarbons deposits in Canada



3.5 Activities in the power industry segment

3.5.1 Market trends, position and competitors

It is expected that in the years 2010-2030 the global consumption of energy will increase with the pace of 1.8-1.9% per year. According to the medium-term forecasts, over the next decade Asia and the Middle East will remain the regions of the highest dynamics of electricity demand.

Over 80% of energy consumed in the world derives, at present, from mining fuels such as: crude oil, coal and natural gas. In present conditions coal remains the cheapest source of energy. It is assumed that within the range of year 2050 natural gas will be the energy source that will replace coal. It is a fuel which with the current technologies may be accessible practically on every continent. It is assumed that within the next decade gas based power industry will start to play the key role for development of the European energy market. Low prices of shale gas in the North America indicate that it may compete price-wise with coal, reaching at the same time the level of 30-40% CO₂ emission reduction in comparison to the coal

The demand for electricity and other power supplies is growing along with relatively fast development of the Polish economy.

In Poland, the energy consumption per capita is on the level of 40% below the average noted in the European Union and it is expected to grow by approximately 2% per annum by 2030. Considering the above and the fact that over 40% of assets within the energy production segment is over 30 years old, the need to expand the installed power capacities is visible

The supply for the national demand for electricity requires an active participation of the main market players, namely Polska Grupa Energetyczna (PGE), Tauron Polska Energia (Tauron), Energa and Enea. Part of the planned production capacity will be based on gas fuel, due to lower CO₂ emission levels as well as flexibility in increasing the production capacity.

Apart from the Power Plant in Włocławek being constructed by PKN ORLEN, Tauron and PGNiG develop a gas and steam unit in Stalowa Wola, with the capacity of 450 MWe.

Other power developments based on gas fuel planned by Energa, PGE and ZA Pulawy which are presently at the tender procedure stage will represent the total capacity of approximately 1,500 MWe.

Availability and the price of coal in Poland influenced the decision to invest in construction of new power units based on this fuel. Enea develops a unit with the capacity of 1,075 MWe in Kozienice, while PGE commences their development in Opole in the form of two units with the total capacity of 1,800 MWe.

PKN ORLEN intends to fill in the expected supply and demand niche. In addition, PKN ORLEN is able to assign a significant share of its electricity and steam production to its own production needs, and the effective production based on cogeneration, i.e. simultaneous production of electrical power and heat as well as use of natural gas will contribute to high cost effectiveness of developed projects.

3.5.2 Realisation of conducted projects

At present, PKN ORLEN plays the role of a major manufacturer of electrical and heating power, which is to a significant extent, used for own manufacturing needs. It is also one of the largest gas recipients in Poland and an active participant of the gas market liberalisation process. It consequently achieves the strategic goals contained in the Strategy for the ORLEN Group for 2013-2017, including modernisation of the existing assets and development of new capacities based on high efficiency cogenerations².

One of the main elements of the Power Strategy for the ORLEN Group for the years 2013-2017 is the **development of a gas and steam power plant in Włocławek**. The project involves a construction of a unit with the capacity of 463 MWe. The biggest advantages of such type of units are higher efficiency and flexibility of operation in comparison to conventional electric power production based on coal fuel. The technologies used in CCGT (Combined Cycle Gas Turbine) units also cause significantly lower emission of harmful substances, such as NOx, SO₂ and greenhouse gases.

In 2013, as part of the above mentioned project, mainly ground and foundation works were carried out and installation of the steel structure of the engine-room was commenced. Moreover, orders for all key components of the power plant were placed, i.e. for the gas turbine, steam turbine, boiler and transformers, which are currently at the final production stage. The power plant will be closely related in terms of technology to ANWIL from the point of view of covering the needs for electricity and technology steam and will replace the existing and less effective heat and power plant.

In 2013, the works concerning the idea of construction of a gas and steam unit in Płock, of the capacity of 450-600 MWe with the use of technology parallel to that of the CCGT unit under construction in Włocławek were continued. Study works were completed and the tender procedure commenced. Concurrently, the supporting infrastructure was carried out and negotiations for the connection agreement with the Operator of the Transmission System, PSE SA, were completed. The final decision on the launch of the investment is planned to be taken in the II half of 2014.

PKN ORLEN heat and power plant in Płock ("HP") is the largest professional generating unit in Poland, of the electrical power amounting to 345 MWe and the heating power to 2,150 MWt, used to supply the production installations and partly external recipients of heating power. The combined heat and power plant achieves high efficiency ratios at the level of approximately 86% and can use various types of fuel for the production of heat and power: fuel oil, refinery gas, natural gas.

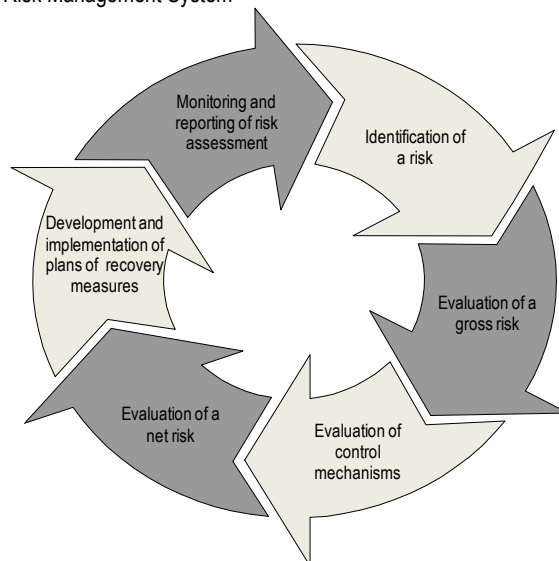
In 2013, the construction of an installation of Flue Gas Denitrifying and Desulphurization in the frames of the ecological investment programme aimed to satisfy the strict industrial emission standards which enter into force from 1 January 2016.

3.6 The risk management and the description of basic risks and threats of conducted operations

3.6.1. The functioning of the Corporate and Market Risk Management System

PKN ORLEN developed and implemented the Enterprise Risk Management Policy and Procedure that comprehensively regulated the process of operation of **the Integrated Enterprise Risk Management System (ERM)**. The Enterprise Risk Management System provides information on risks present in the Company and enables their effective management which makes it one of the key tools supporting the effective realisation of strategic and operating objectives.

SCHEME 6. The Integrated Enterprise Risk Management System



² Definition of the high-efficiency cogeneration is presented in ["Glossary of selected technical and financial definitions"](#).

The main objective of the implemented system is to identify risks likely to PKN ORLEN's operations and achievement of business objectives as well as maintain risk within established limits. Risks defined in the model are ascribed to the implemented processes and detailed in the context of a given process, while the responsibility for risks is held by the risk owners, that are employees, who manage the main control mechanisms aimed to minimise the consequences of risk occurrence, if any, given their occupied position and the scope of responsibilities.

Risk assessment is a regular process. It takes place twice a year and includes assessment of relevance of each risk by:

- assessment of gross risk, that is the condition prior to implementation of control mechanisms in respect of particular risk,
- tests and assessment of operation of control mechanisms,
- assessment of net risk, that is the condition with the control mechanisms implemented in respect of particular risk.

As a result of each assessment of control mechanisms and risks, relevant corrective action plans are determined in respect of particular risks and reports on current risk profile of PKN ORLEN are prepared as well as particular processes are assessed.

3.6.2. Risks and threats of conducted operations of PKN ORLEN

Main risks in respect of PKN ORLEN's operations include:

1. Market risks:
 - commodity risk,
 - exchange rates risk,
 - interest rates risk.
2. Credit and liquidity risks

Detailed description of the above risks together with their estimated influence on PKN ORLEN's financial statements is presented in note 35.5 to Separated Financial Statements for 2013.

Additionally, PKN ORLEN is exposed to risks specific for companies within PKN ORLEN's operations, related to such issues as:

• Fuel consumption

General economic situation exert material impact on shaping the fuel consumption trends as well as the product sales and price level and thus exert material impact on PKN ORLEN's financial standing. Changes in the diesel oil and gasoline consumption level recorded on the main markets of PKNORLEN's operations were presented in [point 4.2.5](#) of this Management Board's Report.

PKN ORLEN, operating on the fuel market, is exposed to the risk resulting from the activities of the so called "shadow economy" connected primarily with the distribution of cheaper fuel, disregarding the obligation to pay taxes. In accordance with the estimates of the Polish Organization of Oil Industry and Trade (POPiHN), the grey zone achieved in 2013 the 10-12% share in the Polish fuel market, which corresponds to more than 1 million tonnes of fuels.

• Crude oil processing / raw materials

PKNORLEN is exposed to disruptions in crude oil processing due to irregular raw material supplies, unavailability of transport services through the pipeline and unstable situation in countries where crude oil is extracted. Change in the parameters of supplied crude oil and related lower yields of fuels as well as overhaul turnaround of production plants may also be of importance.

Expansion of existing refineries and construction of new ones in Russia may result in lower volumes of exported Russian crude oil and, consequently, lesser availability of this raw material for European customers, including PKN ORLEN. In addition, higher demand for crude oil in China may result in increased Russian crude oil export to Asian markets and consequently its lesser availability on European markets what may influence level of PKN ORLEN's product supply.

Gas purchases are based on the long-term agreement between PKN ORLEN and PGNiG as well as short-term agreements with alternative suppliers. Due to no price mechanisms on liquid gas markets in Europe, prices of gas in Poland may be lower or higher than the prices on neighbouring deregulated markets (such as German or Czech market). PKN ORLEN takes measures to ensure stable raw materials supply, mainly through diversification of sources and adoption of the production installations to process various types of raw materials. Furthermore, PKN ORLEN implements a number of exploration and upstream projects in order to obtain own sources of gas and crude oil.

In the scope of product logistics, PKN ORLEN is largely dependent on local and state monopolists such as PERN and OLPP owned by PERN in Poland.

• National Indicative Target achievement costs

Since 2008 the obligation to comply with the National Indicative Target (NIT) has been imposed on the fuel producers, which determines the minimum share of biocomponents and other renewable fuels calculated at the heating value in the general quantity of liquid fuels and biofuels used up in transport during the calendar year. Should the above targets not be achieved, a penalty in the estimated amount of approx. PLN 17.5 thousand per ton of non-introduced biocomponent may be imposed on a fuel producer. Following 1 January 2012, it is possible to apply the reduced NIT – adjusted by the reduction index of 0.85 of the NIT for a given year, if at least 70% of biocomponents obtained from domestic producers entered in the producer register maintained by the Agricultural Market Agency are used in fuel production.

- **CO₂ emission rights**

On 26 February 2014, the European Commission approved the draft plant list with the preliminary number of CO₂ emission rights granted free-of-charge. The legislative process is being finalized on the domestic level. In addition, PKN ORLEN will be granted the CO₂ emission rights for electricity production in 2013. The amount of emission rights granted free-of-charge to PKN ORLEN may not be sufficient to satisfy regulatory obligations and consequently may be necessary to purchase additional rights at market prices or to limit the production.

As part of CO₂ emissions management, PKN ORLEN annually monitors and balances CO₂ emission based on production data for the plants covered by the emission trade system and compares the number of rights, together with determination of the way of systematic balancing the identified shortages/surpluses by way of intergroup transactions or forward and futures and spot transactions.

- **Colour energy certificates**

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

The legislation work carried out on amending the Energy Law aims to restore the high-performance cogeneration support system until 2018, however, the certificates issued but not redeemed prior to the entry into force of the above amended Act, lost their validity.

- **Industrial emissions**

The Industrial Emissions Directive introduces, following 2016, emission standards for sulphur dioxide, nitrogen dioxide and dust, more stringent than the existing ones. In order to meet the above requirements, PKN ORLEN is constructing the flue gases desulphurisation, denitrifying and dedusting installations, which will reduce the emission of sulphur and nitrogen dioxide as well as dust from the Heat and Power Plant in Plock by more than 90%.

- **Mandatory reserves**

Maintenance of mandatory reserves requires their financing and storage costs and in addition results in the risk of non-cash impact on PKN ORLEN's operating results due to changes in market prices leading to revaluation of reserves.

- **Operations and unforeseen accident risk**

PKN ORLEN is exposed to operations and unforeseen accident losses. Any adverse effects of such risks are minimised through adopted professional and tailored to PKN ORLEN's individual needs insurance programme. The programme is created and operated by the entity formed specially for that purpose - ORLEN Insurance Ltd. Insurance coverage under ORLEN Insurance Ltd. policies is reinsured by the biggest international insurance and reinsurance companies under the program led by AIG Europe and Allianz, and where the biggest world and polish insurance companies such as AIG, Allianz, HDI, Munich Re, ACE and companies PZU and TuR Warta are involved. In addition to comprehensive assets insurance, PKN ORLEN holds other insurances to ensure minimizing the adverse impact of damages i.e. third party insurance or property insurance in transport

- **Court and regulatory proceedings, customs and excise duty inspections**

PKN ORLEN is currently engaged in proceedings referred to [point 2.6](#) of the foregoing Report or may possibly be engaged in the future in other court or regulatory proceedings. Moreover, a number of tax, customs and excise duty inspections are carried out. Although PKN ORLEN does not expect at present that any of the above proceedings, to which it is a party, will possibly exert material negative impact on its financial standing and results on operations, it is uncertain whether the final result of current or future proceedings will not exert material negative impact on PKN ORLEN's results or financial standing.

- **Risk of amendments to applicable laws**

Amendments to law on new regulations could have significant impact on the Company, its financial situation and results of its operations

3.7. Environmental protection

PKN ORLEN actively participated in drafting and issuing opinions on legal acts, among other, project of the Operational Programme Infrastructure and Environment 2014-2020 prepared by the Ministry of Infrastructure and Development and in preparing by the Polish Chamber of Chemical Industry of the common position of fuel industry on simplification of the rules for fees of the environmental use, obligations of entrepreneurs when preparing initial reports³, regulation on waste landfills as well as energy and climate policy until 2030. PKN ORLEN regularly identified new legal requirements of environmental protection to ensure compliance of internal organisational acts with such regulations.

In order to ensure updated information on the condition of the environment in the direct vicinity of the Production Plant in Plock, a measuring unit started up, unit had been equipped with analysers used for continuous measurement of selected air parameters: content of SO₂, NO_x, O₃, CO and BTX as well as meteorological parameters sensors measuring: wind speed and direction and air temperature and humidity.

The unit had been included into the network of the National Environment Monitoring in Mazowieckie Voivodship.

In 2013, projects were implemented, adjusting the production plants operation to new environmental requirements and standards, which will come into force on 1 January 2016. The most important environmentally-friendly investment implemented in PKN ORLEN was the construction of exhaust gases denitrogenation and dedusting as well as exhaust gases desulphurisation installations in the Combined Heat and Power Plant in Plock. Boilers no. 7 and 8 operated throughout the year with denitrogenation and dedusting installations, which contributed to the reduction in

³ An initial report is the report presenting the condition of soil and ground in the establishment premises, where the plant requiring an integrated permit at the moment when it commences to operate in respect of new plants or updated or changed integrated permit in respect of existing plants, is located.

the nitric oxide and dust emission by over 20%. The subsequent emission reductions will result from investment work progress, with the end of such work scheduled for the year 2016. A large-scale long-term programme of upgrading tanks on fuel stations limited the risk of land contamination and ensured full adjustment of operating stations to the technical requirements set forth for such installations within the time limit prescribed in the Regulation issued by the Minister of Economy.

In 2013 there was commenced the 3rd settlement period of the community greenhouse gas emission trade system resulting from new provisions stipulated in the Commission Regulation (EU) No 601/2012 of 21 June of 2012 on monitoring and reporting of greenhouse gas emissions pursuant to Directive 2003/87/EC of the European Parliament and of the Council. This system was applied for the first time to all production plants of PKN ORLEN which compels the necessity of intensification of actions in respect of CO₂ emission reduction.

Participation of PKN ORLEN in the Responsible Care ("RC") Programme brought measurable effects in the form of emission reduction, power consumption reduction, improvement of employees' security and their health protection. The RC Programme is also associated with "A tree for a bottle" action, consisting in gathering unnecessary PET bottles, littering the environment, and exchanging the same for tree saplings. All implementers of the RC Programme and local communities in the locations, where these entities are conducting their business, are invited to participate in the project.

In 2013, the fourth Environmental Report for the year 2012 was published, the Report was co-prepared by 32 of ORLEN Group's companies, which demonstrates how important the sustainable development, reasonable use of raw materials and respect for the natural environment are in PKN ORLEN's activities. The Report aims to make available to a wide audience the information on the environmental impact of the ORLEN Group's companies, investment and upgrade activities undertaken by the same as well as the obtained environmental effects. Further, the Environmental Seminar was organised, at which the topic of waste management was discussed, in light of changes resulting from the new Waste Act and implementation of provisions contained in Directive 2010/75/EU of the European Parliament and of the Council on industrial emissions.

All production plants in PKN ORLEN are granted the integrated permits required by law, which permits are updated on a regular basis in response to changes in the legal environment and business needs. Moreover in 2013, the request for issuing the integrated permit for the currently constructed electric power plant CCGT in Włocławek was filled.

Limitation of environmental impact has remained one of PKN ORLEN's priorities for years. Activities undertaken in respect of the use of technological solutions contributing to the limitation of environmental impact were noticed by the Jury of the Polish Chemical Awards 2013 and resulted in granting the award of the **Ecology Leader**. For its achievements in ecological education, PKN ORLEN was awarded the title of the **Ecological Education Advocate 2013** by the Editorial Board of "Ekologia i Rynek" monthly.

3.8. Occupational health and safety

The main objective of the occupational health and safety ("HSE") is to ensure accident-free, corporate culture of occupational safety as well as identification and elimination of occupational safety risks in PKN ORLEN.

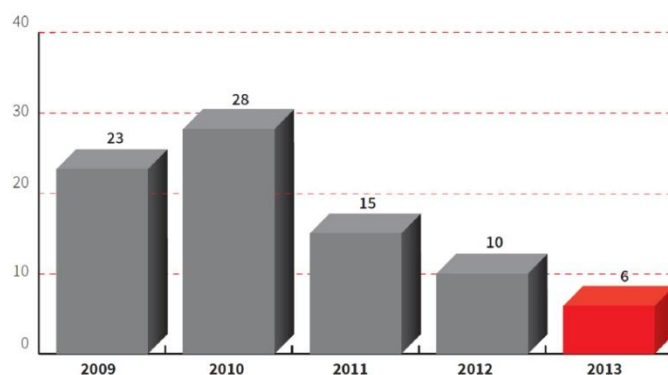
In 2013, a number of systemic solutions were implemented of creating proper work conditions in the Company scale. The activities concerning further optimisation of processes of informing about threats, accidents, inspections, fires and failures were continued by way of implementation of the Electronic Prevention System following the beginning of 2013. Moreover, the system of standards concerning the fire protection of production and warehouse facilities was improved.

In line with PKN ORLEN's values including the promotion of work conditions improvement activities, the **"HSE Incentive Programme"** was created which objective is to engage employees in identification, notification and elimination of occupational safety threats as well as consolidation and expansion of information related to safety as well as popularisation and promotion of best HSE practices.

The result of measures taken to improve the occupational safety in PKN ORLEN is a drop by (-) 40% (y/y) in the number of accidents.

The accident rate – TRR (Total Recordable Rate) of **0.80** once again reached **the best result in the history of PKN ORLEN**, and was lower by (-) 29% (y/y). The methodology of calculating TRR is presented in [Glossary of selected technical and financial definitions](#) at the end of foregoing Report.

DIAGRAM 7. The number of accidents in PKN ORLEN in 2009-2013.



In 2013, for effective actions related to continuous improvement of the occupational safety policy, PKN ORLEN awarded **the Golden Card of the Safe Occupation Leader** – the highest national distinction granted by the Safe Occupation Leaders Forum. Furthermore, PKN ORLEN got the **I award in the 41st edition of the Polish Work Conditions Improvement Competition** in the category of "Technical and organisational solutions in practice".

4. PRESENT AND FORECASTED FINANCIAL SITUATION OF PKN ORLEN

4.1 Principles of presentation separate financial statements

The Separate Financial Statements have been prepared in accordance with accounting principles contained in the International Financial Reporting Standards (IFRS), comprising International Accounting Standards (IAS) as well as Interpretation of Standing Interpretation Committee (SIC) and the IFRS Interpretations Committee (IFRIC) which were adopted by the European Union (EU) and were in force as at 31 December 2013.

The Separate Financial Statements are compliant with all requirements of IFRS adopted by the EU and present a true and fair view of the ORLEN Group financial position as at 31 December 2013, results of its operations and cash flows for the year ended 31 December 2013.

The Separate Financial Statements have been prepared assuming that the Company will continue to operate as a going concern in the foreseeable future. As at the date of approval of these Separate Financial Statements, there is no evidence indicating that the Company will not be able to continue its operations as a going concern. Duration of the Company is unlimited.

The Separate Financial Statements, except for separate cash flow statement, have been prepared using the accrual basis of accounting.

Accounting principles applied in the preparation of the Separate Financial Statements is presented in note 3 to the Separate Financial Statement 2013.

4.2 Basic economic and financial values and factors and unusual events with significant influence on the achieved financial result

4.2.1 Separate statement of profit or loss and other comprehensive income

TABLE 10. Separate statement of comprehensive income.

ITEM, PLN million	2013	2012	change	change %
1	2	3	4=(2-3)	5=(2-3)/3
Sales revenues	84 040	88 349	(4 309)	(4.9%)
Cost of sales	(80 813)	(83 754)	2 941	(3.5%)
Gross profit on sales	3 227	4 595	(1 368)	(29.8%)
Distribution expenses	(2 090)	(2 066)	(24)	1.2%
Administrative expenses	(737)	(755)	18	(2.4%)
Other operating income	324	373	(49)	(13.1%)
Other operating expenses	(267)	(337)	70	(20.8%)
Profit from operations increased by depreciation and amortisation (EBITDA)	1 479	2 866	(1 387)	(48.4%)
Profit from operations	457	1 810	(1 353)	(74.8%)
Financial income	589	1 640	(1 051)	(64.1%)
Finance costs	(414)	(786)	372	(47.3%)
Net finance income and costs	175	854	(679)	(79.5%)
Profit before tax	632	2 664	(2 032)	(76.3%)
Tax expense	(14)	(536)	522	(97.4%)
Net profit	618	2 128	(1 510)	(71.0%)

Sales revenues

Sales revenues of PKN ORLEN amounted to PLN 80,040 million and decreased by PLN (-) 4,309 million (by (-) 4.9%) (y/y).

Lower by PLN (-) 3,534 million (by (-) 5.8%) (y/y) revenues from sales of refining segment results mainly from lower crude oil and products quotations and appreciation of average PLN exchange rate against USD accompanied by higher by 3.7% (y/y) sales volume. In comparison with prior year the average annual values of gasoline quotation decreased by (-) 4.5% (y/y), diesel oil by (-) 4.2%, Jet A-1 fuel by (-) 3.7% (y/y), light heating oil by (-) 3.4% (y/y) and LPG by (-) 9.0% (y/y). Additionally, decreased revenues from sales of refining, were enhanced by execution of one transaction concerning the sale of the mandatory reserves with Neon Poland Sp. z o.o. in 2013 PLN 1,045 million, in comparison to execution of two transactions concerning the sale of part of the mandatory reserves with Ashby Sp. z o.o. and Whirlwind Sp. z o.o. in 2012 for the total amount of PLN 2,434 million.

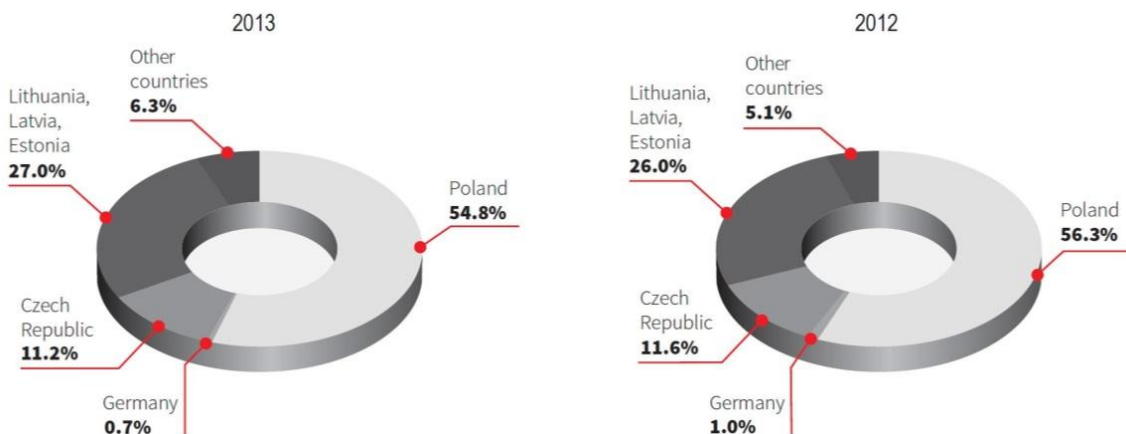
Sale of crude oil to ORLEN Group refineries in the framework of the supply of raw materials within PKN ORLEN subsidiaries in 2013 amounted to PLN 32,080 million, as compared to PLN 34,700 million in 2012.

Revenues of retail segment decreased by PLN (-) 1,117 million (by (-) 5.7%) (y/y), mainly due to lower products quotations and therefore lower fuels prices on petrol stations accompanied by similar level of sales volume (y/y).

Revenues of petrochemical segment higher by PLN 355 million (5.0%) (y/y) resulted from higher by 10.2% (y/y) sales volume accompanied by lower quotations for major products of the segment that is butadiene by (-) 37.7% (y/y), toluene by (-) 7.8% (y/y), xylene by (-) 5.6% (y/y), paraxylene by (-) 2.7% (y/y), propylene by (-) 2.4% (y/y), polypropylene by (-) 1.0% (y/y) and ethylene by (-) 0.8% (y/y).

Detailed information relating to sales volume changes of the particular segments are described in [Chapter 3](#) of the foregoing Report.

DIAGRAM 8. Geographical structure of sales revenues in PKN ORLEN.



Other countries item contains mainly sales realised to customers from Denmark, Ukraine and Cyprus.

Information relating to the geographic distribution of sales revenues is also presented in note 5.2.3 to the Separate Financial Statements for 2013.

Profit from operations increased by depreciation and amortisation

Profit from operations increased by depreciation and amortisation („EBITDA”) of the ORLEN Group for 2013 amounted to PLN 1,479 million as compared to PLN 2,866 million for 2012.

PKN ORLEN measures inventories in accordance with the International Financial Reporting Standards at the weighted average production cost or acquisition price. Such valuation method causes delayed recognition of effects of the increase or decrease in the crude oil purchase price with respect to the prices obtained from the sales of finished goods. A growing tendency of crude oil prices positively affects the operating results and a falling tendency – negatively.

The negative impact of crude oil prices on inventories valuation in 2013 reduced EBITDA of PKN ORLEN by PLN (-) 514 million (y/y).

The negative effect of changing macroeconomic factors, specifically visible in the refining segment, decreased EBITDA of PKN ORLEN in 2013 by approximately PLN (-) 880 million (y/y).

Higher sales volume in the refining and petrochemical segments increased EBITDA of PKN ORLEN by approximately PLN 381 million (y/y).

The negative effect of other elements amounting to PLN (-) 374 million (y/y) comprised mainly one-off events related to lack of positive effects in 2012 associated with realisation of repurchase of the II tranche of mandatory crude oil reserves of PLN (-) 240 million (y/y) and negative effect of repurchase of the V tranche of mandatory crude oil reserves amounted to PLN (-) 144 million which will be neutralised with concluded hedging transactions.

Refining segment

TABLE 11. Basic financial figures for refining segment.

REFINING SEGMENT, PLN million	2013	2012	change	change %
1	2	3	4=(2-3)	5=(2-3)/3
Segment revenues	80 752	85 197	(4 445)	(5.2%)
Sales revenues from external customers	57 845	61 379	(3 534)	(5.8%)
Sales revenues from transactions with other segments	22 907	23 818	(911)	(3.8%)
Segment expenses	(81 347)	(84 202)	2 855	(3.4%)
Other operating income/expenses, net	(1)	97	(98)	-
Profit/(Loss) from operations increased by depreciation and amortisation (EBITDA)	(188)	1 515	(1 703)	-
Profit/ (Loss) from operations	(596)	1 092	(1 688)	-
Capital expenditures on property, plant and equipment and intangible assets (CAPEX)	496	336	160	47.6%

In 2013 EBITDA of the refining segment generated by PKN ORLEN amounted to PLN (-) 188 million in comparison to PLN 1,515 million gained in 2012.

The negative effect of changing crude oil prices on the inventories valuation in 2013 decreased segment's EBITDA by PLN (-) 541 million (y/y).

The negative effect of macroeconomic factors including decreasing of the refining margins and the Brent/Ural differential as well as appreciation of PLN against foreign currencies impacted the decrease of EBITDA by PLN (-) 789 million (y/y).

Positive volume effect, resulting from higher sales of light and medium distillates amounted to PLN 228 million (y/y).

The negative effect of the other positions was equal to PLN (-) 601 million (y/y) and mainly resulted from described above one-off events related to realisation in 2012 and 2013 repurchase and sale of mandatory reserves of crude oil in an amount of PLN (-) 384 million (y/y). The remaining part embraced lack of positive effects on the other operations in 2012 related to received certificates from the production of energy in cogeneration in of PLN 130 million and deterioration of trade margins as a result of strong competition pressure.

In 2013 in comparison to 2012, witnessed an increase of the segment's capital expenditures ("CAPEX") by PLN 160 million (y/y) to the level of PLN 496 million.

Major investment tasks implemented in 2013 included: construction of the Installation of Catalytic Denitrifying and Dedusting, site preparation of Flue Gas Desulphurization, modernization of the fuel system of the Heat and Power Plant in Plock and construction of reformat tanks on the Composition Department.

Retail segment

TABLE 12. Basic financial figures for retail segment

RETAIL SEGMENT, PLN million	2013	2012	change	change %
1	2	3	4=(2-3)	5=(2-3)/3
Segment revenues	18 631	19 748	(1 117)	(5.7%)
Sales revenues from external customers	18 631	19 748	(1 117)	(5.7%)
Sales revenues from transactions with other segments	0	0	0	-
Segment expenses	(17 898)	(19 209)	1 311	(6.8%)
Other operating income/expenses, net	(17)	(73)	56	(76.7%)
Profit from operations increased by depreciation and amortisation (EBITDA)	926	679	247	36.4%
Profit from operations	716	466	250	53.6%
Capital expenditures on property, plant and equipment and intangible assets (CAPEX)	338	367	(29)	(7.9%)

In 2013, the retail segment's EBITDA of PKN ORLEN amounted to PLN 926 million in comparison to the amount of PLN 679 million in 2012.

Increase of fuel margins enhanced the segment's EBITDA by PLN 191 million (y/y). Influence of developing competition from discount stores resulted in a decrease of sales margins realised on non-fuel merchandise and services by PLN (-) 3 million (y/y).

Impact of sales volume on the segment's EBITDA remained at comparable level (y/y).

The overall impact of the remaining factors of PLN 59 million (y/y) included lack of negative effects on the other operating activity from 2012 related to revision of the environment provisions.

In 2013, as compared to the year 2012, the capital expenditures ("CAPEX") in the segment were decreased by PLN (-) 29 million (y/y) to the level of PLN 338 million. Implemented investment tasks mainly included construction and modernisation of fuel stations.

Petrochemical segment

TABLE 13. Basic financial figures for petrochemical segment.

PETROCHEMICAL SEGMENT, PLN million	2013	2012	change	change %
1	2	3	4=(2-3)	5=(2-3)/3
Segment revenues	10 726	10 448	278	2.7%
Sales revenues from external customers	7 495	7 140	355	5.0%
Sales revenues from transactions with other segments	3 231	3 308	(77)	(2.3%)
Segment expenses	(9 826)	(9 605)	(221)	2.3%
Other operating income/expenses, net	(1)	16	(17)	-
Profit from operations increased by depreciation and amortisation (EBITDA)	1 219	1 202	17	1.4%
Profit from operations	899	859	40	4.7%
Capital expenditures on property, plant and equipment and intangible assets (CAPEX)	109	187	(78)	(41.7%)

In 2013 EBITDA generated by the segment amounted to PLN 1,219 million in comparison to PLN 1,202 million in 2012.

Impact of the change of the petrochemical products' prices on the valuation of inventories increased the segment's EBITDA by PLN 27 million (y/y)

Impact of macroeconomic environment on the segment's sales volume, mainly due to higher volume of monomers and terephthalic acid primarily resulted from higher availability of the production installations and non-pet market PTA sales intensification enhanced of the segment's EBITDA by PLN 63 million (y/y).

Negative impact of the other factors amounted to PLN (-) 73 million and mainly included effect of lower trade margins and negative balance on the other operating activities in amount of (-) 17 million (y/y).

In 2013, as compared to 2012, the capital expenditures ("CAPEX") in the segment were decreased by PLN (-) 78 million (y/y) to the level of PLN 109 million.

The largest investment tasks implemented in 2013 included modernisation of furnace of Olefin Unit II and number of other smaller projects.

Upstream Segment

TABLE 14. Basic financial figures for upstream segment.

UPSTREAM SEGMENT, PLN million	2013	2012	change	change %
1	2	3	4=(2-3)	5=(2-3)/3
Segment revenues	0	0	0	-
Sales revenues from external customers	0	0	0	-
Sales revenues from transactions with other segments	0	0	0	-
Segment expenses	(37)	(28)	(9)	32.1%
Other operating income/expenses, net	0	0	0	-
(Loss) from operations increased by depreciation and amortisation (EBITDA)	(37)	(28)	(9)	32.1%
(Loss) from operations	(37)	(28)	(9)	32.1%
Capital expenditures on property, plant and equipment and intangible assets (CAPEX)	0	0	0	-

Lower EBITDA of the upstream segment by PLN (-) 9 million is related to intensification of exploration work performed by ORLEN Upstream Sp. z o.o.

PKN ORLEN activity in the upstream segment is mainly carried out through ORLEN Upstream Sp. z o.o. Expenses and, as a result, EBITDA generated by PKN ORLEN in the segment is related to financing of particular exploration projects on conventional and unconventional sources and acquisition of Canadian company TriOil.

Corporate functions

TABLE 15. Basic financial figures for corporate functions.

CORPORATE FUNCTIONS, PLN million	2013	2012	change	change %
1	2	3	4=(2-3)	5=(2-3)/3
Segment revenues	143	154	(11)	(7.1%)
Sales revenues from external customers	69	82	(13)	(15.9%)
Sales revenues from transactions with other segments	74	72	2	2.8%
Segment expenses	(744)	(729)	(15)	2.1%
Other operating income/expenses, net	76	(4)	80	-
(Loss) from operations increased by depreciation and amortisation (EBITDA)	(441)	(502)	61	(12.2%)
(Loss) from operations	(525)	(579)	54	(9.3%)
Capital expenditures on property, plant and equipment and intangible assets (CAPEX)	230	86	144	167.4%

Higher (y/y) EBITDA of the corporate functions in 2013, mainly as a result of positive balance of other operating activities due to received by PKN ORLEN compensation for loss of incomes due to lower collection as a result of breakdown in ANWIL in June 2010.

Capital expenditures in 2013 mainly related to construction of the gas power plant in Włocławek of PLN 138 million, and in remaining part mainly related to realise IT projects.

The industrial energetic area, due to advancement of realised works is recognised in corporate functions.

Financial expenses and net result

In 2013, the net financial revenues amounted to PLN 175 million and mainly included positive exchange differences on loans and other foreign currency items of PLN 214 million, dividends received from entities belonging to the ORLEN Group of PLN 220 million, net interest amounting to PLN (-) 181 million as well as a recognition of impairment allowances on Orlen International Exploration & Production Company BV of PLN (-) 103 million.

Taking tax charges into account, net profit of PKN ORLEN for 2013 amounted to PLN 618 million.

4.2.2 Statement of financial position

TABLE 16. Separate statement of financial position – assets.

ASSETS, PLN million	31.12.2013	31.12.2012	change	change %
1	2	3	4=(2-3)	5=(2-3)/3
Property, plant and equipment	12 097	12 088	9	0.1%
Intangible assets	439	603	(164)	(27.2%)
Perpetual usufruct of land	98	91	7	7.7%
Shares in related parties	9 646	9 003	643	7.1%
Financial assets available for sale	40	41	(1)	(2.4%)
Other non-current assets	1 035	648	387	59.7%
Non-current assets	23 355	22 474	881	3.9%
Inventories	9 383	10 375	(992)	(9.6%)
Trade and other receivables	6 248	6 396	(148)	(2.3%)
Other financial assets	974	1 082	(108)	(10.0%)
Current tax assets	31	56	(25)	(44.6%)
Cash	2 072	972	1 100	113.2%
Non-current assets classified as held for sale	0	52	(52)	-
Current assets	18 708	18 933	(225)	(1.2%)
Total assets	42 063	41 407	656	1.6%

Total assets as at 31 December 2013 amounted to PLN 42,063 million and increased by PLN 656 million (by 1.6%) (y/y) in comparison to value of total assets recorded as at 31 December 2012.

The value of **non-current assets** increased in comparison to situation recorded as at 31 December 2012 by PLN 881 million (by 3,9%) (y/y) and amounted to PLN 23,355 million, mainly due to:

- decrease in value of property, plant and equipment and intangible assets by PLN (-) 155 million as a result of:
 - incurred capital expenditures of PLN 1,146 million,
 - amortisation and depreciation of PLN (-) 1,021 million,
 - decrease in value of rights due to amortisation of CO₂ emission rights of PLN (-) 175 million as well as recognised allowances on so-called energy certificates received in previous years in relation to changes of the legal regulations totalled to PLN (-) 42 million.
- increase in value of shares in subsidiaries by PLN 643 million as a result of additional payment to ORLEN Upstream Sp. z o.o. equity in the amount of PLN 770 million and impairment allowances recognition on OIEPCo shares of PLN (-) 103 million in relation to completion of exploration project in the Latvian economic zone of the Baltic Sea shelf.
- increase of other long-term assets by PLN 387 million, mainly as an effect of loan granted to Unipetrol a.s. in amount of PLN 303 million and increase of cash-flow hedges by PLN 94 million.

Value of **current assets** reduced by PLN (-) 225 million (by (-) 1,2%) (y/y) and reached the level of PLN 18,708 million, mainly due to:

- increase of PLN 1,100 million (by 113,2%) of cash and cash equivalents balance as compared to the situation recorded as at the end of 2012.
- decrease by PLN (-) 992 million (by (-) 9,6%) of the inventories value, mainly as a result of lower crude oil quotation and decreased crude oil and products inventories volume,
- decrease of PLN (-) 148 million (by (-) 2,3%) of the trade and other receivables value.

TABLE 17. Separate statement of financial position – equity and liabilities

EQUITY AND LIABILITIES, PLN million	31.12.2013	31.12.2012	change	change %
1	2	3	4=(2-3)	5=(2-3)/3
EQUITY				
Share capital	1 058	1 058	0	0.0%
Share premium	1 227	1 227	0	0.0%
Hedging reserve	168	(69)	237	-
Retained earnings	20 682	20 704	(22)	(0.1%)
Total equity	23 135	22 920	215	0.9%
Loans and debt securities	6 096	6 969	(873)	(12.5%)
Provisions	324	360	(36)	(10.0%)
Deferred tax liabilities	404	240	164	68.3%
Other non-current liabilities	99	133	(34)	(25.6%)
Non-current liabilities	6 923	7 702	(779)	(10.1%)
Trade and other liabilities	9 836	8 586	1 250	14.6%
Loans, borrowings and debt securities	1 314	1 303	11	0.8%
Provisions	348	401	(53)	(13.2%)
Deferred income	94	137	(43)	(31.4%)
Other financial liabilities	413	358	55	15.4%
Current liabilities	12 005	10 785	1 220	11.3%
Total liabilities	18 928	18 487	441	2.4%
Total equity and liabilities	42 063	41 407	656	1.6%

Equity as at 31 December 2013 amounted to PLN 23,135 million and was higher by PLN 215 million (by 0,9%) in comparison to its amount recorded as at the end of the prior year, mainly due to:

- net profit for 12 months of 2013 in amount of PLN 618 million,
- increase by PLN 237 million (y/y) in the equity as a result of hedge accounting,
- dividend payment of PLN (-) 642 million on a basis of the Ordinary General Shareholders' Meeting of PKN ORLEN resolution dated 27 June of 2013.

Net indebtedness of PKN ORLEN as at 31 December 2013 amounted to PLN 5,338 million and was lower by PLN (-) 1,962 million as compared to that recorded as at the end of 2012. The reduction in net indebtedness in 2013 in an effect of the net repayment of the loans and change of cash balance in amount of PLN (-) 1,935 million as well as positive exchange rates differences from foreign currency revaluation and valuation of indebtedness in the amount of PLN (-) 27 million.

4.2.3 Statement of cash flows
TABLE 18. Separate statement of cash flows.

ITEM, PLN million	2013	2012	change	change %
1	2	3	4=(2-3)	5=(2-3)/3
Cash flows – operating activities				
Net profit/(loss)	618	2 128	(1 510)	(71.0%)
Adjustments for:				
Depreciation and amortisation	1 022	1 056	(34)	(3.2%)
Foreign exchange (gain)/loss	9	(821)	830	-
Interest, net	255	302	(47)	(15.6%)
Dividends	(220)	(173)	(47)	27.2%
Loss on investing activities	99	452	(353)	(78.1%)
Tax expense	14	536	(522)	(97.4%)
Change in provisions	102	226	(124)	(54.9%)
Change in working capital	2 462	(319)	2 781	-
<i>Inventories</i>	1 019	1 184	(165)	(13.9%)
<i>Receivables</i>	411	920	(509)	(55.3%)
<i>liabilities</i>	1 032	(2 423)	3 455	-
Other adjustments	(110)	(381)	271	(71.1%)
Income tax received/(paid)	119	(941)	1 060	-
Net cash provided by operating activities	4 370	2 065	2 305	111.6%
Cash flows – investing activities				
Acquisition of property, plant and equipment, intangible assets and perpetual usufruct of land	(1 136)	(1 399)	263	(18.8%)
Disposal of property, plant and equipment, intangible assets and perpetual usufruct of land	173	20	153	765.0%
Acquisition of shares	(2)	(170)	168	(98.8%)
Interest received	34	36	(2)	(5.6%)
Dividends received	220	172	48	27.9%
Outflows from additional repayable payments to subsidiaries' equity	(770)	(196)	(574)	292.9%
Proceeds from additional repayable payments to subsidiaries' equity	9	8	1	12.5%
Outflows from non-current loans granted	(303)	0	(303)	-
Proceeds/(Outflows) from current loans granted	345	(918)	1 263	-
Outflows from cash pool facility	(133)	(10)	(123)	1230.0%
Other	(15)	(2)	(13)	650.0%
Net cash (used) in investing activities	(1 578)	(2 459)	881	(35.8%)
Cash flows – financing activities				
Proceeds from loans and borrowings received	3 319	3 907	(588)	(15.0%)
Debt securities issued	11 766	10 141	1 625	16.0%
Repayments of loans and borrowings	(4 966)	(6 994)	2 028	(29.0%)
Redemption of debt securities	(10 963)	(9 574)	(1 389)	14.5%
Interest paid	(300)	(330)	30	(9.1%)
Dividends paid	(642)	0	(642)	-
Payments of liabilities under finance lease agreements	(14)	(10)	(4)	40.0%
Proceeds/(Outflows) from cash pool facility	114	(68)	182	-
Other	(5)	0	(5)	-
Net cash (used) in financing activities	(1 691)	(2 928)	1 237	(42.2%)
Net increase/(decrease) in cash and cash equivalents	1 101	(3 322)	4 423	-
Effect of exchange rate changes	(1)	3	(4)	-
Cash and cash equivalents, beginning of the period	972	4 291	(3 319)	(77.3%)
Cash, end of the period	2 072	972	1 100	113.2%

In 2013, net cash flows from operating activities amounted to PLN 4,730 million and were higher by PLN 2,305 million in comparison to prior year. The main positions of the cash flows from operating activities are the net result increased by depreciation and amortisation amounted to PLN 1,640 million as well as positive change of net working capital by PLN 2,462 million.

The cash used in investing activities in 2013 amounted to PLN (-) 1,578 million and included mainly net expenses for the acquisition of property, plant and equipment and intangible assets of PLN (-) 963 million related to investment programs realised. In 2013, the other net positions related mainly to outflows from additional repayable payments to entities belonging to the ORLEN Group' equity in amount PLN (-) 770 million (mainly ORLEN Upstream Sp. z o.o. relating to acquisition of TriOil shares) and received dividends of PLN 220 million.

In 2013, the cash used in financing activities of PLN (-) 1,691 million comprised mainly net expenses for the repayment of loans and borrowings and redemption of debt securities in the overall amount of PLN (-) 844 million adjusted by expenses relating to the costs of debt service amounting to PLN (-) 300 million and dividend paid of PLN (-) 642 million.

Consequently, the cash balance increased by PLN 1,101 million as compared to the amount recorded as at the end of the prior year. As at 31 December 2013 it was PLN 2,072 million.

4.2.4 Differences between financial results disclosed in annual report and previously Publisher forecasts of financial results for the year.

PKN ORLEN did not publish forecasts of financial results for 2013.

PKN ORLEN operating results for 2013 did not change in comparison to results published on 24 January 2014 in consolidated quarterly report for the IV quarter of 2013.

4.2.5 Macroeconomic factors affecting the financial results and sensitive analysis

PKN ORLEN operates within changing macroeconomic environment which has impact on the level of revenues and generated results. Key factors are: crude oil prices, so-called Brent/Ural differential, margins on refining and petrochemical products which are offered by PKN ORLEN and levels of economic growth, fuel consumption, money market's interest rates and exchange rates of other currencies in relation to PLN.

The basic raw material used in the production by PKN ORLEN is crude oil which international crude oil prices are subject of fluctuations caused by changes in global demand and supply and due to political factors. As a result of 93% share of sulphated crude oil in the processing structure of PKN ORLEN, level of the Brent/Ural differential has an influence on the operating results as well.

DIAGRAM 9: Brent oil quotations (USD/bbl).

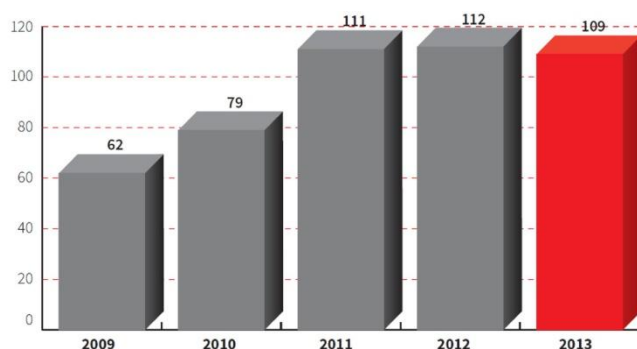
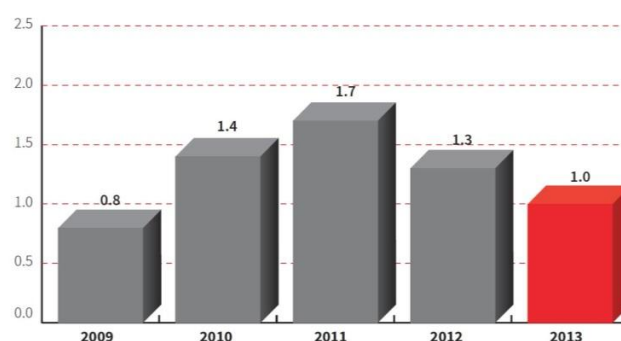
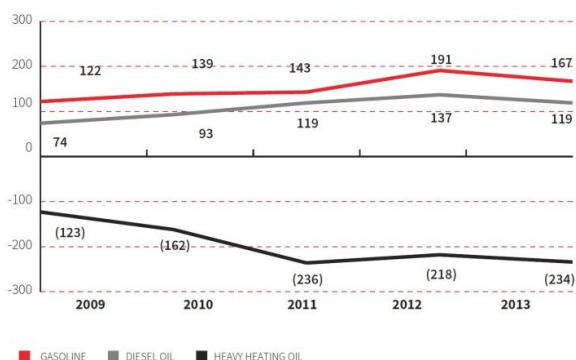
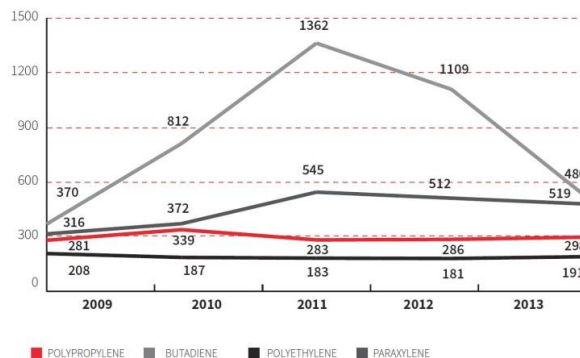


DIAGRAM 10: Brent/Ural differential* (USD/bbl).

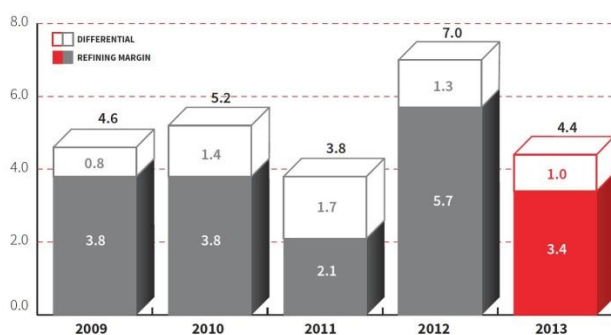
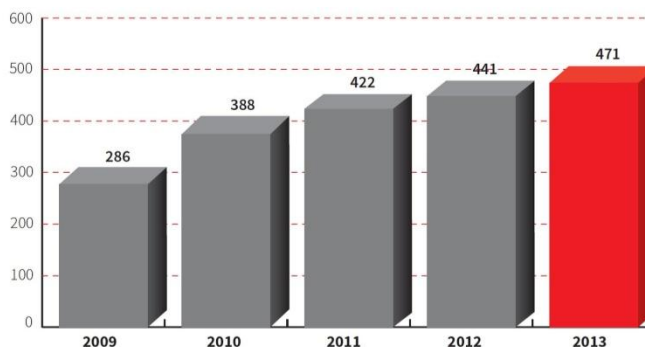


PKN ORLEN results depend on refining and petrochemical margins which, in turn, are dependent on product prices on global markets and on crude oil prices.

DIAGRAM 11. Refining margin („crack”) quotations (USD/t).

DIAGRAM 12. Petrochemical margins („crack”) quotations (EUR/t).


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

On a basis of the products sale structure and their available global quotations PKN ORLEN has developed its own definitions of model refining and petrochemical margin. Model margins in an aggregated manner reflecting the influence of macroeconomic factors on results generated by the refining and petrochemical segments.

DIAGRAM 13. Model refining margin and differential* (USD/bbl).

DIAGRAM 14. Model olefin margin* [EUR/t].


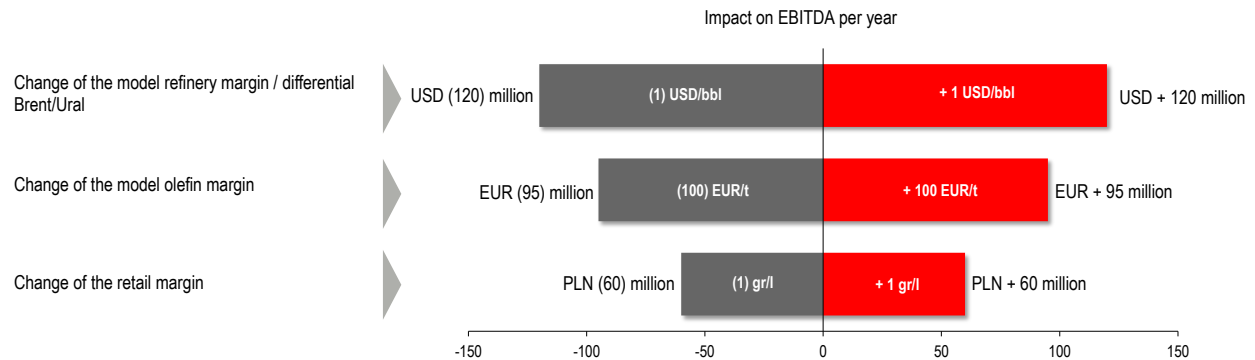
*) The differential, refining and olefin margin calculation methods are presented in [Glossary of selected technical and financial definitions](#) at the end of the foregoing Report.

Estimated impact of the selected macroeconomic factors on PKN ORLEN financial results and the description of applied methodology are presented below.

Estimation of impact of the model refining margin and Brent/ Ural differential is performed using full processing capacity of crude oil of PKN ORLEN amounting around 120 million barrels.

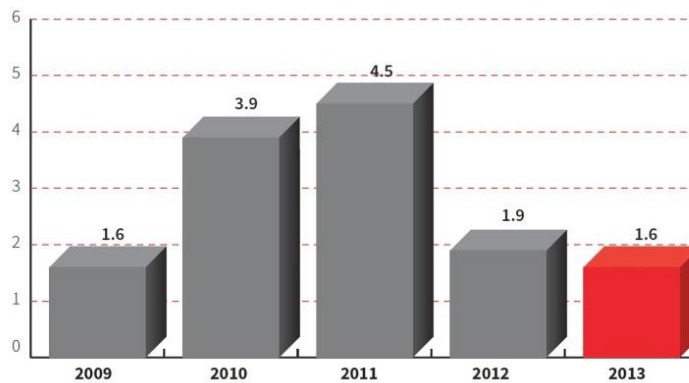
Estimates of impact on the model olefin margin were performed assuming the sale of monomers and aromas in PKN ORLEN of approximately 950 thousand tonnes per year.

Estimates of impact on retail margin are performed assuming the sale of motor fuels in PKN ORLEN of approximately 6 billion liters per year

DIAGRAM 15. Sensitivity analysis of the change in the key macroeconomic parameters USD/EUR/PLN million.


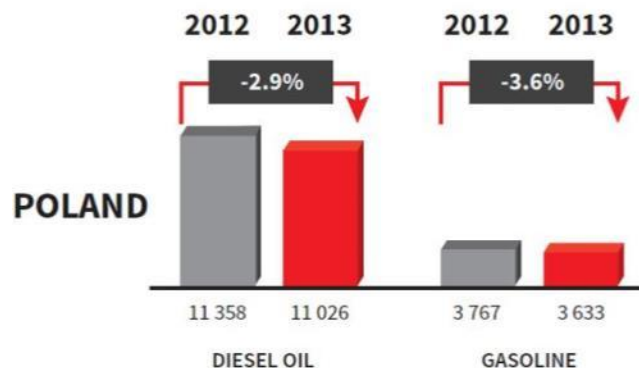
The impact of the change in the above mentioned parameters has been estimated with the assumption of the lack of dependence between them and other parameters forming results of PKN ORLEN. The changes of macroeconomic can have additional effect on other parameters such as optimisation of the structure of products, sales directions or the capacity utilisation which can have an additional impact on the presented operating results.

Generated financial results are influenced by current condition of the Polish economy. Basic indicator reflecting economic situation in Poland is GDP index which is correlated with fuel consumption or unemployment rate.

DIAGRAM 16. GDP in Poland (year-to-year change)¹⁾.


1) Based on GUS data (2013 – estimates)

Economic situation determines fuel consumption trends. The overall condition of the economy, e.g. measured with GDP, has an influence on current and future customer behaviours. Unstable economic situation and impact of companies operating in so-called “shadow economy” significantly influenced on fuel consumption within particular markets on which PKN ORLEN is already present.

DIAGRAM 17. Gasoline and oil consumption on the Polish market


Changes in interest rates affect the value of financial gains realised on bank deposits, loans granted, as well as costs of servicing debts. Risks related to changes in interest rates are presented in [point 3.6.2](#) of the foregoing Report.

DIAGRAM 18. WIBOR 3M average interest rate (%).

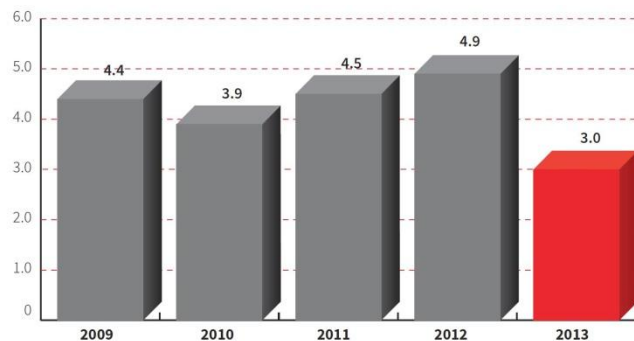


DIAGRAM 19. EURIBOR 3M average interest rate (%).

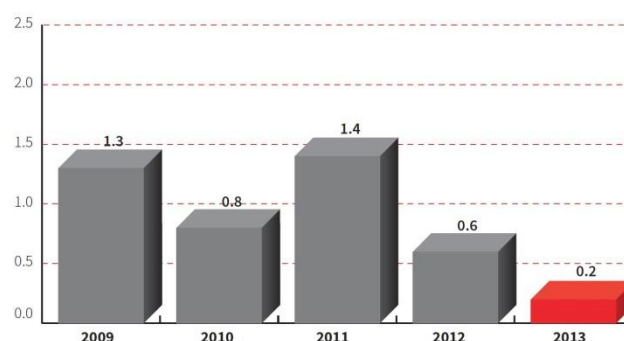
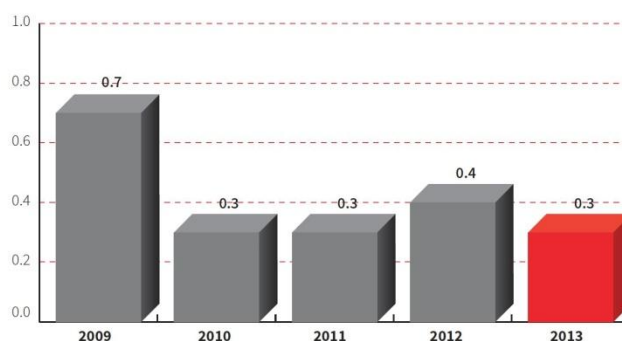


DIAGRAM 20. LIBOR 3M average interest rate (%).



Prices of refining and petrochemical products offered by PKN ORLEN are fixed on a basis of quotations on commodity markets that are denominated in foreign currencies. Expenses related to purchase of basic raw materials including crude oil and costs of debt service are also denominated in foreign currencies i.e. USD or EUR. As a result, exchange rates of mentioned currencies have an impact on financial results of PKN ORLEN.

DIAGRAM 21. USD/PLN average exchange rate.

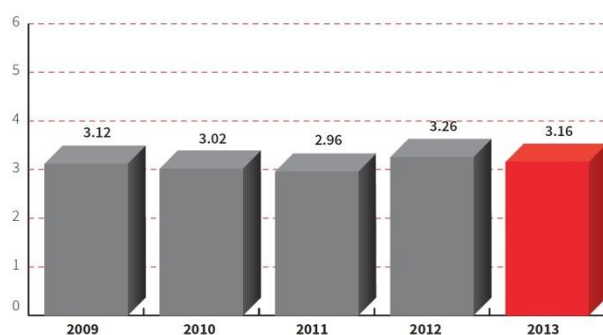
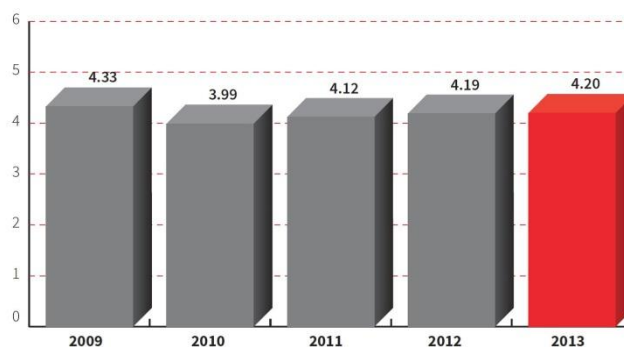


DIAGRAM 22. EUR/PLN average exchange rate.



4.3 Financial resources management

4.3.1 General management rules

PKN ORLEN takes advantage of a cash-pooling system to optimise financing costs and effectively manage the current financial liquidity within the ORLEN Group.

In 2013, the following cash pooling systems were in operation:

- PLN cash-pooling system which as at 31 December 2013 included 33 members of the ORLEN Group,
- international cash-pooling system for EUR, USD and PLN held for PKN ORLEN and foreign companies of the ORLEN Group (ORLEN Finance AB, ORLEN Lietuva Group, ORLEN Deutschland GmbH, Unipetrol Group).

Another instrument used to effectively manage the finance involves sale of part of mandatory crude oil reserves and receivable factoring services.

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

In 2013, the Company invested funds in bank deposits. Decisions concerning bank deposits are founded on the maximum return on investment and current assessment of the financial standing of the banks based on the short-term rating assessment for deposits on the investment level.

4.3.2 Loans, borrowings and debt securities

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

TABLE 19. Sources of financing.

ITEM, PLN million	2013	2012	change	change %
1	2	3	4=(2-3)	5=(2-3)/3
Bank loans	4 517	6 165	(1 648)	(26.7%)
Borrowings	177	186	(9)	(4.8%)
Debt securities	2 716	1 921	795	41.4%
Financial indebtedness	7 410	8 272	(862)	(10.4%)
By maturity:				
Non-current	6 096	6 969	(873)	(12.5%)
Current	1 314	1 303	11	0.8%
Cash	2 072	972	1 100	113.2%
Net financial indebtedness	5 338	7 300	(1 962)	(26.9%)

Decrease of financial net debt to PLN 5,338 million contributed to the reduction of financial leverage to 27.4% at the of 2013, what is below the level set in the strategy and to maintain a safe covenant level included in loan agreements (net debt/EBITDA) of 3.6%.

The most significant loans in 2013 in PKN ORLEN are the following (in excess of PLN 100 million):

- long-term syndicate loan for the amount of EUR 2,625 million signed by PKN ORLEN in April 2011. The loan is in the form of a multi-currency revolving credit line extended by the syndicate of 14 banks. The loan term is 5 years with two extension options, each by 1 year. In 2013 PKN ORLEN took advantage of the second extension option and set the final loan repayment date for 15 syndicate members in the amount of EUR 2,100 million at 28 April 2017 and for 4 syndicate members of EUR 600 million at 28 April 2018. PKN ORLEN may allocate the funds obtained for general corporate and financial purposes of the ORLEN Group companies. The loan may be used in EUR, USD, CZK and PLN;
- 2 bilateral loan agreements allocated to fund the investments signed by PKN ORLEN with the European Investment Bank (EIB) in 2007 and the European Bank for Reconstruction and Development (EBRD) in 2011. The Amount of EUR 210 million was granted by EIB for investments in the development of fuel stations network and environmental protection. Available currencies are: EUR, USD, GRB and PLN and the 9-year maturity period with the option of the 3-year grace period. The amount of EUR 250 million was granted by EBRD for investments in the development and modernisation of the Power and Heat Plant in Plock and for general corporate purposes. The loan terms are 7 years. The loan amount will be reduced down to EUR 167 million on the fifth anniversary of signing the loan and down to EUR 83 million on the sixth anniversary. Available currencies of the loan are: EUR, USD and PLN.
- 6 bilateral agreements of short-term overdraft in PKN ORLEN's current account in the total amount of PLN 1,661 million for financing current activities.

As regards the loan agreements in force, PKN ORLEN is obliged to maintain selected financial indicators within brackets agreed to the loan agreements. In 2013 financial indicators assessed by the lending banks remained at the safe level. The financial indicators attained in 2013, presented in [point 4.3.8](#) confirm the full ability to perform payment obligations from loan agreements and other agreements with bank and financial institutions.

Further information on the issue of debt securities is presented in note 18 to the Separate Financial Statements for 2013.

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

PKN ORLEN continues to use the bond issue scheme which is in operation in accordance with an agreement executed with a consortium of Polish banks in November 2006 with a debt limit up to PLN 2,000 million.

Funds obtained from the issue are allocated to financing ongoing operations. In 2013, as part of the bond issue scheme, PKN ORLEN issued short-term bonds in PLN for ANWIL, IKS SOLINO, ORLEN Księgowość (since 1 January ORLEN Centrum Usług Korporacyjnych), ORLEN KoTrans, ORLEN Paliwa, ORLEN Transport, ORLEN Upstream and Ship-Service. Each time bonds profitability is determined on arm's length conditions.

PKN ORLEN's Supervisory Board, at the meeting held on 28 March 2013, gave consent for issue of bonds within the public bond issue programme ("Programme") by PKN ORLEN. In 2013 within the Program PKN ORLEN issued bonds in A Series, B Series, C Series and D Series. In A Series, B Series and C Series up to 2,000,000 unsecured bearer bonds were offered and in D Series – up to 1,000,000 bonds were offered. Unit nominal value of the bond is PLN 100. The bonds interest rate is variable and is based on the sum of WIBOR 6M rate and margin set at the level of 130 to 150 basis points. Bonds interest is paid in half-year periods. Day of final redemption of the bonds is set on 28 May 2017 for the Series A, 3 June 2017 for the Series B, 6 November 2017 for Series C and for 14 November 2017 for Series D.

The Management Board of Giełda Papierów Wartościowych w Warszawie S.A. (WSE) adopted a resolution authorizing bonds of A Series, B Series, C Series and D Series to be listed on the regulated market within the Catalyst platform. On 28 June 2013 first issue of bonds from A Series and B Series took place. On 9 December 2013 was the first issue of bonds from C Series and D Series.

Fitch Rating Agency has assigned a national rating ("rating") of "A- (pol)" for A Series, B Series, C Series and D Series bonds.

The value of issue in 2013 under the Programme, defined as the number of bonds which were offered multiplied by the issue price, amounted to PLN 700 million.

PKN ORLEN uses the funds raised through a public bond issue program to finance its current business operations.

At the end of 2013 the total amount of securities issued by PKN ORLEN amounted to PLN 2,716 million in comparison to PLN 1,921 million at the end of 2012.

Additional information on the issue of debt securities was presented in note 18.3 to the Separate Financial Statements for 2013.

4.3.4 Borrowings granted and received

At the end of 2013 the following agreements of borrowings granted by the Parent Company to entities within the ORLEN Group were in force:

- long-term borrowing granted on 7 June 2011 to ORLEN Lietuva in the amount of USD 200 million with final maturity day on 28 April 2017. The borrowing balance to be repaid, as at 31 December 2013, amounted to USD 200 million plus accrued interest,
- borrowings granted to ORLEN Finance AB in relation to international cash-pool system of total amount of USD 569 million,
- long-term borrowing granted on 12 December 2013 to Unipetrol in the amount of CZK 4,000 million with final maturity day on 28 April 2017. Total amount used as at 31 December 2013 amounted to CZK 2,000 million plus accrued interest.

At the end of 2013 in PKN ORLEN the following agreements of borrowings received by the Parent Company from entities within the ORLEN Group were in force:

- short-term borrowing agreement concluded on 22 November 2013 with ORLEN Insurance in the amount of USD 15 million with final maturity date on 21 November 2014 with extension possibility for the following year. The borrowing balance to be repaid, as at 31 December 2013, amounted to USD 10 million plus accrued interest.
- borrowings received from ORLEN Finance AB in relation to international cash-pool system in total amount of PLN 147 million.

Borrowings granted to and received from the ORLEN Group are eliminated during standard consolidation procedures.

4.3.5 Sureties, guarantees and other contingent liabilities

As at 31 December 2013 PKN ORLEN possessed off balance liabilities arising out of the issued guarantees and sureties for the overall PLN 3,615 million, in comparison to PLN 3,413 million at the end of 2012. In 2013 the amount includes:

- sureties and guarantees issued to subsidiaries to the benefit of third parties of PLN 2,197 million,
- securities for excise and excise duty on products and goods undergoing the procedure of suspended excise collection of PLN 1,241 million.
- sureties and guarantees concerning liabilities towards third parties issued in the course of normal business operations mainly relate to: guarantees and performance bonds of PLN 177 million.

As at 31 December 2013 there were no significant contingent liabilities

4.3.6 Working capital management

PKN ORLEN manages the working capital in a flexible way in the unstable market conditions with a range of tools used to its level optimisation.

In 2013, under optimization of capital located in crude oil mandatory reserves, another sale agreement of a part of the mandatory reserves was executed and concurrently agreement that outsources the obligation to maintain the reserves on the account of PKN ORLEN. After the term of the agreement lapses PKN ORLEN may buy back the crude oil in order to perform the statutory obligation to maintain the mandatory reserves.

PKN ORLEN uses also factoring agreements. PKN ORLEN uses factoring services without recourse offered by the banks that consist in the discount sale of short-term trade receivables due to the Company prior to their maturity and the bank taking over its insolvency risk.

The level of net working capital at the end of 2013 amounted to PLN 7,636 million and was lower by (-) PLN 2,306 million mainly as a result of optimisation of the operating reserves level as well as the increase of trade liabilities.

4.3.7 Financial instruments

PKN ORLEN using financial instruments hedges its cash flows:

- from inflows from operating activities over next 12 months, reduced by indexed or denominated in other than functional currency expenses, using non-deliverable sales/purchase forwards,
- from sales of refining products and purchase of crude oil using commodity swaps;
- from interest payments concerning external financing using interest rate swaps (IRS),
- from investment projects using foreign exchange forwards

As at 31 December 2013, the financial assets amounted to PLN 9,646 million and were higher by PLN 1,039 million in comparison to the end of 2012. The main items of financial assets were trade receivables of PLN 5,438 million and cash and cash equivalents of PLN 2,072 million and loans granted of PLN 1,475 million.

As at 31 December 2013, the financial liabilities amounted to PLN 15,911 million and in comparison to the end of 2012 decreased by PLN (-) 232 million. The main components of financial liabilities were trade liabilities of PLN 7,185 million, loans and borrowings of PLN 4,694 million and debt securities of PLN 2,716 million.

Additional information on financial instruments was presented in note 30 to the Separate Financial Statement for 2013.

4.3.8 Selected financial ratios

TABLE 20. List of financial ratios.

ITEM	UNIT	2013	2012
1	2	3	4
Liquidity ratios			
Current liquidity	x	1.6	1.8
Quick liquidity	x	0.8	0.8
Turnover ratios			
Receivables turnover	days	25	26
Liabilities turnover	days	30	32
Inventory turnover	days	43	45
Assets turnover	X	2.0	2.0
Debt service coverage ratio			
Financial leverage	%	27.4	33.5
Net debt/EBITDA	X	3.6	2.5

The methodology of calculating ratios in the report is presented in the [Glosary of selected and financial definitions](#) at the end of the foregoing Report.

4.4 Assessment of the possibility of investment projects implementation

The investment programme in 2013 and subsequent years is focused on the implementation of projects with key significance for further development and competitiveness of PKN ORLEN, enabling the optimum use of the existing production capacities and the development of the upstream and energy areas.

The investment programme includes also the completion of a number of projects already being realized, among others, Installation of Flue Gas Denitrifying and Dedusting as well as the Flue Gas Desulphurization Installation in PKN ORLEN's Heat and Power Plant and development projects for the upstream and power segments, including, among others, the continuation of exploration works on the concessions already held as well as the continued construction of a gas and steam power unit in Włocławek. The effective implementation of investment projects is one of the priorities of PKN ORLEN's activities.

The decrease of the net financial debt to the level of PLN 5,338 million as at the end of 2013, reduction of the net financial leverage ratio to 27.4% and the forecasted operating cash flows will enable the implementation of the planned investment projects. A key role in the implementation of the investment plans is played by the policy of launching projects depending on the current situation of PKN ORLEN and the market environment. Also a sustainable investment policy is conducted. This policy, among others, is reflected through an additional pool of expenditures being separated and made available depending on the implementation of the basic investment plans and the macroeconomic factors, mainly in the upstream and power industry segments

The levels of selected financial ratios were presented in [point 4.3.8](#) of the foregoing Report

4.5 Perspectives for development in the next financial year

In the next financial year PKN ORLEN assumes to continue its activities dedicated to enhancement of the operating efficiency and focus on the cash flows from operating activities in order to follow the defined strategic directions.

The financial and operating situation of PKN ORLEN may be affected, similarly like in prior years, by both external and internal factors.

- **Forecasted macroeconomic environment:**

- crude oil prices and Brent/Ural differential level: forecasted stabilisation of quotations at the level comparable to the average noted in 2013,
- model refining margin: a slight raise is expected (y/y) following the extremely low levels recorded at the turn of 2013 and 2014,
- model petrochemical margin: it is expected that the high level above 700 EUR/t will be maintained as a result of the long-term tendency being continued,
- strengthening of EUR/PLN exchange rate due to the enhancement of Polish economy with slight strengthening of the USD/EUR exchange rate, which limits the strengthening of USD/PLN exchange rate – influence on the level of debt service costs, raw materials procurements in foreign currencies and the amount of realized prices and margins

- **Forecasted market tendencies and competition:**

- assumed GDP growth in Poland and other countries where PKN ORLEN operates, which should positively influence the consumption of fuels and other products of PKN ORLEN,
- increase in the demand for diesel oil with the further decrease in the demand for gasoline in Central and Eastern Europe in 2014,
- limitation is expected of the so-called "shadow economy" as a result of the introduction, by Government in October 2013, of the regulations providing for joint liability for the payment of VAT; further regulations are expected.
- economic fluctuations in the area of main petrochemical products: monomers and polymers, including the chances for improvement if a long-term raising cycle, which has been observed in this area in recent years, is maintained,
- increased competition is anticipated to result in the market pressure on the generated margins and the level of volumes placed,
- changes on the engine fuel market related to a fast growing market share of LPG.

- **Changes in legislation:**
 - further regulations are expected to limit the influence of “shadow economy”,
 - the reduced level of the National Index Target (NIT) is maintained at the level of 6.04% in 2014-2015 – possible optimization of costs of the NIT implementation in Poland,
 - lower limits of CO₂ emission rights granted free of charge for 2013 – 2020 – preliminary volumes were approved by the European Commission on 26 February 2014, at present the legislative process at the national level is carried out,
 - termination of granted but not amortised color energy certificates and support for production of electricity in cogeneration system on new principles (color certificates),
 - anticipated amendments to the provisions regulating mandatory reserves in Poland in medium term.

- **Investing activity of PKN ORLEN:**
 - refining: continuation of the construction of the Denitrifying and Dedusting Installation as well as the Flue Gas Desulphurization Installation (“FGD”) in Heat and Power Plant in Plock.
 - retail: development of the gasoline station network in Poland,
 - upstream: planned further exploratory drillings in Poland and intensification of upstream activities in Canada – possible increase in expenditures if results of the works are positive,
 - power industry: continuation of construction of the power plant in Włocławek and making a decision on a project involving a construction of another CCGT power plant in Plock.

5. ORLEN GROUP STRATEGY AND DEVELOPMENT PLANS

5.1 The assumptions of the ORLEN Group strategy for 2013-2017

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

SHAREHOLDERS Sustainable increase in the dividend rate <div>to 5%</div>	Stable financial foundations resulting from a reduced indebtedness and financial leverage, guaranteed refinancing and improved rating of the ORLEN Group's condition expressed in rating agencies opinions create the potential for dividend payments in the following years. A new, transparent dividend policy assumes a sustainable increase in the dividend rate up to 5% as compared to the Company's average capitalization in the previous year, taken into consideration the implementation of strategic objectives in the field of financial safety and macroeconomic situation.
VALUE GROWTH Improving the operating cash flows <div>above 40%</div>	In the Refining, Petrochemical and Retail segments – so called downstream- focus on enhancing the efficiency and value maximisation and using the owned potential as the leverage to build value in the area of Power Industry and Upstream, strengthening the competitive advantages in reducing external risks. Improving the operating results and cash flows provided by operating activities will enable to allocate more funds for development, especially in the area of Upstream and Power Industry.
FINANCIAL FOUNDATIONS Keeping the safe level of financial leverage <div>below 30%</div>	The above strategic objectives will be performed with special attention to the financial safety. It is planned to keep the safe level of financial leverage below 30% and the Net debt/(operating result + amortization) covenant below 1.5. One of the strategic objectives is also to maintain by PKN ORLEN's investment rating. Maintaining financial ratios at safe level will increase the flexibility of financing.

5.2 Strategy implementation in particular segments

Refining segment

The refining segment holds the high-class integrated production assets which ensure a strong position on the competitive market, mostly through the constant efforts to improve efficiency.

Key operating indicators to be achieved by 2017:

- increasing the fuels yield to 77%,
- decreasing the energy consumption by 4 units (as per Solomon index - EII).

As regards the wholesale of fuels the Company's target is to maintain the position of leader on the wholesale markets, mainly through the larger volume of sales due to better efficiency, including the adjustment of sales structure to the changing market needs. In the area of logistics, however, the Company will be focusing on the optimization of costs of fuel logistics and further strengthening of logistics advantages of the ORLEN Group.

Petrochemical segment

PKN ORLEN's position as the largest petrochemical producer in the region and a leader in the olefin and polyolefin production along with the forecast constant increase in the demand for these products creates a solid foundation of a value growth. Strategic operations until year 2017 are tailored to maintain the position of the most profitable segment of PKN ORLEN and to achieve the status of an innovative player in selected market segments as a result of the extending the value chain.

The priority is to focus on the value generated from existing petrochemical assets maximisation, moreover, the development plans are fully compatible with the development scenarios for individual markets to ensure the appropriate level of cash flows, which will, in turn, allow to achieve the goals presented in the Strategy.

The main strategic objectives of the petrochemical segment include:

- optimization of production assets by improvement of the performance rate of key installations and enhancement of power efficiency,
- maximization of sales and margin on key products,
- extending the value chain through the implementation of development projects.

Realisation of the planned strategy is expected to increase in 2017 the throughput of Olefin installation by 7 pp, the sale of polymers and PTA by 0.2 million tonnes, as compared to 2012.

Retail segment

The activity of the retail segment in the next years will be based on the strong and grounded market position. The ORLEN Group has the largest sales network in the Central Europe and the biggest group of loyal customers in Poland. The Vitay and Flota programmes have 2.5 million participants.

The strategic objectives to be reached until 2017 assume, among others, increase on average sale per station by 0.6 million liters by the end of 2017. Additionally, they assume the share in the ORLEN Group's domestic markets (i.e. Polish, Czech, German and Lithuanian markets) to increase by 3 pp as compared to the share recorded in 2012 and higher profits generated from non-fuel sales. These objectives may be achieved among others, with the support of strong and recognizable brands of fuel stations on domestic markets. The expenditure structure for the retail segment assumes a reduction of adjustment investments and increased financial engagement in the network development, including highway stations

Upstream segment

PKN ORLEN plans to further develop the extraction activities. Options to expand the activity in this respect will also be strategic partnerships and possible M&A transactions.

PKN ORLEN's priority is the shale gas exploration under concessions held in Poland. The extraction may possibly be started as early as in 2016 and reach 160 million m³ per year in 2017. PKN ORLEN also plans to extract crude oil, the own production volume may reach 1 million bbl per year in 2017.

Power Industry

Given the energy market prospects, including the expected excess of demand over the supply, good locations held and possible synergies with other segments, it was decided to continue the development activities in this area.




The main element of the ORLEN Group's power strategy involves the construction of a gas and steam power plant in Włocławek with 463 MWe capacity. The unit is planned to be commissioned in the IV quarter of 2015. The plant will supply technological steam and electricity to the company ANWIL S.A., and the energy surplus will be placed on the market.

In the power industry, the strategic objectives of PKN ORLEN include:

- the increase in the energy production capacities through the completion of the gas power plant construction in Włocławek,
- modernisation of the current infrastructure with a view to further developing the energy production capacities and adjusting the currently existing assets to the Directive on Industrial Emissions,
- providing energy security for the ORLEN Group

5.3 The summary of strategic actions realisation in 2013

In 2013 the ORLEN Group executed the development directions based on the set strategic pillars:

SHAREHOLDERS 	<ul style="list-style-type: none"> – The dividend payment of PLN 642 million, i.e. PLN 1.5 per 1 share. – Dividend yield: 3.8% in terms of average level of PKN ORLEN's share price in 2012.
FINANCIAL FOUNDATIONS 	<ul style="list-style-type: none"> – Financial leverage of 20.4%. – Restoring the Fitch and the Moody's investment rating. – Financial diversification: bonds' issuance of nominal value of PLN 700 million.
VALUE GROWTH 	<ul style="list-style-type: none"> – The acquisition of a Canadian upstream company TriOil. – Agreements with Rosneft for crude oil deliveries to Plock and to Unipetrol Group. – EBITDA LIFO: PLN 3.2 billion.

The strategy realisation in segments:

RAFINING	<ul style="list-style-type: none"> – Increasing crude oil throughput to 28.2 million tonnes in 2013. – The increase in fuels yield to 79% in PKN ORLEN – Increase in energy effectiveness in all refineries of the ORLEN Group - a decrease in the energy intensity index by (-) 3.9 p.p. (y/y).
PETROCHEMICAL	<ul style="list-style-type: none"> – An increase in the polyolefin and PTA sales volume (y/y). – An improvement of energy intensity indices (y/y) for the ORLEN Group's key petrochemical installations. – The start of works on the key development projects: the PE 3 installation in the Unipetrol Group as well as the Phenol, Metathesis and aromas installations in PKN ORLEN.
RETAIL	<ul style="list-style-type: none"> – Strengthening of the Company's position and share on the domestic markets (Poland, Czech Republic, Lithuania) and keeping the share on the German market. – Increase by 1% (y/y) in yearly average sales of PKN ORLEN's stations to the level of 3.5 million liters with the declining fuel consumption. – The definition of main development directions for non-fuel sales related to commercial activities and food services.
UPSTREAM	<ul style="list-style-type: none"> – Within unconventional projects at the end of 2013, 8 drillings were completed, including: 6 vertical and 2 horizontal, as well as 2 hydraulic fracturing. At the beginning of 2014, 2 drillings were completed: in January – vertical drilling, in March – horizontal drilling. – Within conventional projects, till the end of 2013 3 drillings were completed: 2 in Poland and 1 in the Latvian shelf. – The acquisition of a Canadian company TriOil Resources Ltd. – an access to crude oil and natural gas resources in production phase as well as know-how in the area of extraction of hydrocarbons from unconventional sources.
POWER INDUSTRY	<ul style="list-style-type: none"> – The construction of CCGT unit in Wloclawek with an output of 463 MWe, together with infrastructure, executed according to the schedule. – The developed concept of CCGT unit construction, with output of 450-600 MWe in Plock (the final decision regarding this project is expected to be made in the half of 2014). – The continuation of ecology investments programme implementation – the construction of the Flue Gas Denitrifying and Dedusting installation as well as the Flue Gas Desulphurization installation. – The works in the area of the energy and cost efficiency improvement of the power assets: the heat and power plant T700 in the Unipetrol Group, the power in Rafineria Trzebinia and in the ORLEN Lietuva Group.

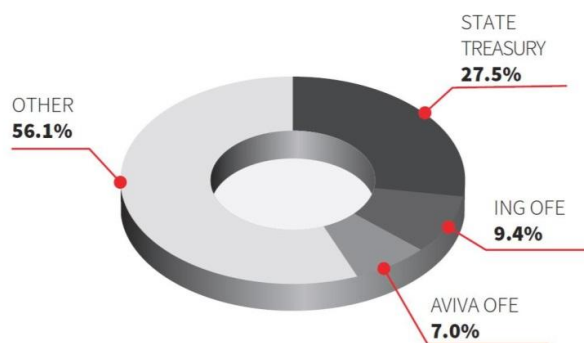
6. SHAREHOLDERS AND SHARES

6.1 Shareholding structure in PKN ORLEN

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

Number of shares and shareholding structure in PKN ORLEN as at 31 December 2013 is presented in [point 7.4](#) of the foregoing Report.

DIAGRAM 23. Shareholding structure in PKN ORLEN as at 31 December 2013.



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

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

Members of the Management Board of PKN ORLEN as at 31 December 2013 did not hold any shares of the Company.

Mr Artur Gabor and Mr Grzegorz Borowiec from the Supervisory Board of PKN ORLEN held at the end of 2013 3,200 and 100 shares of the Company, respectively.

Management and supervisory personnel of PKN ORLEN as at 31 December 2013 did not hold any shares in other ORLEN Group's entities.

6.3 Employee stock option scheme monitoring system

In 2013 no employee stock option scheme was implemented in PKN ORLEN.

6.4 Share repurchase

In 2013 no share repurchase took place in PKN ORLEN.

6.5 Dividend policy

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

The Management Board of PKN ORLEN proposes to distribute the net profit for 2013 of PLN 618 to be paid as a dividend of PLN 616 million (PLN 1.44 per share) what constitute 3% of average capitalization of the Parent Company. Additional information is presented in note 21.8 to the Consolidated Financial Statements for 2013

6.6 Ratings

In August and November 2013, after four years, PKN ORLEN regained the ratings at the investment level in two leading rating agencies: Fitch and Moody's, and was awarded, respectively, BBB- and Baa3 (positive outlook). The above ratings were granted as a result of a consistent process of debt removal, of PKN ORLEN and maintaining of the financial results at the safe level, which has significantly improved the credit situation of PKN ORLEN despite of hard conditions for the trade.

PKN ORLEN's reliability was enhanced also due to the ORLEN Group's strategy for the years 2013-2017, which was announced in the end of 2012. The announced strategy is advantageous for the Company's credit profile since it keeps credit ratios at a safe level. The agencies positively assessed greater financial flexibility of the Company. Firstly, the sustainable investment policy was noticed, particularly an additional capex, which can be deferred if the cash flows are weaker than expected. The agency positively views PKN ORLEN's ability to manage its working capital in response to changes in financial situation. The strategy of the ORLEN Group was assessed to be an ambitious plan for improvement of core activity with development of energy industry and upstream, showing extensive flexibility of actions planned.

A full list of ratings assigned by the Fitch agency is the following:

- Long-term foreign currency international rating upgraded to 'BBB-' from 'BB+'; Stable Outlook.
- Long-term local currency international rating upgraded to 'BBB-' from 'BB+'; Stable Outlook.
- Short-term foreign currency international rating upgraded to 'F3' from 'B'.
- Short-term local currency international rating upgraded to 'F3' from 'B'.
- Foreign currency senior unsecured international rating upgraded to 'BBB-' from 'BB+'.
- Local currency senior unsecured rating upgraded to 'BBB-' from 'BB+'.
- National long-term rating upgraded to 'A-(pol)' from 'BBB+(pol)'; Stable Outlook.
- National senior unsecured rating (referred also to series A and B retail bonds, issued within the public bond issue programme upgraded to 'A-(pol)' from 'BBB+(pol)').

The Moody's Rating Agency, upgrading PKN ORLEN's credit assessment from Ba1 to Baa3, evaluated the outlook of assigned rating as stable. Simultaneously, the Agency increased the Company's baseline credit assessment from ba2 to ba1.

6.7 PKN ORLEN on the Stock Exchange

Shares of PKN ORLEN are quoted on the Warsaw Stock Exchange (Gielda Papierów Wartościowych w Warszawie S.A.). Since 1999 PKN ORLEN's shares were quoted in the form of Global Depositary Receipts (GDRs) on the London Stock Exchange. Since 2001 the depositary receipts were also traded in the United States on the Over the Counter (OTC) market. The trading unit on the OTC market in the USA was an American Deposit Receipt (ADR). In 2012 PKN ORLEN decided to cease both programmes of deposit receipts due to decreasing interest in these securities among the investors. The termination of the deposit agreement establishing GDRs took place on 27 February 2013. The termination of the agreement establishing ADRs took place on 4 March 2013.

PKN ORLEN shares are quoted on the main market of the Warsaw Stock Exchange in the continuous quoting system and are included in WIG, WIG20, WIG30, WIG-Poland and WIG-FUELS – the industry index.

Since 19 November 2009 PKN ORLEN maintains its position amongst the elite of companies engaged in corporate social responsibility listed in RESPECT Index.

In 2013, WIG20, the largest companies stock market index, decreased in value by (-) 7.0% (y/y), whereas WIG index increased in value by 8.1%. The average annual price of PKN ORLEN's shares increased in 2013 by 22.1%, however, at the end of 2013 it decreased by (-) 17.2% (y/y).

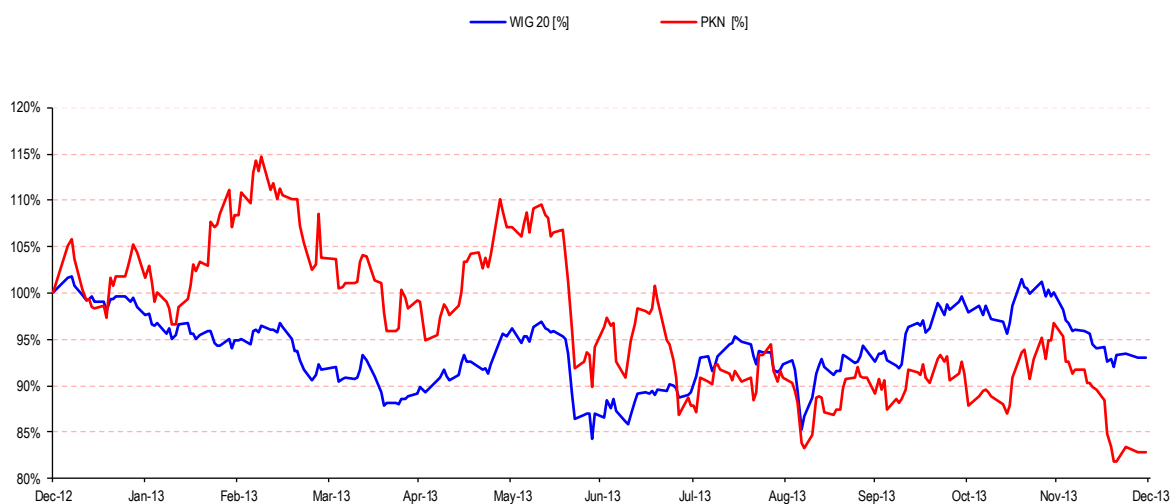
In 2013, 226 million of shares changed their holders on the market, that is (-) 21% fewer, comparing to 2012 volume.

TABLE 21. Key data regarding PKN ORLEN's shares.

KEY DATA	UNIT	2013	2012	CHANGE %
1	2	3	4	5=(3-4)/4
Net profit attributable to equity owners of the Parent Company	PLN million	176	2 345	(92.5%)
Highest share price	PLN	56.80	52.95	7.3%
Lowest share price	PLN	40.50	32.02	26.5%
Share price at year end	PLN	41.00	49.50	(17.2%)
Average price in the period	PLN	47.96	39.27	22.1%
P/E ratio average		116.6	7.2	1 519.4%
P/E ratio at year end		99.6	9.0	1 006.7%
Number of shares traded	no.	427 709 061	427 709 061	0.0%
Capitalisation at year end	PLN million	17 536	21 172	(17.2%)
Average daily trading value	PLN million	44	45	(2.2%)
Average daily trading volume	no.	915 877	1 148 614	(20.3%)

Calculation of the above indices based on the closing share prices

CHART 24 Quotations of PKN ORLEN and WIG20 on the WSE in 2013¹⁾.

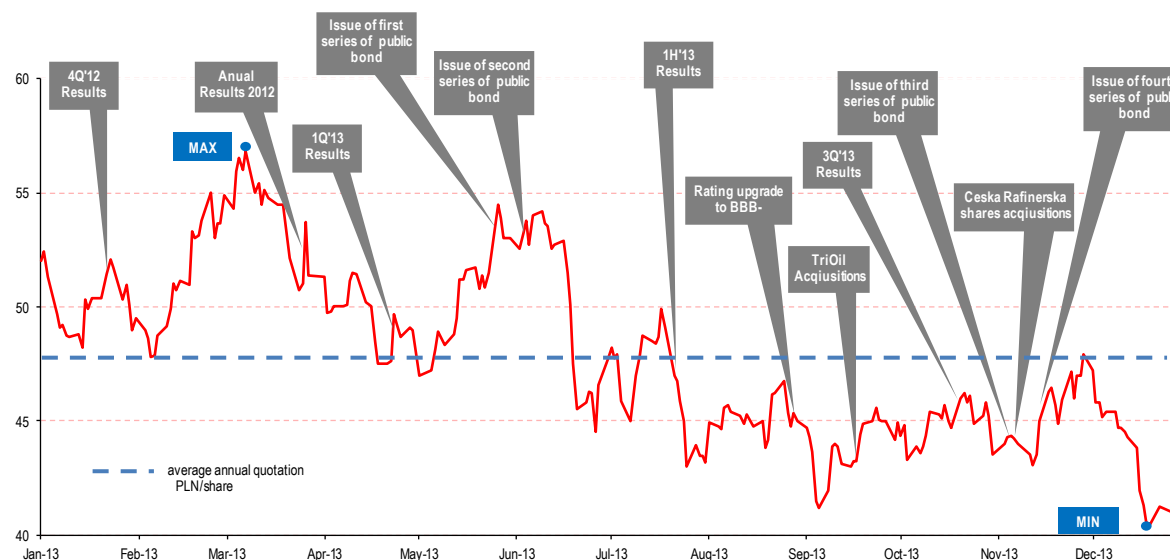


1) percentage change of PKN ORLEN, WIG 20 quotations in respect to the quotations on 31 December 2012

CHART 25 PKN ORLEN's quotations on the WSE in 1999-2013.



CHART 26 The most important events on a background of PKN ORLEN's quotations on WSE in 2013.



Recommendations for PKN ORLEN's shares are issued by the following brokerage offices - as at the date of authorization of the foregoing Report.

SEATED IN POLAND	SEATED OUTSIDE POLAND
BDM	Bank of America Merrill Lynch
BZ WBK	Barclays
Citi	Concorde Securities
Espirito Santo	Deutsche Bank
IDM	Erste
ING	Goldman Sachs
Investors	Morgan Stanley
Ipopema	Raiffeisen
mBank	Société Générale
PKO BP	UBS
UniCredit	Wood

Current list of recommendations issued for the Company's shares is available on the corporate website under: <http://www.orlen.pl/PL/RelacjeInwestorskie/Rekomendacje/Strony/default.aspx?orderBy=InstitutionAsc>

7. CORPORATE GOVERNANCE

7.1 A set of applied Corporate Governance rules

In 2013, PKN ORLEN complied with the "Best Practice for Companies Listed on the Stock Exchange" ("BPCL") valid for the Warsaw Stock Exchange. The Code of BPCL can be found on the website dedicated to the corporate governance at the Warsaw Stock Exchange: www.cbp.gov.pl and on the corporate website of PKN ORLEN: www.orlen.pl in the "Investor Relations" section dedicated to the Company's shareholders under "Shareholder services & tools" in the "WSE Best Practice" tab.

(<http://www.orlen.pl/EN/InvestorRelations/ShareholderServicesTools/Pages/WSEBestPractice.aspx>)

The Company currently does not apply the rule described in part IV, point 10 of "BPCL", regarding the shareholders right to take part in the General Meeting, using electronic means of communication, by broadcasting the General Meeting and allowing the bilateral communication set out in the real-time, with regard to the bilateral communication in the real-time. The other obligatory rules of the corporate governance contained in the "BPCL" are applied by PKN ORLEN.

Communication with the capital market

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

Corporate website www.orlen.pl

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

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

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

One can find there, among others:

- interactive diagrams and tables quickly comparing the Company's financial ratios in different periods,
- interactive diagrams and tables showing PKN ORLEN's shares quotations with a calculator of the return on investment in the Company's stock. These diagrams enable comparison of stock quotations with the main stock indexes which include the Company's stock. To a diagram showing PKN ORLEN share quotations a diagram showing the quotation of one of the indexes: WIG, WIG 20, WIG 30 or WIG-PALIWA (WIG-FUELS) can be attached,
- financial statements, gathered in one place together with the presentations that describe them and that were prepared for the capital market representatives, the records of teleconferences with the stock market investors on the occasion of publication of the financial results and the worksheets with the data from the presentations and financial statements that simplifies the data analysis,
- special form for contacts with the Company in respect of PKN ORLEN's General Meetings, in accordance with the regulations of the Commercial Companies Code,
- possibility to subscribe to various types of PKN ORLEN's newsletters, including the most recent investor relations news. Section has also RSS feed, that enables all new information placed in it to reach recipients immediately, particularly in relation to stock reports and macroeconomic data,
- an option to sign up for reminders concerning the events from the event's Calendar. One can enter the selected dates to calendars in his mail programs as well as sign up for the events' reminders sent by e-mail or SMS. One can decide before which events he wants to receive reminders - it can be one or several of them as well as all events entered to PKN ORLEN investor relations' calendar, both in the current and in the next years.

For continuous improvements of Investor relations section on www.orlen.pl website and having regard to capital market representatives' information need in 2013:

- new tab "Bonds" was created in the "Shareholder services & tools" section. It presents significant information regarding PKN ORLEN's public bond issue programme dedicated to individual stock investors. This section also allows to download documents relating to the entire programme (issue prospectus with appendices) and also individual issues (final offer conditions, a table with interest payment dates). In the tab all announcements published by the Company regarding the programme and the contact information to the brokerage offices handling the issue programme are gathered,

- a section containing a set of financial statements materials was complemented with the financial data from the statements in editable version.

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

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

Moreover PKN ORLEN has the mobile version of its corporate website (m.orken.pl) and the mobile version of annual report on-line (m.raport.orken.pl). Users of the mobile devices can access the key information concerning PKN ORLEN known from the original version of the websites in an easy and fast way. The website m.orken.pl provides access to e.g. stock market reports, stock quotations, financial results or press information. Via the mobile devices one can also listen to the business audiobook about the history of Polish petroleum industry or reach for electronic publications. In the "Press centre" tab, audio files with recordings of press conferences are available. The mobile version of the corporate website enables also establishing a phone connection with the Company in a fast way via function "click to call". The mobile version of the annual report contains the entire content of the original annual report. It should be emphasized that it has a form of an internet service and not an application thus it does not require any software updates.

Platforms m.orken.pl and m.raport.orken.pl are available in Polish and English version.

Direct contacts with capital market representatives

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

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

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

With a view to develop the forms and quality of communication with the capital market, the Company published in 2013 on a quarterly basis the so-called "trading statement", i.e. operational and financial estimates and expectations of operating profit (EBIT) trends, taking into account the impact of macroeconomic factors and significant one-offs on the operating profit (EBIT). Purpose of these reports was to provide capital market participants with information about the estimated ORLEN Group financial results in the period between end of the quarter and publication of the interim report for the period. In February 2013, the Company resigned from continuing publication of „trading statement”.

Due to the fact that the Company has speeded up the publishing dates of financial statements, trading statement does no longer significantly play its role.

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

- organising PKN ORLEN's Investor and Analyst days. The first day was dedicated to deepened discussion on PKN ORLEN's strategy for 2013-2017. On the second day the invited guests visited PKN ORLEN's drilling rig exploring the shale gas under the Lubartów concession,
- announcing the public bond issues programme dedicated to individual investors. Within the programme. 4 series of bonds of total value of PLN 700 million were issued. The issued bonds are traded on the Catalyst market,
- PKN ORLEN's participation in an educational campaign „Akcyjariat Obywatelski. Inwestuj Świadomie” (“Citizens Shareholders. Invest Knowingly”) dedicated to individual stock investors.

The care for communication with the capital market players was appreciated also in 2013 and reflected through the awards granted to the Company in the area of investor relations:

- II place in Investor relations category of the "Listed company of the 2012" competition organized by the Puls Biznesu,

- the main award in Polish listed companies belonging to WIG20 and mWIG40 category in “Złota Strona Emitenta” (“Golden Website”) competition, organized by the Polish Association of Listed Companies,
- the award „Best investor relations by a Polish company 2013” in competition organized by monthly IR Magazine,
- in 2013 PKN ORLEN maintained its presence in VI and VII edition of Respect Index project,
- PKN ORLEN was ranked among the top three best reporting ESG non-financial data listed companies belonging to WIG20 and mWIG40 and in the group of companies in the energy sector, in the II edition of ranking organized by the Polish Association of Listed Companies. GES and Crido Business Consulting,
- The special award “The Best of The Best” in “Best Annual Report 2012” competition, organized by the Institute of Accounting and Taxation and the special distinction of an educational campaign „Akcjonariat Obywatelski. Inwestuj Świadomie” (“Citizens Shareholders. Invest Knowingly”) for achieving the highest score in the history of the competition and keeping the financial reporting, from shareholders’ and inventors’ point of view, in an exemplary way.

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

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

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

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

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

PKN ORLEN applies the social responsibility rules, based on “Values and rules of conduct of PKN ORLEN S.A.”. The document, which was adopted in September 2012 by the Company’s Management Board set a new mission. New values responding to the challenges faced currently and supporting the realization of business strategy were implemented. Responsibility, Progress, People, Energy, Dependability are the values which show the way to attain ambitious goals to the firm and its people.

The changes are accompanied by the constant elements. It is, for example, PKN ORLEN’s participation in GLOBAL COMPACT, initiative of the Secretary-General of the United Nations. The ten principles in the areas of human rights, labor standards, the environmental protection and anti-corruption, present the operational priorities of the Company for years.

The Company communicates the operations in area of corporate social responsibility by social reports prepared regularly. Since its establishment, it published nine of them. Since 2008, they have been prepared in accordance with the GRI (Global Reporting Initiative) international standard. The Report CSR 2012 was prepared in accordance with GRI G3.1 Guidelines at B level. The report informs in details about e.g. environmental protection, employment and decent work and respecting human rights matters. As the previous ones, it was published on the Company’s website: <http://www.orlen.pl/PL/OdpowiedzialnyBiznes/Raporty/RaportyCSR>

Permanent care of people is reflected in carried out by PKN ORLEN and the ORLEN’s Foundation – Dar Serca social campaigns, programmes addressed to current and ex-employees, or projects for local communities. The ORLEN’s Foundation – Dar Serca is a public benefit organization, established to implement the social mission of the Founder. The mission of the corporate Foundation (one of the first on the Polish market) is to manage activities with high value added, for equaling of opportunities for children without parental care and active partnership with local communities, implemented by encouraging and supporting youth in the process of education, involvement in improvement of safety and health protection projects.

The Foundation informs about conducted projects on its website in annual reports:
<http://www.orlendarserca.pl/PL/NaszaDzialalnosc/Strony/Sprawozdanie-z-dzialalnosci.aspx>.

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

The Company’s system of internal control and risk management in the process of financial statements preparation is implemented through:

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

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

This system is the leading system in the ORLEN Group. Thanks to a uniform IT platform used the Parent Company has control over the recording of financial – accounting events within the ORLEN Group.

The system has an option enabling the control of access rights of different users in a way that ensures the control over their access to specific objects and transactions.

All actions performed in the system are recorded for individual transactions and users. In order to protect against unauthorized access, the entire system, along with the user data, is stored in a special directory structure of the operating system, which is secured with the appropriate access rights.

Security and availability of information contained in the financial-accounting system are controlled at all levels of the database, applications and presentations as well as at the level of operating system. System integration is ensured by the data entry control systems (validation, authorization, a list of values) and logs of changes. In case of system failure not completed transactions are withdrawn. Logs of changes give the possibility of path reviews.

Users do not have direct access to the operating system and database. Integrated menu of the system includes access paths to all transactions available in the system. Securing the access to individual transactions is based on the authorizations assigned to the user. Security systems are used at the hardware and software level of the system.

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

The consolidated financial statements are prepared based on the integrated IT system where consolidation process of entered data from reporting packages provided by the ORLEN Group companies is performed. The system is designed for financial management and reporting purposes. The system enables the unification of financial information. Results budgeted and forecasted data as well as statistics are gathered in one place, what ensures direct control and compatibility of the entered data.

The data is reviewed in terms of their cohesion, completeness and continuity, which is achieved thanks to controls implemented in the system, which check the compliance of data entered by the companies.

Designated users of the system supervise the safety management of the system and established stages of consolidation process management. Granting access rights to individual users is strictly dependent on the security roles defined for (assigned to) them. Appropriate security classes have been set up for individual users in order to maintain control. Access to financial resources is limited by a system of permissions that are granted to authorized personnel only within the performance of their duties. These authorizations are subject to regular audits and verification. Controlling of the access to applications is carried out at each stage of preparation of the financial statement. Starting from data entry and ending with the generating of the final information.

Financial information is stored in an IT system, so that they can be used to create transparent reports and forecasts, both for internal needs and external recipients, such as public bodies, financial analysts, shareholders and business partners.

The preparation of consolidated financial statements in a single integrated tool enables to shorten the processes of consolidation and reporting of financial information as well as to obtain high-quality substantive and usable financial information.

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

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

The Company has an Audit and Corporate Risk Management Department which has to ensure an independent and objective evaluation of the risk management and internal audit systems, and analyze business processes.

The Department operates basing on the annual audit plans approved by the Management Board and accepted by the Audit Committee of the Supervisory Board and the Supervisory Board. The Audit and Corporate Risk Management Department can also carry out random audits as ordered by the Company's Supervisory Board or the Management Board.

Within the realised tasks and objectives, the Audit and Corporate Risk Management Department provides recommendations as to the implementation of solutions and standards for realised audit tasks, designed to mitigate the risk of PKN ORLEN not meeting the targets set, to improve the effectiveness of the internal control system and to increase the efficiency of business processes.

Twice a year the Audit and Corporate Risk Management Department prepares a report for the Management Board and the Audit Committee of the Supervisory Board on the implementation status of recommendations monitoring, which summarises the conclusions regarding the audit tasks performed and monitors the realization of the Company's financial statements auditor's recommendations.

Additionally, the Audit and Corporate Risk Management Department coordinates the process of corporate risk management and ensures the tools and methodological support for the business areas. The department manages the process of risks self-evaluation every year and carries out the tests of control mechanisms to the needs of Integrated Enterprise Risk Management System (ERM). Based on the work performed the Department prepares a report on the current risk profile of PKN ORLEN and an evaluation of the effectiveness of functioning control mechanisms, under the ERM.

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

In 2013, in relation to the entry into force, on 1 January 2013, of the amended BPLC at the Stock Exchange ("BPLC"). PKN ORLEN notified that it did not comply with the rule of part IV, point 10 of Best Practices, concerning the procurement of the possibility to the shareholders of taking part in the General Meeting with the use of electronic communications involving a transmission of debates of the General Meeting and bilateral communication in real time (elements of "e-general meeting").

The Company's Management Board proposed to the shareholders the introduction of the above rule to the Articles of Association and the Bylaws of the General Meeting twice, but on both occasions the shareholders did not approve the proposal at Ordinary General Meetings held on 29 June 2011 and 30 May 2012.

Failure to comply with the above rule does not affect reliability of the Company's reporting policy nor does it give rise to any risk of shareholders being limited or impaired in respect of their participation in the debates of General Meetings.

The remaining rules concerning the organization and conduct of the General Meetings are complied with. The Company complies with the provisions of law applicable in this respect and strives for implementing the appropriate reporting policy. PKN ORLEN organizes direct Internet transmissions with simultaneous interpretation into English and the archive wide records are available on the Company's website at: www.orlen.pl. The Company enables representatives of media to participate in its general meetings.

The Company does not exclude the option of compliance with the above rule in the future.

In 2013, PKN ORLEN complied with all other mandatory clauses of corporate governance contained in the BPLC.

7.4 PKN ORLEN's shareholders with a significant stake

PKN ORLEN's shares are listed on the main market of the Warsaw Stock Exchange in the continuous trading system and are included in the biggest company indexes WIG20, WIG30 and WIG as well as the industry index WIG-PALIWA (WIG-FUELS). Since 19 November 2009 PKN ORLEN shares are quoted among the companies engaged in corporate social responsibility - Respect Index.

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

The share capital of PKN ORLEN is divided into 427,709,061 ordinary bearer shares with a par value of PLN 1.25 each.

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

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

In 2013 and until the date of authorization of this report, there was no change in the structure of shareholders with a stake of more than 5% in PKN ORLEN's share capital. The company changed the way of the data presentation regarding significant shareholders. The number of shares held by the shareholders is presented based on the most recent, official information acquired by the Company. Previously, PKN Orlen presented the data based on notifications received from shareholders.

TABLE 22. Shareholding structure of PKN ORLEN as at 1 January 2013.

SHAREHOLDERS	NUMBER OF SHARES	NUMBER OF VOTES AT A GENERAL MEETING OF PKN ORLEN	SHARE IN TOTAL NUMBER OF VOTES AT A GENERAL MEETING OF PKN ORLEN	SHARE IN SHARE CAPITAL OF PKN ORLEN
State Treasury	117 710 196	117 710 196	27.52%	27.52%
Aviva OFE *	21 744 036	21 744 036	5.08%	5.08%
ING OFE **	21 464 398	21 464 398	5.02%	5.02%
Others	266 790 431	266 790 431	62.38%	62.38%
Total	427 709 061	427 709 061	100.00%	100.00%

*according to the information received by the Company from the fund on 9 February 2010.

**according to the information received by the Company from the fund on 30 March 2012.

TABLE 23. Shareholding structure of PKN ORLEN as at 31 December 2013.

SHAREHOLDERS	NUMBER OF SHARES	NUMBER OF VOTES AT A GENERAL MEETING OF PKN ORLEN	SHARE IN TOTAL NUMBER OF VOTES AT A GENERAL MEETING OF PKN ORLEN	SHARE IN SHARE CAPITAL OF PKN ORLEN
State Treasury	117 710 196	117 710 196	27.52%	27.52%
ING OFE *	40 000 000	40 000 000	9.35%	9.35%
Aviva OFE *	30 000 000	30 000 000	7.01%	7.01%
Others	239 998 865	239 998 865	56.12%	56.12%
Total	427 709 061	427 709 061	100.00%	100.00%

* according to the information from Ordinary General Meeting of PKN ORLEN, held on 27 June 2013.

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

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

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

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

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

- A shareholder is deemed to be each person including the parent company and its subsidiary that is directly or indirectly entitled to the voting right at the General Meeting under any legal title; that refers also to a person that is not a Company's shareholder in particular a user, pledge, a person authorised from the depository receipt within the meaning of the Act of 29 July 2005 on Trading in Financial Instruments as well as a person authorised to participate in the General Meeting despite having the held shares been disposed of following the day when the right to participate in the General Meeting was established.
- Shareholders, whose votes are cumulated and reduced, are jointly referred to as the Shareholders Grouping. The accumulation of votes involves summing up the votes held by individual shareholders of the Shareholders Grouping. The reduction of the number of votes involves decreasing the overall number of the entitled votes in the Company during the General Meeting to the shareholders being members of the Shareholders Grouping. The number of votes is reduced in accordance with the following rules:
 - the number of votes of a shareholder who has the largest number of votes in the Company among the votes of all shareholders in the Shareholders Grouping, is decreased by the number of votes equal to the surplus in excess of 10% of the overall number of votes in the Company held in aggregate by all shareholders in the Grouping,
 - if, despite the reduction mentioned above, the overall number of votes held by the Shareholders Grouping to be exercised at the General Meeting exceeds 10% of the total number of votes in the Company, the number of votes held by the remaining shareholders in the Grouping is subject to further reduction. The number of votes is further reduced in the order established on the basis of the number of votes held by particular shareholders in the Shareholders Grouping (from the highest to the lowest one). The number of votes is being further reduced until the aggregate number of votes held by the Shareholders Grouping does not exceed 10% of the overall number of votes in the Company,
 - in each case, the shareholder whose voting right has been restricted preserves the right to exercise at least one vote,
 - restriction of the voting right also applies to the shareholder absent during the General Meeting.
- In order to establish the basis for the votes being cumulated and reduced in accordance with the above provisions, the Company's shareholder, the Management Board, the Supervisory Board and individual Members of such bodies may request the Company's shareholder to provide information on whether a person is the parent company or the subsidiary of PKN ORLEN.

The power referred to above includes also the right to request the disclosure of the number of votes held by the Company's shareholder individually or together with other Company shareholders. The person that failed to perform or performed unduly the obligation to provide the information referred to in this point, may exercise the voting right from one share exclusively until the breach of such obligation has been remedied and exercising the voting right by such person from other shares is ineffective.
- The restriction of the voting right, which is referred to above, does not apply to entities dependent on the State Treasury.
- For the purpose of the regulations indicated above, the parent company and the subsidiary shall accordingly mean a person:
 - who has the status of the dominant entity, dependent entity or both within the meaning of the Act of 16 February 2007 on Competition and Consumers Protection, or
 - who has the status of the parent company, senior parent company, subsidiary, lower level subsidiary, jointly controlled entity or of both parent company (including senior parent company) and subsidiary (including the lower level subsidiary and jointly controlled entity) within the meaning of the Accounting Act of 29 September 1994, or
 - who exerts (parent company) or is subject to (subsidiary) significant influence within the meaning of the Act of 22 September 2006 on Transparency of Financial Relations between Public Authorities and Public Entrepreneurs and on Financial Transparency of Certain Entrepreneurs, or
 - whose votes from the Company's shares held directly or indirectly are cumulated with the votes of another person or other persons under the rules stipulated in the Act of 29 July 2005 on Public Offering and Conditions for Introducing Financial Instruments to the Organised Trading System and Public Companies, in connection with holding, selling or purchasing Company substantial shareholdings.
- In the event of doubts, the provisions of this chapter should be interpreted in accordance with Article 65 § 2 of the Polish Civil Code.

The State Treasury is authorised to appoint and revoke one of the Supervisory Board Members. Moreover, one of the PKN ORLEN's Management Board Member is appointed and revoked by the Supervisory Board at the request of the Minister in charge of State Treasury. Special rights for the State Treasury Shareholder can be a result of the commonly applicable provisions of law. Such rights in particular result from the Act of 18 March 2010 on specific rights vested in the Minister in charge of State Treasury and the exercise of such powers in certain capital companies or capital groups conducting business activities in the electricity, crude oil and gas fuel sectors (the 18 March 2010 Act on "Specific Rights Vested In the Minister in Charge of State Treasury"). Pursuant to the above act, the Minister in charge of State Treasury may object against the resolution passed by the Company's Management Board or any other legal action undertaken by the Company's Management Board regarding the disposal of assets disclosed in the uniform list of facilities, installations, appliances and services comprised in the critical infrastructure, referred to in article 5b item 7 point 1 of the Act of 26 April 2007 on Crisis Management, which pose a real threat to the

functioning, business continuity and integrity of the critical infrastructure. The Minister in charge of the State Treasury may also object to the Company's body passing resolution on:

- dissolution of the Company,
- change of function or ceasing of the exploitation of the Company's asset disclosed in the uniform list of facilities, installations, appliances and services comprised in the critical infrastructure, referred to in article 5b item 7 point 1 of the Act of 26 April 2007 on Crisis Management,
- change of the Company's business activity,
- disposal or lease of the Company's enterprise or its organized part or establishment of a limited property right,
- adoption of the operational and financial plan, investment activity plan or long-term strategic plan,
- moving the Company's seat abroad

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

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

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

7.6 Rules for amending PKN ORLEN's Articles of Association

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

Once the amendments to the Articles of Association are entered in the companies register. PKN ORLEN publishes a relevant regulatory announcement.

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

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

Convening and calling off PKN ORLEN's General Meeting

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

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

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

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

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

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

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

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

Competence of PKN ORLEN's General Meeting

The General Meeting of Shareholders is especially authorised to:

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

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

Voting at PKN ORLEN's General Meetings

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

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

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

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

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

Participation in PKN ORLEN's General Meetings

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

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

- the business name, seat, address and stamp of the issuer and the certificate number.
- number of shares held (at the shareholder request part or all of the shares registered on the securities account should be indicated).
- type and code of shares.
- the business name, seat and address of the Company.
- a par value of shares.
- name and surname or the business name of the shareholder.
- the seat (place of residence) and address of the shareholder.
- purpose of issuing the certificate.
- date and place of the certificate issuing.
- signature of the person authorised to issue the certificate.

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

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

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

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

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

General Meetings in 2013

On 27 June 2013 the Ordinary General Meeting of PKN ORLEN was held.

The Ordinary General Meeting, due to the end of the term of office of the Supervisory Board, established 7-Member Supervisory Board and decided to appoint the Supervisory Board Members for the new term of office. Ms Angelina Anna Sarota was appointed the Chairman of the Supervisory Board by the General Meeting and Mr Cezary Banasiński, Mr Grzegorz Borowiec, Mr Artur Gabor, Mr Michał Golebiowski, Mr Cezary Możejński and Mr Leszek Pawłowicz were appointed the Board Members.

During the Ordinary General Meeting the shareholders approved the annual reports on the operations of the Company and the ORLEN Group as well as the financial statements for 2012. They also decided on the fulfillment of duties by all the Supervisory and the Management Boards Members.

General Meeting decided on the allocation of profit generated by the Company in 2012 and decided to allocate the profit, amounted to PLN 2,127,797,966.06 in the following way:

- 1) the amount of PLN 641,563,591.50 was allocated to dividend payment (PLN 1.5 for 1 share);
- 2) the remaining amount of PLN 1,486,234,374.56 was allocated to the Company's reserve capital.

Simultaneously, the Ordinary General Meeting set the 26 July 2013 as the dividend date and 13 August 2013 as the payment date.

The Ordinary General Meeting resolved also on amending the provisions of § 8 sec. 11 point 5 of the Company's Articles of Association. The amendment involves adjustment of the provisions of the then applicable Articles of Association to the amended Accounting Act and the Act on chartered accountants and their self-government, entities authorized to audit financial statements and public supervision. Pursuant to the amendments adopted, the Supervisory Board was granted an authorization to select an entity authorized to audit the Company's financial statements, to audit or review the Company's financial statements and consolidated financial statements of the Capital Group.

7.8 Composition and proceedings of the management and supervisory authorities in PKN ORLEN and their committees

Apart from generally applicable laws, the rules of conduct for PKN ORLEN's Supervisory Board, its Committees and the Management Board are regulated in PKN ORLEN's Articles of Association and the Supervisory Board and the Management Board Regulations, respectively. The proceedings of the management and supervisory authorities in PKN ORLEN are also subject to the corporate governance principles set out by the Warsaw Stock Exchange.

7.8.1 The Management Board

As at 1 January 2013 the composition of the Management Board of PKN ORLEN was as follows:

TABLE 24. Composition of the PKN ORLEN's Management Board as at 1 January 2013 and 31 December 2013.

NAME AND SURNAME	POSITION HELD IN PKN ORLEN MANAGEMENT BOARD
Dariusz Jacek Krawiec	President of the Management Board. Chief Executive Officer
Sławomir Jędrzejczyk	Vice – President of the Management Board. Chief Financial Officer
Piotr Chelmiński	Member of the Management Board. Petrochemistry
Krzysztof Pater	Member of the Management Board. Refinery
Marek Podstawa	Member of the Management Board. Sales

At 31 December 2013 and at the date of authorization of this financial statement, composition of the Management Board has not changed. On 6 March 2014, the PKN ORLEN's Supervisory Board appointed the Management Board of the Company in the same composition as previous for the new three-year-long term of office starting from a day after of Ordinary General Meeting of Shareholders on the Financial Statements for 2013 approval.

Number of women and men acting as Management Board Members in the last two years

TABLE 25. Number of women and men acting as Management Board Members of PKN ORLEN, including changes in composition of the reporting period.

AS AT	NUMBER OF WOMEN	NUMBER OF MEN
1 January 2012	1	4
10 March 2012	1	4
19 March 2012	0	5
31 December 2012	0	5
1 December 2013	0	5
31 December 2013	0	5

Division of powers of the Company's Management Board

Mr Dariusz Jacek Krawiec, President of the Management Board of PKN ORLEN at the same time fulfilling the function of the Chief Executive Officer supervises the following areas: human resources, strategy and project management, purchases. Counsel to PKN ORLEN, marketing, corporate communication, and audit, crude oil trading, upstream as well as information protection, critical infrastructure and defense.

Mr Sławomir Jędrzejczyk, Vice – President of the Management Board. Chief Financial Officer supervises the following areas: planning and reporting, business controlling, supply chain management, finance management, taxes, investor relations, capital investments and divestments, IT.

Mr Piotr Chelmiński, Member of the Management Board in charge of Petrochemistry supervises the following areas: petrochemical production, sale of petrochemical products, chemistry, health and safety, environmental protection, development and efficiency, implementation of property investments, energetics.

Mr Krystian Pater, Member of the Management Board in charge of Refinery supervises the following areas: refining production, oil production, energy production, investments and efficiency of refining production.

Mr Marek Podstawa, Member of the Management Board in charge of Sales supervises the following areas: wholesale in refining products, sale of oils, retail sale, and logistics.

The rules of PKN ORLEN's Management Board operations

The PKN ORLEN Management Board's principal objective is to realise the Company's interest, which is understood as building the value of its assets entrusted by its shareholders, with due respect for the rights and interests of the parties other than the shareholders, involved in the Company operations, especially creditors and employees.

The Management Board of PKN ORLEN ensures transparency and efficiency of the Company's management system and guarantees that the Company's affairs will be handled in accordance with the applicable law and good business practice.

Appointing and recalling PKN ORLEN's Management Board

The Management Board of PKN ORLEN consists of five to nine Members, including the President, Vice-Presidents and others Members of the Management Board. Members of the Management Board are appointed and recalled by the Supervisory Board. One Member of the Management Board is appointed and recalled by the Supervisory Board upon the request of the Minister in charge of the State Treasury.

The term of office of the Management Board Members is a joint term of office, ending on the day when the Annual General Meeting has been held, approving the financial statement for the whole second financial year of such term of office. So determined joint term of office is assumed to commence on 7 June 2008. At its meeting on 24 March 2011 the Supervisory Board appointed the Management Board of PKN ORLEN for a joint three-year term. The new term of the Management Board started on 30 June 2011 i.e. after the holding of the Ordinary General Meeting approving the financial statements for 2010.

The President, Vice-Presidents, and other Members of the Management Board may be suspended from duties for significant reasons by the Supervisory Board.

Should the Management Board President be suspended from duty or his/her mandate expires before the end of the term of office. All his/her powers, except for the right to the vote cast referred to in § 9 item 5 point 2 of the Articles of Association, are to be executed by the person appointed by the resolution of the Supervisory Board acting as President of the Management Board until the new Management Board President is appointed or the current one is restored to his/her position.

Organisation of PKN ORLEN's Management Board activity

Meetings of the Management Board are held when necessary, however, not less frequently than once every two weeks. Each Member of the Management Board may request in writing for a Management Board meeting to be convened or certain issues to be placed on the agenda. The request should contain the proposed agenda and the justification for the request. The meeting should be held within seven days of the request being filed.

The meeting of the Management Board is convened by the President who manages the activity of the Management Board and has to fix the date, venue and the agenda of the meeting. In exceptional cases the meeting of the Management Board may be convened by the Vice-President or two Members of the Management Board. The meeting can also be held without being formally convened if all the Management Board Members are present and none of them has objected to the meeting being held or any proposed issues being put on the agenda.

Invited Company employees, advisers and other persons can attend the meeting with the consent of the person chairing the meeting of the Management Board. Additionally, in case of issues relating the critical infrastructure components, a Proxy for the critical infrastructure can take part as an advisor in the meeting of the Management Board. Meetings of the Management Board are held in the Company's seat in Plock or in the Company's office in Warsaw. The person convening the meeting may, however, determine another venue for the meeting to be held.

The Management Board adopts resolutions at the meetings. For a resolution to be effective the scheduled meeting has to be notified to all the Members of the Management Board and at least one half of the Management Board Members have to be present at the meeting. The Management Board resolutions are passed with a simple majority of votes (in the event of a voting deadlock, the President of the Management Board has the casting vote) provided that for resolutions to grant a procuration, unanimity of all Members of the Management Board is required. A Management Board Member who voted against a resolution that was adopted may communicate his/her dissenting opinion, however, such communication has to be provided with the reasoning.

Resolutions are adopted in an open vote. A secret ballot may be ordered at a request of each Member of the Management Board. Resolutions are signed by all Members of the Management Board who were present at the Management Board meeting on which the resolution was adopted. The resolution is also signed by the Member of the Management Board who filed a dissenting opinion, with a note: "dissenting opinion" or "votum separatum".

Competences of PKN ORLEN's Management Board

The Management Board has to handle all the affairs of PKN ORLEN which are not reserved to be considered by other authorities of the Company under the provisions of the Commercial Code or the Articles of Association. All the members of the Management Board are obliged and authorised to handle the affairs of PKN ORLEN.

All the matters going beyond the ordinary course of business are subject to resolutions of the Management Board, however, the consent of the Management Board is not required to carry out an activity being an integral part of another activity which has already been approved by the Management Board unless the resolution of the Management Board provides otherwise. Activities falling within the scope of the ordinary course of business are activities related to fuels trading within the meaning of the Company's Articles of Association (i.e. crude oil, petroleum products, biocomponents, biofuels and other fuels, including natural gas, industrial gas and fuel gas) and any other activities not specified in the Management Board Regulations.

A resolution of the Management Board is required, among others to:

- adopt and amend the Management Board Regulations.
- adopt and amend the Organisational Rules and Regulations of PKN ORLEN.
- adopt motions to be submitted to the Supervisory Board and / or to the General Meeting of Shareholders, in particular, any motions sent to these bodies for their consent to perform certain actions, issue opinions, make an assessment or give an approval which are required in accordance with the generally applicable law and / or the Company's Articles of Association.
- convene the General Meetings of Shareholders and adopt the proposed agenda of the General Meetings
- approve annual and long-term financial plans as well as the Company's development strategy
- approve investment tasks and corresponding liabilities if the resulting expenditures and encumbrances exceed PLN 10,000,000.
- incur liabilities, manage the property rights and any form of encumbrance on the Company's property where the total value exceeds PLN 20,000,000 (with certain exceptions to that rule)
- dispose and purchase real estate, perpetual usufruct or an interest in real estate and to establish a limited property right.
- dispose of purchase and encumber stakes, shares or other interest in other entities, including shares admitted to public trading.
- issue the Company's securities.
- approve the annual report on the Company's business operations, the Company's annual, half-yearly and quarterly financial statements, the ORLEN Group's annual, half-yearly and quarterly financial statements.
- adopt and change the Company's employees' remuneration scheme as well as decisions regarding introduction and fundamentals of the incentive schemes.
- conclude, amend and terminate a collective labor agreement applicable in the Company, and other agreements with trade unions.
- establish the principles of granting and revoking powers of attorney.
- formulate the so-called donation policy of the Company.
- grant a procuration.
- establish the internal segregation of duties among the members of the Management Board.
- set up establishments / offices abroad.
- handle other matters which at least one member of the Management Board requests to be handled in the form of a resolution.
- take decisions on the payment of interim dividends.

The Management Board has to regularly provide the Supervisory Board with exhaustive information on all aspects of PKN ORLEN's business operations and the risks related to such operations as well as the methods of managing such risks. Additionally, the Management Board has to prepare and adopt annual and long-term financial plans and the Company development strategy in the form, to the extent and by the deadlines set by the Supervisory Board. The Management Board of PKN ORLEN has also to prepare and submit to the Supervisory Board the annual financial statements of PKN ORLEN and the annual financial statements of the ORLEN Group for the previous financial year.

7.8.2 Supervisory Board

Composition of PKN ORLEN's Supervisory Board in 2013

As at 1 January 2013 the Supervisory Board, that supervised the Company's business, composed of:

TABLE 26. Composition of PKN ORLEN's Supervisory Board as at 1 January 2013.

NAME AND SURNAME	POSITION HELD IN PKN ORLEN'S SUPERVISORY BOARD
Maciej Mataczyński	Chairman of the Supervisory Board
Leszek Pawłowicz	Vice – Chairman of the Supervisory Board (Independent Member of the Supervisory Board)
Angelina Sarota	Secretary of the Supervisory Board
Grzegorz Borowiec	Member of the Supervisory Board
Artur Gabor	Member of the Supervisory Board (Independent Member of the Supervisory Board)
Michał Gołębiowski	Member of the Supervisory Board
Cezary Banasiński	Member of the Supervisory Board (Independent Member of the Supervisory Board)
Paweł Białek	Member of the Supervisory Board

On 27 June 2013 the Ordinary General Meeting of Shareholders appointed the PKN ORLEN's Supervisory Board for the new three-year-long term of office.

Since 27 June 2013 the PKN ORLEN's Supervisory Board composed of:

TABLE 27. Composition of the PKN ORLEN's Supervisory Board as at 27 June 2013 and 31 December 2013

NAME AND SURNAME	POSITION HELD IN PKN ORLEN'S SUPERVISORY BOARD
Angelina Sarota	Chairman of the Supervisory Board
Leszek Pawłowicz	Member of the Supervisory Board (Independent Member of the Supervisory Board) (Vice – Chairman of the Supervisory Board since 18 July 2013)
Michał Gołębiowski	Member of the Supervisory Board (Secretary of the Supervisory Board since 18 July 2013)
Cezary Banasiński	Member of the Supervisory Board (Independent Member 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 Możejki	Member of the Supervisory Board

As at 31 December 2013 aforementioned composition of PKN ORLEN S.A's Supervisory Board has not changed.

In 2013 the Supervisory Board held 9 meetings and adopted 70 resolutions.

Number of women and men acting as Supervisory Board Members of PKN ORLEN in the last two years.**TABLE 28.** Number of women and men acting as Supervisory Board Members of PKN ORLEN, including changes in its composition in the reporting period.

As at	Number of women	Number of men
1 January 2012	1	8
12 January 2012	1	8
28 March 2012	1	6
30 May 2012	1	7
31 December 2012	1	7
1 January 2013	1	7
27 June 2013	1	6
31 December 2013	1	6

The rules of conduct of PKN ORLEN's Supervisory Board**Appointing and recalling members of PKN ORLEN's Supervisory Board**

Members of PKN ORLEN's Supervisory Board are appointed for a joint term of office, ending on the day when the Ordinary General Meeting has been held, approving the financial statement for the whole second financial year of such term of office. Individual Members of the Supervisory Board and the entire Supervisory Board can be recalled at any time before the end of the term of office. The General Meeting of PKN ORLEN appoints the Chairman of the Supervisory Board, whereas the vice-chairman and the secretary are appointed by the Supervisory Board from amongst the other members of the Board.

PKN ORLEN's Supervisory Board is composed of six to nine members. The State Treasury is authorised to appoint and recall one Member of the Supervisory Board, other Members of the Supervisory Board are appointed and recalled by the General Meeting of Shareholders. On 27 June 2013 the Annual General Meeting of PKN ORLEN appointed Supervisory Board Members to a new term of office. The State Treasury did not use its right to appoint one Member of the Supervisory Board.

Pursuant to the Articles of Association of PKN ORLEN, at least two members of the Supervisory Board have to comply with the following independency provisions (the so-called independent members of the Supervisory Board):

- he/she is not an employee of the Company or a Related Entity.
- he/she has not been a member of management authorities of the Company or a Related Entity within the last five years prior to the appointment to the Supervisory Board.
- he/she is not a member of supervisory and management authorities of a Related Entity.
- he/she does not receive nor has received, within the last five years prior to the appointment to the Supervisory Board, a considerable additional remuneration, i.e. remuneration exceeding the aggregate amount of PLN 600.000 from the Company or a Related Entity, apart from the remuneration due to the member of supervisory authorities.
- he/she is not nor has been, within the last three years prior to the appointment to the Supervisory Board, a partner or employee of the current or former chartered auditor examining the financial statements of the Company or a Related Entity.
- he/she is not a shareholder holding 5% or more votes at the Company's General Meeting of Shareholders or a Related Entity's General Meeting.
- he/she is not a member of supervisory or management authorities or an employee of an entity having 5% or more votes at the Company's General Meeting of Shareholders or a Related Entity's General Meeting
- he/she is not an ascendant, descendant, spouse, sibling, spouse's parent or any other person remaining in an adoptive relationship with any of the persons mentioned above.
- he/she has not hold the position of the Company's Supervisory Board member for more than 3 terms of office.
- he/she is not a member of the Management Board of the company where a member of the Company's Management Board holds the position of a member of the Supervisory Board.
- he/she is free from any significant connections with members of the Company's Management Board by participation in other companies.

Independent members of the Supervisory Board, before being appointed to the Supervisory Board, should submit to the Company a written statement confirming that they comply with the above mentioned provisions. If the mentioned provisions are not met, a member of the Supervisory Board is obliged to immediately notify the Company thereof. The Company informs the shareholders about the current number of independent members of the Supervisory Board.

If the number of independent members of the Supervisory Board is less than two, the Company's Management Board is obliged to immediately convene a General Meeting of Shareholders and put an issue concerning changes in the composition of the Supervisory Board on the agenda of the General Meeting. The Supervisory Board acts in its current composition until the changes in the composition of the Supervisory Board are made, i.e. the number of independent members is adjusted to the statutory requirements set in the Articles of Association whereas the provisions of § 8 item 9 of the Articles of Association (containing a list of resolutions which must be passed with consent of at least one half of independent Supervisory Board members) do not apply.

Organisation of PKN ORLEN's Supervisory Board's operations

Meetings of the Supervisory Board are held when necessary, however, not less frequently than once every two months. The meetings are convened by the Chairman of the Supervisory Board. In case of his absence or inability to act his role is ascribed to the Vice – Chairman of the Supervisory Board, and respectively to Secretary of the Supervisory Board. Written invitations shall be sent to the Members of the Supervisory Board, at least seven days before the date of the session

Moreover, as stated in the Company's Articles of Association, a Supervisory Board meeting should be convened following a written request of a shareholder or shareholders representing at least one tenth of the share capital, the Management Board or a member of the Supervisory Board. In such cases the session should be convened within two weeks from the receipt of such request and should be held no later than within three weeks of such request being received. If a Supervisory Board meeting is not convened within two weeks of the request being filed, the requestor can call the session by himself through a written notice specifying the time, venue and the proposed agenda sent to the members of the Supervisory Board, at least seven days before the date of the meeting.

Meetings of the Supervisory Board can only take place when all its members have been properly invited. Meetings can also be held without the meeting being formally convened if all the Supervisory Board members are present and grant their consent to the session being held and to certain issues being put on the agenda.

The Supervisory Board can pass resolutions if at least half of its members participate in the meeting. Subject to the provisions of the Commercial Code, a resolution of the Supervisory Board can be passed in writing or with the use of direct means of remote communication. Resolutions of the Supervisory Board are passed with an absolute majority of the votes cast, in the presence of at least half of the members of the Supervisory Board, while the votes cast mean votes "for", "against" and "abstain." This does not apply to any members of the Management Board or the entire Management Board being recalled or suspended during the term of their office when at least two thirds of all the Supervisory Board members have to vote in favor of the resolution.

Passing resolutions on the following matters:

- any contribution to members of the Management Board provided by the Company or any related entities.
- giving permission to sign any significant agreement by the Company or a subsidiary with an entity related to the Company, a member of the Supervisory Board, or Management Board, as well as with their related entities.
- appointing a certified auditor to audit the financial statements of the Company requires the consent of at least one half of the independent members of the Supervisory Board. Such provisions do not exclude applying Article 15 § 1 and 2 of the Commercial Code.

With a view to fulfilling its duties, the Supervisory Board can review all the Company documents, demand reports and explanations from the Management Board and the employees as well as inspect the Company's assets.

Competence of PKN ORLEN's Supervisory Board

The Supervisory Board of PKN ORLEN exercises permanent supervision over the Company's operations, in all fields of its activity, specifically, the Supervisory Board is authorised to act as set out in the Commercial Code and the Company's Articles of Association. The Supervisory Board takes relevant steps required to regularly obtain exhaustive information from the Management Board about all the material issues relating to of PKN ORLEN's operations and the risk related to the business operations and risk management methods applied.

Pursuant to the Articles of Association, the Supervisory Board is also authorised to:

- appoint and recall the President, Vice-Presidents and other members of the Management Board (except for one member of the Management Board appointed and recalled by the Supervisory Board at the request of the State Treasury until the State Treasury sells the last Company share), represent the Company in contracts with the Management Board, including the terms of their employment contracts.
- suspend the activities of individual or all members of the Management Board for important reasons as well as delegating a member or members of the Supervisory Board to temporarily perform the duties of those members of the Management Board who are unable to perform their duties.
- approve the Management Board Regulations.
- appoint an entity authorised to audit the financial statements and performing an audit or review of financial statements of the Company and the consolidated financial statements of the ORLEN Group

- assess the financial statement in terms of its accuracy both in terms of its compliance with the accounting books and documents, the factual status, assess the Management Board's report on the Company's business operations, as well as the Management Board motions on the allocation of profit and coverage of loss, and submit to the General Meeting of Shareholders an annual written report on the results of the above assessments.
- assess the financial statement of the ORLEN Group and the Management Board's report on the business operations of the ORLEN Group and submit the annual written report on the results of such assessment.
- issue opinions on any matter submitted by the Management Board to be presented either to Ordinary or Extraordinary General Meeting of Shareholders.
- grant consent to the members of the Management Board to take positions in supervisory or management authorities of other entities and to collect remuneration for such activities.
- grant consent to implement investment project and to incur the related liabilities in case the expenses or charges due to such activity exceed the equivalent of one half of the Company's share capital.
- set the scope, accuracy and time for submission by the Management Board of its annual and long-term financial plans and plans for the Company's development strategy.
- approve the Company's development strategy and long-term financial plans.
- issue opinions on the annual financial plans.
- give consent, upon the Management Board's motion, to sell real estate, perpetual usufruct or participation in real estate where the net book value does not exceed one twentieth of the share capital.
- give consent, upon the Management Board's motion, to purchase real estate, perpetual usufruct or participation in real estate where the net acquisition price exceeds one fortieth of the share capital.
- give consent to purchase the Company's own shares to prevent serious damage referred to in Article 362 § 1 point 1 of the Commercial Code, posing a direct threat to the Company.
- appoint the acting President of the Management Board, referred to in § 9 item 3 point 3, in the event the President is suspended from duty or his/her mandate expires before the end of the term of office.

The Articles of Association also stipulate that the consent of PKN ORLEN's Supervisory Board is required to:

- set up a branch abroad.
- sell or encumber fixed assets which net book value exceed one twentieth of the asset value stated in the recent financial statements approved by the General Meeting of Shareholders, as a result of one or several related legal actions being taken.
- dispose of or encumber, in any way whatsoever, shares or stakes in the following companies: Naftoport Sp. z o.o. Inowrocławskie Kopalnie Soli S.A. and in the company to be established with a view to transporting liquid fuels through pipelines.
- incur other liabilities exceeding the equivalent of one fifth of the share capital, as a result of one or several related legal actions being taken during the financial year, except for the following:
 - activities performed within the scope of ordinary management activity, including in particular all activities relating to Fuels trading.
 - activities approved by the Supervisory Board in the annual financial plans.
 - activities which need the consent of the Shareholders Meeting in order to be performed.
 - activities performed in connection with the implementation of the investment task, approved by the Supervisory Board in accordance with § 8 sec. 11 item 9 of the Articles of Association, up to the amount not exceeding 110 percent of the amount allocated for this investment task.
 - activities concerning the implementation of the investment task and the related liabilities, if expenditures or charges do not exceed the cap indicated in § 8 sec. 11 item 9 of the Articles of Association.
- carry out capital or tangible investments abroad worth more than one twentieth of the share capital.
- exercise the Company's voting right at general meetings and partners/associates/shareholders meetings of the subsidiaries and other entities, if the value of the shares or stakes held by the Company, at a price the shares were acquired or taken up exceed one fifth of the Company's share capital, as regards merger with another company and Company restructuring, sale and lease of the Company's undertaking and establishing on it the right to use, amendments to the Articles of Incorporation or Articles of Association, execution of the concern contract within the meaning of Article 7 of the Commercial Code and winding up of the Company.
- establish commercial law companies and join existing companies, as well as to make contributions to cover shares in companies, and to sell shares if the Company's capital involvement in a given company so far, or commitment which the Company is about to achieve as a result of buying or acquiring shares, calculated on the basis of the share purchase or acquisition price, exceeds one tenth of the initial capital, excluding the purchase of shares in the regulated market.
- pay interim dividends to the shareholders.

If the Supervisory Board withholds its consent to any of the above activities being taken, the Management Board can address the General Meeting of Shareholders to adopt a resolution to approve the relevant activity.

Additionally, following a request of at least two members, the Supervisory Board is obliged to consider undertaking supervisory actions specified in such request.

Given the best practice standards and in order to enable the shareholders to make a true and fair view of the Company, the Supervisory Board of PKN ORLEN is in charge of the additional duty to submit to the General Meeting of the Company a concise assessment of PKN ORLEN's standing, including internal control and risk management system relevant for the Company. The assessment is submitted annually, before the

date of the Company's General Meeting to allow time for PKN ORLEN shareholders to get acquainted with it. Moreover, the Supervisory Board prepares an annual report on its work in which it takes into account both the number of meetings held and the most important issues dealt with in the year.

7.8.3 Committees of Supervisory Board

The Supervisory Board of PKN ORLEN may elect permanent or ad hoc committees which act as its collective advisory and opinion making bodies. The following permanent Committees operate within the Supervisory Board of PKN ORLEN:

- Audit Committee.
- Strategy & Development Committee.
- Nomination & Remuneration Committee.
- Corporate Governance Committee.

The mentioned Committees report annually to the Supervisory Board on its activities, Competences of the Committee is regulated by Terms of the Supervisory Board which is made available for shareholders on the Company's website www.orlen.pl.

All Committees are appointed by the Supervisory Board from amongst its members and the Committee itself chooses its Chairman. The Committees consist of between 3 to 5 members but at least two members of Audit Committee are independent members and at least one has skills and expertise in the field of accounting or finance.

The Committee meetings are convened by the Committee Chairman and, if he/she is either absent or unable to perform his/her duties, by the chairman of the Supervisory Board or another member of the Supervisory Board indicated by the chairman who invites all the Committee Members to the meeting and notifies all the other Supervisory Board members of the meeting. All the members of the Supervisory Board can participate in the Committee meetings. The Committee chairman can invite to the Committee meetings members of the Management Board, the Company's employees and other persons whose participation in the meeting is expedient to carry out the Committee tasks.

The Committee resolutions are passed with a simple majority of the votes cast. In the event of an equal number of "for" and "against" vote cast, the Committee chairman has the casting vote.

Composition of Supervisory Board Committees of PKN ORLEN in 2013

TABLE 29. Composition of Supervisory Board Committees of PKN ORLEN as at 1 January 2013.

Name and Surname	Position held in PKN OLREN's Supervisory Board Committee
Audit Committee	
Artur Gabor	Committee Chairman. Independent Member of the Supervisory Board
Leszek Pawłowicz	Committee Member. Independent Member of the Supervisory Board
Michał Gołębiowski	Committee Member
Paweł Białek	Committee Member
Corporate Governance Committee	
Angelina Sarota	Committee Chairman
Grzegorz Borowiec	Committee Member
Maciej Mataczyński	Committee Member
Paweł Białek	Committee Member
Strategy and Development Committee	
Cezary Banasiński	Committee Chairman. Independent Member of the Supervisory Board
Michał Gołębiowski	Committee Member
Leszek Pawłowicz	Committee Member. Independent Member of the Supervisory Board
Paweł Białek	Committee Member
Nomination and Remuneration Committee	
Maciej Mataczyński	Committee Chairman
Grzegorz Borowiec	Committee Member
Artur Gabor	Committee Member. Independent Member of the Supervisory Board

Michał Gołębiowski	Committee Member
Paweł Białek	Committee Member

On 27 June 2013 the Ordinary General Meeting of Shareholders appointed the PKN ORLEN's Supervisory Board for the new, three-years-long term of office.

During the meeting on 18 July 2013, the PKN ORLEN's Supervisory Board appointed the Supervisory Board Committees in the following composition:

TABLE 30. Composition of the Supervisory Board Committees of PKN ORLEN as at 18 July 2013 and 31 December 2013.

Name and Surname	Position held in PKN OLREN's Supervisory Board Committee
Audit Committee	
Artur Gabor	Committee Chairman. Independent Member of the Supervisory Board
Leszek Pawłowicz	Committee Member. Independent Member of the Supervisory Board
Grzegorz Borowiec	Committee Member
Michał Gołębiowski	Committee Member
Corporate Governance Committee	
Cezary Możejński	Committee Chairman
Angelina Sarota	Committee Member
Michał Gołębiowski	Committee Member
Strategy and Development Committee	
Cezary Banasiński	Committee Chairman. Independent Member of the Supervisory Board
Leszek Pawłowicz	Committee Member. Independent Member of the Supervisory Board
Artur Gabor	Committee Member. Independent Member of the Supervisory Board
Angelina Sarota	Committee Member
Cezary Możejński	Committee Member
Nomination and Remuneration Committee	
Angelina Sarota	Committee Chairman
Grzegorz Borowiec	Committee Member
Michał Gołębiowski	Committee Member
Cezary Banasiński	Committee Member. Independent Member of the Supervisory Board

Until 31 December 2013 composition of the Supervisory Board Committee has not changed.

Committees of PKN ORLEN's Supervisory Board

Audit Committee

In 2013 the Audit Committee of the Supervisory Board held 9 meetings and adopted 6 resolutions.

The task of the Audit Committee is to advise the Supervisory Board of PKN ORLEN on the issues related to the proper implementation of budget and financial reporting rules and internal control within the Company and the ORLEN Group, as well as cooperation with the Company's certified auditors. In particular, the tasks of the Committee are:

- to monitor the work of the Company's certified auditors and submit recommendations to the Supervisory Board as to the selection and fee of the Company's certified auditors.
- to discuss with the Company's certified auditors, prior to commencement of audit of each annual financial statements, the nature and scope of the audit, and to monitor co-ordination of work between the Company's certified auditors.

- to review interim and annual financial statements of the Company (consolidated and unconsolidated), with particular focus on:
 - any changes of accounting standards, rules and practice.
 - main areas of judgement.
 - material corrections following from the audit.
 - going concern statements.
 - compliance with applicable accounting regulations.

Furthermore, the tasks of the Audit Committee are:

- to discuss any problems or objections that may result from the audit of the financial statements.
- to analyse the letters to the Management Board drawn up by the Company's certified auditors, independency and objectivity of their audit and the Management Board's replies.
- to give opinions on annual and long-term financial plans.
- to give opinions on the dividend policy, profit distribution and issue of securities.
- to review the management accounting system.
- to review the internal control system, including control mechanisms in terms of finance, operations, compliance with the provisions of law, risk and management assessment.
- to review the reports of internal certified auditors employed by the Company and basic findings made by other internal analysts together with the Management Board's replies to such findings, to review the independency of internal auditors and to give opinions on the Management Board's intentions as to employment or dismissal of the head of internal audit.
- to review, on an annual basis, the internal audit program, coordination of the work of internal and external auditors and to analyse the conditions for internal auditors' operation, cooperation with the Company's organisational units in charge of audit and control and to evaluate their work on a periodical basis.
- to consider all other issues relating to the Company's audit raised by the Committee or the Supervisory Board.
- to notify the Supervisory Board of any material issues regarding the operation of the Audit Committee.

The Audit Committee meetings are held at least once per quarter, each time prior to the publication of the financial statements by the Company.

Corporate Governance Committee

In 2013 Corporate Governance Committee of the Supervisory Board held 2 meetings and adopted 1 resolution.

The task of the Corporate Governance Committee is:

- to evaluate the implementation of the corporate governance principles.
- to submit recommendations to the Supervisory Board as to the implementation of the corporate governance principles.
- issue opinions on normative corporate governance documents.
- evaluate reports concerning compliance with the corporate governance principles prepared for the Warsaw Stock Exchange.
- issue opinions on the draft amendments of the Company's corporate documents and to develop such drafts in case of own documents of the Supervisory Board.
- to monitor the management of the Company in terms of legal and regulatory compliance, including the compliance with PKN ORLEN's Code of Ethics and the corporate governance principles.

Strategy and Development Committee

In 2013 Strategy and Development Committee of the Supervisory Board held 2 meetings and adopted 1 resolution.

The task of the Strategy and Development Committee is to issue opinions and submit recommendations to the Supervisory Board on planned investments and divestments which exert a material impact on the Company's assets. In particular, the Committee:

- assesses the effect of planned and conducted already implemented investments and divestments on the form of the Company's assets.
- evaluates the activities, contracts, letters of intent and other documents relating to the actions aimed at acquisition, sale, encumbrance or any other disposal of the Company's material assets.
- issues opinions on any strategic documents which the Management Board submits to the Supervisory Board.
- issues opinions on the Company's development strategy, including long-term financial plans.

Nomination and Remuneration Committee

In 2013 Nomination and Remuneration Committee of the Supervisory Board held 4 meetings and adopted 1 resolution.

The task of the Nomination and Remuneration Committee is to help to attain the strategic goals of the Company by providing the Supervisory Board with opinions and motions on how to shape the management structure, with regard to organisational solutions, remuneration schemes and selection of the staff with the skills required to ensure the Company's success. In particular, the tasks of the Committee include:

- to initiate and issue opinions on the solutions in the area of Management Board members nomination system.

- to issue opinions on the solutions proposed by the Management Board in the area of the Company's management system, aimed at ensuring efficiency, integrity and safety of the Company's management.
- to periodically review and recommend the rules for determining incentive schemes to the Management Board members and top executives, with a view to the Company's interest.
- to periodically review the remuneration system applicable to Management Board members and managerial staff directly reporting to the Management Board members, including managerial contracts and incentive schemes and to submit to the Supervisory Board the proposals how to shape them in the context of the Company's strategic goal attainment.
- to submit to the Supervisory Board opinions on the rationale behind performance-driven remuneration, in the context of evaluating the degree to which the Company's specified tasks and goals are met.
- to assess the Company's human resources management system.

7.9 Description of the remuneration policy and the rules for its determination

The remuneration for the Supervisory Board Members is determined by the Company's General Meeting.

Remuneration for Members of the Board is determined by the Supervisory Board taking into account the recommendations of the Nomination and Remuneration Committee.

The components of the Management Board Members remuneration system include:

- monthly fixed base pay.
- annual bonus dependent on the accomplishment level of quantitative and qualitative targets.
- severance pay for dismissal from the Management Board Member function.
- compensation for non-competition.

Additional benefits for the Management Board Members may include company car, tools and technical appliances necessary to perform the duties of the Management Board Member, cover the business travel and representation costs in the area and amount corresponding to the assigned functions, life and endowment insurance agreement, private health insurance for the Management Board Member and his/her closest family as well as possibility to cover reasonable expenses of personal and property protection.

Rules for awarding bonuses to the key executive personnel

In 2013 the bonus system for key executive personnel has been updated in order to relate it with the new system of PKN ORLEN's Values and increase in flexibility and motivate capability of the bonus. The regulations applicable to the PKN ORLEN's Management Board, directors directly reporting to the PKN ORLEN's Management Board and other key positions have certain common features. The persons subject to the above mentioned systems are remunerated for the accomplishment of individual targets set at the beginning of the bonus period by the Supervisory Board for the Management Board Members and by the Management Board Members for the key executive personnel. The bonus systems are consistent with the Company's Values, promote the cooperation between individual employees and motivate to achieve the best possible results at the ORLEN Group level.

The targets set are qualitative and quantitative and are settled after the end of the year for which they were set, based on the rules adopted in the applicable Bonus System Regulations. Besides, the regulation offers a possibility of distinction of employees which have a significant input in the achieved results.



The Management Board Report on the Operations of PKN ORLEN was authorized by the Management on 25 March 2014.

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Dariusz Krawiec
President of the Board

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Sławomir Jędrzejczyk
Vice-President of the Board

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Piotr Chelmiński
Member of the Board

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Krystian Pater
Member of the Board

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Marek Podstawa
Member of the Board

Glossary of selected technical and financial definitions

GLOSSARY OF DEFINITIONS AND ABBREVIATIONS	
ALKYLATION	Refinery process in PKN ORLEN, namely that olefin and paraffin fractions are merged in order to produce high-octane gasoline component (alkylate). The process is run on alkylation installation in the presence of hydrofluoric acid.
BARREL	Unit of liquid volume used mainly in the oil industry. 1 barrel of crude oil (1 bbl) = 42 American gallons = 158.96832 l.
BIOESTERS	Methyl esters of higher fatty acids produced from vegetable oils or animal fats. Used as a bio-component for diesel fuel or as a fuel for cars with diesel engines. Meets the quality standards set for the biofuel in the PN EN 14214, applicable both in Poland and other European Union markets.
BIOETHANOL	Ethanol derived from biomass or biodegradable waste.
BOE	Barrel of oil equivalent
CATALYST	Substance which accelerates (initiates) the expected chemical reaction.
CRACKING	Thermal or catalytic conversion of heavy or more complex hydrocarbons into light products and coke which increases the yields of light products from crude oil.
DIFFERENTIAL BRENT/URAL	Difference between the quotations of two kinds of crude oil calculated as: Med Strip - Ural Rdam (Ural CIF Rotterdam).
DISTILLATION	Method of physical separation of liquid mixtures which uses the phenomenon of differences in boiling temperatures of particular components in the mixture undergoing distribution.
FUELS YIELD	Output of gasoline, Diesel and heating oil, fuel fractions, liquid and dry gas against the quantity of crude oil throughput.
HYDROCARBONS	Organic compounds made of carbon and hydrogen. Crude oil and natural gas are mixtures of hydrocarbons.
HYDROCRACKING	Cracking of hydrocarbon raw materials in the presence of hydrogen. This process raises the efficiency of light products from crude oil
HYDRODESULPHURIZATION	The process of removing sulfur compounds in the raw material by contact with hydrogen at the catalyst bed under high temperature and pressure.
MED STRIP	Brent crude oil quotation.
MODEL PETROCHEMICAL MARGIN	Calculated as: revenues from products sold (98% Products = 44% HDPE + 7% LDPE + 35% PP Homo + 12% PP Copo) - costs (100% input = 75% naphtha + 25% LS VGO). Contract market quotations.
MODEL REFINING MARGIN	Calculated as: revenues from products sold (93.5% Products = 36% Gasoline + 43% Diesel + 14.5% HHO) - costs (100% input: crude oil and other raw materials). Total input calculated acc. to Brent crude quotations. Spot market quotations.
MONOMERS	Molecules of the same type or number of different kind of compounds characterize not very high molecular weight which can form polymers during polymerization reaction.
NET DRILLINGS	The number of drillings corrected with the share of other partners.
POLYMERS	Chemicals of very high molecular weight which consist of many repeated units called mers, polyethylene and polypropylene.
TRR	Total Recordable Rate = international accident rate in enterprises determined as follows: (number of accidents in a given period/number of hours worked in the period)* 1 000 000.
UPSTREAM	Oil exploration and mining.
URAL RDAM (URAL CIF ROTTERDAM)	Ural crude oil quotation in Rotterdam.

Glossary is also available on the Company website: <http://www.orlen.pl/PL/CentrumPrasowe/SlownikPojec/Strony/default.aspx>.

FINANCIAL GLOSSARY

ADR	American Depositary Receipt = certificate issued by an American bank representing a share of a foreign stock that the bank holds in trust but that is traded on an American stock exchange.
EURIBOR	Interbank Offered Rate – interest rate of interbank credit on the interbank market in euro zone.
GDR	Global Depositary Receipt = security issued outside of Poland by the Depositary Bank in relation to shares.
LIBOR	London Interbank Offered Rate – interest rate on the London market that applies to interbank credits.
WIBOR	Warsaw Inter Bank Offered Rate - interest rate on the Polish interbank market that applies to interbank credits.

FINANCIAL RATIOS

LIQUIDITY RATIOS	
CURRENT LIQUIDITY	current assets/short-term liabilities
QUICK LIQUIDITY	(current assets– inventories - prepayments)/ short-term liabilities
NET WORKING CAPITAL	trade receivables + inventories – trade liabilities
TURNOVER RATIOS	
RECEIVABLES TURNOVER	average amount of trade receivables. net/ net revenues x 365 days
LIABILITIES TURNOVER	average amount of trade liabilities, gross /cost of goods sold x 365 days
INVENTORY TURNOVER	average amount of inventories/net revenues x 365 days
ASSETS TURNOVER	net revenues/average balance of assets
DEBT SERVICE COVERAGE RATIO	
FINANCIAL LEVERAGE	net debt/equity (calculated using the average carrying amount in the period) x 100%