



**Polski Koncern Naftowy ORLEN**  
Spółka Akcyjna

**REPORT  
OF THE SUPERVISORY BOARD OF PKN ORLEN S.A.  
FOR THE FINANCIAL YEAR 2017**

**WARSAW, May 2018**

## I. COMPOSITION OF THE SUPERVISORY BOARD

The Annual General Meeting of the Company appointed the Supervisory Board of PKN ORLEN S.A. (the "Supervisory Board") for a new three-year term of office on June 3th 2016.

As at January 1st 2017, the composition of the Supervisory Board was as follows:

Angelina Sarota	Chairwoman of the Supervisory Board
Radosław L. Kwaśnicki	Deputy Chairman of the Supervisory Board
Mateusz Bochacik	Secretary
Adrian Dworzyński	Member of the Supervisory Board ( <i>Independent Member</i> )
Artur Gabor	Member of the Supervisory Board ( <i>Independent Member</i> )
Agnieszka Krzętowska	Member of the Supervisory Board ( <i>Independent Member</i> )
Wiesław Protasewicz	Member of the Supervisory Board.

On June 29th 2017, Mr Wiesław Protasewicz resigned as Member of the Supervisory Board

On June 30th 2017, the Annual General Meeting of PKN ORLEN S.A. appointed two new Members of the Supervisory Board: Ms Izabela Felczak-Poturnicka and Mr Wojciech Kryński.

Mr Artur Gabor resigned from the Supervisory Board with effect from September 1st 2017.

As a result of the changes, from September 1st 2017 the composition of the Supervisory Board was as follows:

Angelina Sarota	Chairwoman of the Supervisory Board
Radosław L. Kwaśnicki	Deputy Chairman of the Supervisory Board
Mateusz Bochacik	Secretary of the Supervisory Board
Adrian Dworzyński	Member of the Supervisory Board ( <i>Independent Member</i> )
Agnieszka Krzętowska	Member of the Supervisory Board ( <i>Independent Member</i> )
Wojciech Kryński	Member of the Supervisory Board ( <i>Independent</i> )
Izabela Felczak-Poturnicka	Member of the Supervisory Board.

As at December 31st 2017, the composition of the Supervisory Board composition had not changed.

In view of the rules set out in the Code of Best Practice for WSE Listed Companies, in 2017 the Supervisory Board assessed whether there were any relationships or circumstances which may affect the satisfaction of independence criteria by any member of the Supervisory Board.

## II. ACTIVITIES OF THE SUPERVISORY BOARD

In 2017, the Supervisory Board held 14 minuted meetings and adopted 141 resolutions.

The attendance of Supervisory Board members at the Supervisory Board meetings held in 2017 was 99%. In 2017, the Supervisory Board adopted one resolution to excuse the absence of a member of the Supervisory Board. In 2017, there were no unjustified absences of members of the Supervisory Board from the meetings.

In the financial year 2017, in the exercise of its supervisory and control powers and functions, the Supervisory Board among other things:

- appointed the President, Vice President and Members of the Company's Management Board for a new term of office;
- represented the Company in employment contracts and agreements with members of the Management Board;
- approved target cards for the Management Board members for 2017 and a separate target which, if achieved, would trigger payment of bonuses;
- approved the Rules of the Incentive Scheme for the Management Board of PKN ORLEN S.A.;
- evaluated the Directors' Report on the activities of the ORLEN Group and PKN ORLEN S.A. in 2016;
- assessed the separate financial statements of PKN ORLEN S.A. and the consolidated financial statements of the ORLEN Group for the year ended December 31st 2016;
- assessed the Management Board's proposal for allocation of net profit for the financial year 2016;
- issued positive opinions on proposals submitted by the Management Board for consideration by the General Meeting;
- issued a positive opinion on the agenda and draft resolutions for the Annual General Meeting of PKN ORLEN S.A. convened for June 30th 2017;
- revised the policy of awarding additional non-audit contracts to the auditor and adopted the procedure for assessment of the auditor's independence;
- issued a positive opinion on the 2018 budget for PKN ORLEN and the ORLEN Group;
- authorised execution of contracts for the provision of management consultancy services;
- authorised the grant of financial donations by PKN ORLEN S.A.;
- authorised execution of sponsorship agreements and the award of contracts under framework agreements for the provision of marketing services;
- authorised execution of a contract for the provision of public relations and public affairs services;
- authorised the Company to incur financial liabilities, which under a single transaction or a series of related transactions executed in 2017 exceed the equivalent of one-fifth of the Company's share capital;
- authorised the exercise of voting rights by PKN ORLEN S.A. at general meetings of ORLEN Group companies with respect to amendments to the companies' articles of association;
- authorised execution of an investment project and assumption of related liabilities if these involve expenditure or charges exceeding the equivalent of a half of the Company's share capital;
- authorised provision of excise bond by PKN ORLEN S.A.;
- authorised the Company to incur a liability under an agreement to expand the PERN infrastructure and to standardise selected commercial terms of cooperation with respect to storage and transport of products;
- authorised extension of the deadline for an increase in the share capital of ORLEN Upstream Sp. z o.o. to finance expenditure on exploration and production activities;
- authorised acquisition of Unipetrol a.s. shares and execution of contracts and agreements necessary to carry out the process;

- authorised disposals of real property, usufruct rights to or interests in real property where the net carrying amount of individual assets does not exceed one-twentieth of the Company's share capital; and
- evaluated the delivery of targets for 2016 by members of the Company's Management Board and awarded annual bonuses for 2016.

The other resolutions adopted by the Supervisory Board were of an organisational or procedural nature.

All activities of the Supervisory Board were documented by resolutions and minutes of the Supervisory Board meetings held in 2017.

### III. COMMITTEES OF THE SUPERVISORY BOARD

The activities of the Supervisory Board were supported by committees, appointed as collective advisory and opinion-forming bodies from among members of the Supervisory Board.

In 2017, the following standing committees operated within the Supervisory Board:

- the Audit Committee,
- the Strategy and Development Committee,
- the Corporate Governance Committee,
- the Nomination and Remuneration Committee,
- the Corporate Social Responsibility Committee.

Changes in the composition of the Supervisory Board in 2017 resulted in changes in the composition of the committees and are presented in the description of the activities of each of the Committees below.

The detailed scope of work of the Committees in 2017 was documented in minutes of the Committees' meetings (in 2017, the Committees held 38 meetings).

#### **Audit Committee**

As at January 1st 2017, the Audit Committee consisted of:

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

Due to the changes in the composition of the Supervisory Board in 2017 and the resignation of the Chairman of the Committee with effect from September 1st 2017, the composition of the Audit Committee changed and as at December 31st 2017 was as follows:

Wojciech Kryński	Chairman of the Committee ( <i>Independent Member of the Supervisory Board</i> )
Adrian Dworzyński	Member of the Committee ( <i>Independent Member of the Supervisory Board</i> )
Izabela Felczak-Poturnicka	Member of the Committee

Agnieszka Krzętowska	Member of the Committee ( <i>Independent Member of the Supervisory Board</i> )
Radosław L. Kwaśnicki	Member of the Committee

In 2017, the Audit Committee held 14 minuted meetings.

Pursuant to Par. 13.5 of the Rules of Procedure for the Supervisory Board, the Audit Committee made decisions by way of resolutions (three resolutions).

Apart from the Committee members, the meetings of the Audit Committee were also attended by other members of the Supervisory Board, members of the Management Board, executive directors, office directors and the auditor.

Pursuant to Par. 15 of the Rules of Procedure for the Supervisory Board, the Audit Committee is responsible for advising the Supervisory Board on proper implementation of budget and financial reporting as well as internal control at the Company and the ORLEN Group (within the meaning of the Accounting Act) and cooperation with the Company's auditors.

In the exercise of its powers and functions, the Audit Committee:

- adopted a revised policy for awarding additional contracts to the auditor, and the procedure for controlling and monitoring the audit firm's independence by the Audit Committee, and adopted a relevant resolution. The Audit Committee recommended approval of those documents by the Supervisory Board;
- monitored the auditor's work and considered the Management Board's requests to authorise award of additional contracts to the auditor;
- reviewed interim financial statements as well as full-year separate and consolidated financial statements of PKN ORLEN S.A.;
- issued an opinion on the 2018 budget;
- approved the Annual Audit Plan for 2018;
- analysed, on a quarterly basis, the ORLEN Group's actual results and performance relative to the original targets and budgets;
- issued an opinion on the Management Board's proposal for allocation of profit for 2016;
- assessed the Company's standing, which included assessment of the internal audit, risk management and compliance systems, and of the internal audit function;
- analysed periodic reports on the progress of implementation of recommendations and summary observations and conclusions from audits carried out by the internal audit function and by the independent auditor;
- analysed periodic reports on the progress of implementation of recommendations and summary observations and conclusions from inspections and review procedures carried out by the Audit, Control and Enterprise Risk Management Office;
- discussed the report on material court proceedings involving PKN ORLEN S.A. and the Group;
- reviewed quarterly reports on cyber security at PKN ORLEN S.A.

The Audit Committee also formulated recommendations for the Supervisory Board on matters which were the subject of Supervisory Board meetings and which fall within the remit of the Audit Committee.

### **Strategy and Development Committee**

As at January 1st 2017, the Strategy and Development Committee consisted of:

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

Due to the changes in the composition of the Supervisory Board in 2017, the composition of the Strategy and Development Committee changed and as at December 31st 2017 was as follows:

Radosław L. Kwaśnicki	Chairman of the Committee
Adrian Dworzyński	Member of the Committee ( <i>Independent Member of the Supervisory Board</i> ).
Izabela Felczak-Poturnicka	Member of the Committee
Agnieszka Krzętowska	Member of the Committee ( <i>Independent Member of the Supervisory Board</i> )

In 2017, the Strategy and Development Committee held five minuted meetings.

Apart from the Committee members, the meetings of the Strategy and Development Committee were also attended by other members of the Supervisory Board, members of the Management Board, executive directors, office directors, and advisers.

The responsibilities of the Strategy and Development Committee are set out in Par. 17 of the Rules of Procedure for the Supervisory Board, pursuant to which the Committee is responsible for giving opinions and making recommendations to the Supervisory Board on matters related to planned investments and divestments with a material effect on the Company's assets; and giving opinions on all strategic documents, the Company's development strategies and long-term budgets.

In 2017, in the exercise of its functions, the Strategy and Development Committee:

- discussed the progress of PKN ORLEN's strategy for 2017-2021;
- discussed the progress of implementation of innovative projects;
- analysed implementation of the upstream segment's strategy and activities planned in the current market environment;
- discussed the progress of individual investment projects;
- analysed potential investment opportunities and discussed the status of the Group's selected investment projects.

### **Corporate Governance Committee**

As at January 1st and December 31st 2017, the Strategy and Development Committee consisted of:

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

In 2017, the Corporate Governance Committee held nine minuted meetings, including four joint meetings with the Nomination and Remuneration Committee and one joint meeting with the Corporate Social Responsibility Committee (CSR).

Apart from the Committee members, the meetings of the Corporate Governance Committee were also attended by other members of the Supervisory Board, members of the Management Board, executive directors and office directors.

The responsibilities of the Corporate Governance Committee are set out in Par. 16 of the Rules of Procedure for the Supervisory Board, pursuant to which the Committee is responsible for recommending and assessing implementation of corporate governance principles; giving opinions on documents of a regulatory nature and proposed changes in the Company's corporate documents, and preparing such changes with respect to the Supervisory Board's own documents; monitoring of management of the Company's affairs in terms of its compliance with applicable laws and regulations, including compliance with the Code of Ethics and corporate governance principles; and assessment of the reports on compliance with corporate governance principles prepared for the Warsaw Stock Exchange.

In 2017, in the exercise of its functions, the Corporate Governance Committee:

- assessed the Company's compliance with its corporate governance disclosure obligations,
- gave an opinion on the Management Board's proposal to authorise the exercise of voting rights at the general meeting of UNIPETROL a.s., with regard to amendment to UNIPETROL a.s.'s Articles of Association;
- gave an opinion on draft resolutions of the Annual General Meeting of PKN ORLEN S.A.;
- discussed and analysed proposed amendments to the Rules of Procedure for the Supervisory Board;
- gave an opinion on the proposal to implement rules of remuneration for members of management and supervisory boards of the Group companies compliant with the Act on Rules of Remunerating Persons Managing Certain Companies;
- worked to develop an approach to the resolution of the Annual General Meeting of June 30th 2017 on the rules to be followed when executing and amending contracts for the provision of legal, marketing, public relations and social communication services, and management consulting services.

### **Nomination and Remuneration Committee**

As at January 1st and December 31st 2017, the Nomination and Remuneration Committee consisted of:

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

In 2017, the Nomination and Remuneration Committee held nine minuted meetings, including four joint meetings with the Corporate Governance Committee.

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

The responsibilities of the Nomination and Remuneration Committee are set out in Par. 18 of the Rules of Procedure for the Supervisory Board, pursuant to which the Committee is responsible for supporting the

Company's strategic goals by providing the Supervisory Board with opinions and recommendations regarding the Company's management structure, including organisational solutions, the remuneration system, and selection of personnel with appropriate qualifications to contribute to the Company's success.

In 2017, in the exercise of its functions the Nomination and Remuneration Committee:

- recommended target card proposals for members of the PKN ORLEN Management Board for 2017 and 2018;
- prepared a recommendation on settlement for the achievement of the bonus targets for 2017;
- prepared a recommendation on the assessment of delivery of individual qualitative bonus targets by members of the Management Board in 2016;
- prepared a recommendation regarding terms and conditions of management contracts for new members of the Management Board;
- prepared a recommendation regarding assessment of delivery of individual qualitative bonus targets by members of the Management Board whose term of office expired on June 30th 2017;
- discussed the draft Act on Rules of Remunerating Persons Managing Certain Companies;
- prepared proposals of management objectives for members of the Management Board to be submitted to the Ministry of Energy pursuant to the Act on Rules of Remunerating Persons Managing Certain Companies of June 9th 2016.

#### **Corporate Social Responsibility Committee (CSR Committee)**

In 2017, the CSR Committee consisted of:

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

Due to the changes in the composition of the Supervisory Board in 2017, the composition of the Corporate Social Responsibility Committee changed and as at December 31st 2017 was as follows:

Agnieszka Krzętowska	Chairwoman of the Committee ( <i>Independent Member of the Supervisory Board</i> )
Mateusz Bochacik	Member of the Committee.
Izabela Felczak-Poturnicka	Member of the Committee
Radosław L. Kwaśnicki	Member of the Committee.

The responsibilities of the CSR Committee are set out in Par. 19 and Par. 20 of the Rules of Procedure for the Supervisory Board. The Committee is responsible for supporting the Company in the pursuit of its strategic goals by incorporating social, ethical and environmental objectives in its operations and relations with stakeholders. The responsibilities of the Committee also include oversight of the Company's implementation of the CSR strategy, monitoring of the Company management in terms of compliance with the Core Values and Standards of Conduct of PKN ORLEN S.A., periodic assessment of the Company's CSR activities, and approval of the Company's annual CSR reports.



In 2017, the Corporate Social Responsibility Committee held five minuted meetings, including one joint meeting with the Corporate Governance Committee.

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

In 2017, in the exercise of its functions the Corporate Social Responsibility Committee:

- assessed the reasonableness of the Company's sponsorship, charitable and similar activities;
- acquainted itself with the status of the sponsorship and CSR strategy;
- issued a recommendation concerning award of contracts under framework agreements for the provision of marketing, public relations, and social communication services;
- issued a recommendation to grant financial donations.

#### **IV LIST OF MATTERS UNDERTAKEN BY THE SUPERVISORY BOARD FOLLOWING A REQUEST BY THE ENTITY AUTHORISED TO EXERCISE RIGHTS ATTACHED TO SHARES HELD BY THE STATE TREASURY**

- In the exercise of its supervisory functions, the Supervisory Board: analysed the activities of IKS Solino S.A., including social relations at the company;
- The Supervisory Board analysed matters related to liquid fuel sales by PKN ORLEN S.A.;
- The Supervisory Board took steps to implement the Act on Rules of Remunerating Persons Managing Certain Companies of June 9th 2016, and Resolution No. 4 of the Company's Extraordinary General Meeting of January 24th 2017;
- The Supervisory Board exercised supervision over the Company's sponsorship and charity spending;
- The Supervisory Board investigated the issue concerning withdrawal of Anwil S.A. from the contract to purchase mineral fertilizers at Kobylany;
- The Supervisory Board got acquainted with the contents a request by the Dobra Municipality for agreeing the course of a cable lighting line with the PKN ORLEN S.A. infrastructure, and provided relevant explanations.

In compliance with the reporting obligation, in 2017 the Supervisory Board provided the Ministry of Energy and the Chancellery of the Prime Minister with quarterly reports on the Company, signed by the Chairwoman of the Supervisory Board. The quarterly reports were submitted on the following dates:

- for the fourth quarter of 2016 – January 26th 2017
- for the first quarter of 2017 – April 27th 2017
- for the second quarter of 2017 – July 21st 2017
- for the third quarter of 2017 – October 27th 2017
- for the fourth quarter of 2017 – February 1st 2018.

#### **V. ASSESSMENT OF THE DIRECTORS' REPORT ON OPERATIONS OF THE ORLEN GROUP AND PKN ORLEN S.A. IN 2017**

Acting pursuant to Art. 8.11.6 and 8.11.6a of the Company's Articles of Association, in conjunction with Art. 382.3 of the Commercial Companies Code and Par. 71.8 of the Minister of Finance's Regulation on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, and further in conjunction with Art. 7.7.1 of the Company's Articles of Association, the Supervisory Board gives a positive assessment of the Directors' Report on the operations of the ORLEN Group and PKN ORLEN S.A. in 2017.

## **VI. ASSESSMENT OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31ST 2017**

Acting pursuant to Art. 382.3 of the Commercial Companies Code and Art. 8.11.6 of the Company's Articles of Association in conjunction with Art. 395.2.1 of the Commercial Companies Code, and pursuant to Art. 45 and Art. 53.1 of the Accounting Act and Art. 7.7.1 of the Company's Articles of Association, the Supervisory Board gives a positive assessment of the attached audited financial statements of Polski Koncern Naftowy ORLEN Spółka Akcyjna for the year ended December 31st 2017, comprising:

- the separate statement of profit or loss (presented in the statement of profit or loss and other comprehensive income) for the period from January 1st to December 31st 2017, showing a net profit of PLN 6,101,792,575.09 (six billion, one hundred and one million, seven hundred and ninety-two thousand, five hundred and seventy-five zloty, 09/100);
- the separate statement of financial position as at December 31st 2017, showing total assets and total equity and liabilities of PLN 49,352,397,446.70 (forty-nine billion, three hundred and fifty-two million, three hundred and ninety-seven thousand, four hundred and forty-six zloty, 70/100);
- the separate statement of changes in equity, showing an increase in equity as at December 31st 2017 of PLN 5,397,050,617.23 (five billion, three hundred and ninety-seven million, fifty thousand, fifty thousand, six hundred and seventeen zloty, 23/100);
- the separate statement of cash flows, showing a net increase in cash of PLN 2,947,661,091.97 (two billion, nine hundred and forty-seven million, six hundred and sixty-one thousand, ninety-one zloty, 97/100);
- supplementary information, comprising the introduction and notes to the separate financial statements,

and confirms consistency of the financial statements with the accounting records, documents and facts.

Acting pursuant to Art. 8.11.6a of the Company's Articles of Association, in conjunction with Art. 382.1 of the Commercial Companies Code, and Art. 55 and Art. 63c.4 of the Accounting Act in conjunction with Art. 7.7.1 of the Company's Articles of Association, the Supervisory Board gives a positive assessment of the attached audited consolidated financial statements of the ORLEN Group for the year ended December 31st 2017, comprising:

- the consolidated statement of profit or loss (presented in the consolidated statement of profit or loss and other comprehensive income) for the period from January 1st to December 31st 2017, showing a net profit of PLN 7,173,286,205.44 (seven billion, one hundred and seventy-three million, two hundred and eighty-six thousand, two hundred and five zloty, 44/100);

- the consolidated statement of financial position as at December 31st 2017, showing total assets and total equity and liabilities of PLN 60,663,481,175.78 (sixty billion, six hundred and sixty-three million, four hundred and eighty-one thousand, one hundred and seventy-five zloty, 78/100);
- the consolidated statement of changes in equity, showing an increase in equity as at December 31st 2017 of PLN 5,926,202,920.75 (five billion, nine hundred and twenty-six million, two hundred and two thousand, nine hundred and twenty zloty, 75/100);
- the consolidated statement of cash flows showing a net increase in cash and cash equivalents of PLN 1,293,392,876.66 (one billion, two hundred and ninety-three million, three hundred and ninety-two thousand, eight hundred and seventy-six zloty, 66/100);
- supplementary information, comprising the introduction and notes to the consolidated financial statements,

and confirms consistency of the financial statements with the accounting records, documents and facts.

## **VI. ASSESSMENT OF THE PROPOSAL FOR ALLOCATION OF PROFIT FOR 2017 AND DIVIDEND PAYMENT**

Acting pursuant to Art. 382.3 of the Commercial Companies Code, and Art. 8.11.6 of the Company's Articles of Association in conjunction with Art. 395.2.2 and Art. 348.1 and Art. 348.4 of the Commercial Companies Code, and Art. 7.7.3 of the Company's Articles of Association, the Supervisory Board gives a positive assessment of the Management Board's proposal to allocate net profit for the financial year 2017 of PLN 6,101,792,575.09 (six billion, one hundred and one million, seven hundred and ninety-two thousand, five hundred and seventy-five zloty, 09/100) in the following manner:

- 1) PLN 1,283,127,183 (one billion, two hundred and eighty-three million, one hundred and twenty-seven thousand, one hundred and eighty-three) to be paid as dividend (PLN 3 per share),
- 2) the balance, i.e. PLN 4,818,665,392.09 (four billion, eight hundred and eighteen million, six hundred and sixty-five thousand, three hundred and ninety-two zloty, 09/100) to be transferred to the Company's statutory reserve funds.

In the opinion of the Supervisory Board, the Management Board's proposal for the allocation of net profit for 2017 is consistent with the Company's strategy and objectives.

The Supervisory Board gives a positive assessment of the Management Board's proposal to set July 20th 2018 as the dividend record date and August 3th 2018 as the dividend payment date.

## **VII. ASSESSMENT OF THE COMPANY'S STANDING, INCLUDING ASSESSMENT OF THE INTERNAL AUDIT, RISK MANAGEMENT AND COMPLIANCE SYSTEMS, AND OF THE INTERNAL AUDIT FUNCTION**

International Standards on the Professional Practice of Internal Auditing 2120 provides that the internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes. BA, in compliance with the NA Standards, performs audit activities, both planned and ad-hoc.

At PKN ORLEN S.A. and key companies of the ORLEN Group, there is an Enterprise Risk Management (ERM) Unit which coordinates (in accordance with the applicable ERM Policy and Procedure) the Enterprise Risk Management process, and provides tools and methodological support to the process participants.

The key ERM objectives are:

- to support achievement of strategic objectives as part of monitoring and assessment of the related risks,
- to support achievement of project objectives, with a minimum cost of work and optimisation of the project value by carrying out regular training sessions on identification, description and assessment of project-related risks,
- to implement the ERM at key companies of the ORLEN Group,
- to introduce a systematic and transparent approach to the risk management process,
- to identify and manage key risks based on segmental allocation of individual units,
- to improve audit activities by implementing remedial actions,
- to promote and communicate of the risk management principles defined in the ERM Policy and Procedure.

In 2017, the Enterprise Risk Management Unit carried out the following ERM tasks:

- another process of risk self-assessment and risk controls testing at PKN ORLEN was completed,
- implementation of the Integrated Enterprise Risk Management System was completed; the System is one of the tools supporting achievement of strategic and operational objectives at ORLEN Paliwa and ORLEN CUK,
- compliance of the risk self-assessment and risk controls testing was completed at ORLEN Deutschland Deutschland and the results were presented to process owners at the company,
- key risks and risk controls at Anwil S.A., ORLEN Lietuva and Unipetrol RPA were reviewed and updated,
- a new version of the Magique system was implemented,
- another process of risk self-assessment and risk controls testing was launched at Anwil S.A., based on the new version of the Magique system,
- in Business Areas, employees involved in project execution were provided with training on identification, description and assessment of project risks using the Clarity system,
- user manuals were developed in Polish, English, Czech and Lithuanian for the new version of the Magique system,
- the first process of risk self-assessment and risk controls testing at ORLEN Lietuva and Unipetrol RPA began,
- workshops on risk self-assessment and risk controls testing for key management staff were carried out at ORLEN Lietuva and Unipetrol RPA,
- methodological support was provided to stakeholders of the process of risk self-assessment and risk controls testing at ORLEN Lietuva and Unipetrol RPA,
- a report on risk management at PKN ORLEN S.A. was prepared for and presented to the Company's Management Board,
- work commenced on effective implementation of the GDPR (personal data protection regulations) at PKN ORLEN S.A. and identification of related key risks which should be reflected in the ERM system,
- work commenced on effective implementation of risk identification for the processes covered by the Integrated Management System in accordance with the new requirements of the ISO 9001:2015 standard.

#### **PKN ORLEN S.A.'s internal control system in 2017**

In accordance with the Code of Best Practice for WSE Listed Companies, PKN ORLEN S.A. has in place effective internal control, risk management and compliance systems, as well as an internal audit function. The parallel operation of all these elements allows the Supervisory Board to exercise continuous supervision of the Company's operations and ongoing assessment of its standing and condition.

The Group has also developed a structured internal control system comprising comprehensive internal procedures. The procedures are managed with the use of a dedicated IT system which ensures their consistency through multifaceted approvals and authorisations at appropriate levels within the organisation.

The Company uses a popular model of three lines of defence, which puts risk management by business units and risk controls in the Company's operational processes on the first line of defence, compliance functions on the second of defence, and internal audit on the third line of defence with responsibility for oversight of the other two lines.

#### *1. First line of defence – Integrated Enterprise Risk Management System (ERM)*

In 2013, PKN ORLEN S.A. implemented a comprehensive Enterprise Risk Management (ERM) system, which is consistent with best practices in this respect, based on the COSO standards. It developed and implemented Enterprise Risk Management Policy and Procedures, and the entire process is supported by a dedicated IT system.

The ERM system is one of management tools supporting effective achievement of strategic and operational objectives. The system covers all key business processes such as production, logistics and sales, as well as a range of support functions, e.g. preparation of financial statements or the strategic planning process.

In order to provide the Supervisory Board with up-to-date information on key risks, individual business areas assess risks to ensure that the list of the most significant risks is up to date. The assessment is the responsibility of process, risk and control owners. Results of the self-assessment are used to develop plans of remedial actions for individual risks and risk controls, to help bring net risk (with risk-specific controls in place) exactly in line with the organisation's desired risk appetite.

Upon completion of each risk self-assessment exercise and risk controls testing a report is prepared and submitted to the PKN ORLEN Management Board and to the Audit Committee of the Supervisory Board. The report identifies PKN ORLEN's most significant risks and the planned mitigation methods.

#### *2. Second line of defence – compliance function*

The compliance function at PKN ORLEN S.A. is based on the following four elements:

- as part of the ERM system, understood as a system for assessing financial and operational risk compliance with regard to the effectiveness of controls and the ERM Policy and Procedure,
- through the internal audit function as a tool for assessment of compliance of the processes with internal regulations,
- compliance with integrated management systems (ISO),
- identification of regulatory risks, including in particular risks related to the industry in which the Company operates.

PKN ORLEN S.A. has developed the Integrated Management System Policy, whose implementation and validity are regularly – as part of the IMS review – assessed by unit managers as well as executive directors and office directors.

The Company's Integrated Management System takes into account the findings of audits and reviews as well as complaints and grievances. Additionally – should the need arise – preventive / corrective measures are taken to address any observations/ irregularities identified in the above processes. All these activities are designed to ensure compliance with the reference standards, i.e.: ISO 9001 (quality management system), ISO 14001 (environmental management system), PN-N-18001 (occupational health and safety management system), and ISO 27001 (information security management system), ISCC system (a certification system for biomass and biofuels), Factory Production Control System, and Food Safety Management System.

As part of the regulatory risk management process, the Company monitors legislative work, at the international, EU and national levels, on draft legal acts with a potential to affect the Company's business. At the same time, efforts are made to identify potential regulatory barriers which may pose risks to the Company's business, based on which steps are taken to minimise the risks.

Additionally, PKN ORLEN S.A. also pursues a lobbying strategy, compliant with laws of general application and internal regulations, to have its opinions and position on particular matters recognised internationally. Reports on such activities are prepared as needed and presented to the Management Board.

### *3. Third line of defence – internal audit and control function*

The internal audit function is performed by the Audit Office, whose purpose is to perform independent and objective assessment of internal audit systems and analyse business processes.

The activities are carried out in compliance with the International Standards for the Professional Practice of Internal Auditing (The Institute of Internal Auditors, IIA). This compliance is verified periodically by an external entity holding appropriate authorisations.

As part of the Audit Office's tasks (audits and consulting projects), compliance issues are reviewed on an ongoing basis by reviewing process compliance with the applicable internal regulations. The Audit Office of PKN ORLEN S.A. provides recommendations to implement solutions designed to reduce the risk of non-achievement of the Group's objectives, improve effectiveness of the internal control system and enhance the efficiency of business processes

### **Internal assessment of PKN ORLEN S.A.'s internal audit function in 2017**

In accordance with the audit standards, internal assessment includes: -

- ongoing monitoring of internal audit activities;
- periodic reviews of the internal audit function carried out through self-assessment or by other persons from within the organisation who have reasonable knowledge of internal audit practices.

In 2017, the internal audit activities were monitored on an ongoing basis by the Audit Director as part of their day-to-day activities.

In 2017, development initiatives were implemented, including internal training sessions for all employees of the ORLEN Group's internal audit units ('Methodology for the Preparation of Audit and Control Programmes' and 'Evidence and Documents in Control and Audit Processes').

Also in 2017, the Audit Office of PKN ORLEN S.A.:

- implemented a new version of the Galileo audit management system;
  - following the rollout of the new version – reviewed the Galileo User Manual and the Auditor Handbook of audit methodology;
- reviewed amendments to the International Standards for the Professional Practice of Internal Auditing (Institute of Internal Auditors – IIA) to ensure compliance of the Audit Office with the amended standards.

## **VIII ASSESSMENT OF THE COMPANY'S COMPLIANCE WITH ITS CORPORATE GOVERNANCE DISCLOSURE OBLIGATIONS**

- PKN ORLEN S.A. applies the corporate governance principles set out in the Code of Best Practice for WSE Listed Companies 2016 ('Code of Best Practice') applicable on the Warsaw Stock Exchange ('WSE').

- The Company properly fulfils its corporate governance disclosure obligations resulting from the WSE Rules and regulations on current and periodic information to be disclosed by issuers of securities.
- In 2017, PKN ORLEN complied with all principles contained in the document 'Best Practice of GPW Listed Companies 2016'. Where the Company permanently does not comply with or has incidentally violated a principle set forth in the Code of Best Practice, it discloses such non-compliance or violation in accordance with Section 29.3 of the WSE Rules, i.e. in a current report issued through the WSE-managed EBI reporting system.
- Pursuant to Par. 91 of the Regulation on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, dated February 19th 2009 (Dz.U. of 2014, item 133, as amended), PKN ORLEN discloses a statement of compliance with corporate governance principles in its consolidated and separate full-year reports.
- The 'Investor Relations' section of the Company's website contains a corporate governance tab (<http://www.orlen.pl/PL/RelacjeInwestorskie/Gielda/Strony/DobrePraktykiGPW.aspx>), which is where the Company's annual reports on compliance with WSE best practices, as well as the Code of Best Practice for WSE Listed Companies itself, can all be downloaded. In addition, it also contains a brief statement of best practices applied by the Company, and all other information required by the Code.
- In accordance with Resolution No. 1933/18 of March 14th 2018, the Supervisory Board of PKN ORLEN S.A. delegated Ms Agnieszka Biernat-Wiatrak, Mr Radosław L. Kwaśnicki, and Mr Mateusz Bochacik to individually perform supervisory duties with respect to the Company's compliance with its corporate governance disclosure obligations set forth in the WSE Rules and regulations on current and periodic information to be published by issuers of securities. Previously, the persons delegated to perform these duties were: Mr Radosław L. Kwaśnicki, Mr Mateusz Bochacik, and Mr Adrian Dworzyński.  
In 2017, the Management Board maintained ongoing contacts with delegated Supervisory Board members in respect of fulfilment of the Company's disclosure requirements and contacts with the Polish Financial Supervision Authority.

## **IX ASSESSMENT OF REASONABLENESS OF THE COMPANY'S SPONSORSHIP, CHARITABLE OR SIMILAR ACTIVITIES**

PKN ORLEN's sponsorship and charitable initiatives carried out in 2017 were part of the PKN ORLEN Marketing Strategy for 2017–2021, approved by the Corporate Strategy Committee in January 2017. The initiatives associated with the implementation of the CSR Strategy for PKN ORLEN were reported at the meetings of the Supervisory Board's CSR Committee in December 2015 and September 2016. The initiatives were carried out in accordance with the Company's internal regulations and customary market practice. The sponsorship and charitable activities and tools were adjusted throughout the year to the changing competitive environment.

The adopted sponsorship and charity strategy has built positive perception and strong good image of PKN ORLEN brands, and also translated into measurable results.

In 2017, the media value generated by the Company's marketing efforts exceeded PLN 195m<sup>1</sup>, which makes PKN ORLEN the sixth brand in Poland in terms of TV exposure. Sponsorship activities played a significant role. As confirmed by research, such activities greatly contribute to creating an emotional bond between the

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<sup>1</sup>Study on the effectiveness of sports sponsorship activities and product placement, Pentagon Research, monthly measurements in 2012–2017.

brand and the customer. Potwierdzają to badania. Public awareness of PKN ORLEN's sponsorship activities among motorists was 77%, and among people interested in motorsports as much as 86%.<sup>2</sup>

The projects and initiatives undertaken in 2017 contributed to the strengthening of PKN ORLEN's position and increasing its share in the fuel market. Despite the competitors' efforts, fuel sales volumes grew by 7%<sup>3</sup>, with a 3% increase in volumes of VERVA fuels compared with 2016<sup>3</sup>. Sales of Stop Cafe products grew by 16%.<sup>3</sup>

For many years, ORLEN has been the most valuable Polish brand. In 2017, according to a ranking by the *Rzeczpospolita* daily, the ORLEN brand value was PLN 4.7bn.<sup>4</sup> It was largely supported by the Company's sponsoring activities, which directly influence the brand image.

Sponsorship and charitable giving directly translate into desirable brand attributes. Association of the 'brings benefits to Poland and Poles' attribute with the ORLEN brand remains high (at 73% in 2017). Moreover, sponsorship activities support product brands image by strengthening association of the VERVA brand with such attributes as 'power and dynamism' (75%) or 'innovation' (65%).<sup>5</sup>

PKN ORLEN significantly intensified its activities for the benefit of the local community in Płock. These projects take into account priorities indicated by local residents, which include healthcare and security, environmental initiatives and promotion of healthy lifestyles, sports and cultural events as well as various projects addressed to children. In 2017, the number of these projects grew to 89, from 52 in the previous year. In 2017, PKN ORLEN increased its engagement in projects for the benefit of Płock in order to strengthen good relations with the local community and build its image as a 'good and active neighbour', also in the context of the inhabitants' expectations and concerns related to air quality in Płock.

PKN ORLEN remains the leader in corporate sponsorship. In 2017, as much as 31% of the respondents indicated the Company as most often engaged in sponsorship activities; the second in the ranking was Orange, scoring 12 percentage points below PKN,<sup>6</sup> followed by Lotos (15%), Plus (13%), and Coca-Cola (12%). In the group of companies involved in charitable initiatives, PKN ORLEN ranks among the top three<sup>6</sup>, with 8% of responses and the top position among commercial companies. It was outperformed only by Polsat and TVN, with 15% and 14% of the responses, respectively. PKN ORLEN is also perceived as the second most active arts and culture sponsor, with 11% of responses, after PZU with 12%<sup>6</sup>. Other leaders in this category were Orange (10% of responses) and LOTOS (7%).

Over the past two years, the ORLEN brand's image as a company supporting local initiatives and communities significantly strengthened. The percentage of motorists who associate ORLEN with such local activities is currently 24% (23% in 2016 and 16% in 2015).<sup>7</sup>

The Company's community outreach activities were recognised in numerous competitions and polls.

## **X ANALYSIS AND ASSESSMENT OF THE ACTIVITIES OF THE GROUP COMPANIES, BASED ON ASSESSMENT OF THE GROUP'S CONSOLIDATED FINANCIAL STATEMENTS**

The purpose of activities undertaken by the ORLEN Group is to increase its market value, strengthen its position on home markets, and expand its product offering and geographical reach.

<sup>2</sup>Sponsoring Monitor, Kantar TNS (formerly GfK Polonia), study carried out in October–November in 2012–2017, sample size of 800.

<sup>3</sup>QlikView reporting system.

<sup>4</sup>Most Valuable Polish Brands ranking by the *Rzeczpospolita* daily of February 23rd 2018.

<sup>5</sup>'Barometr marki ORLEN' study by GfK Polonia, conducted every two months in 2012–2017; sample size of 500.

<sup>6</sup>'Sponsoring Monitor', ARC Rynek i Opinia 2017, April, August and December of 2017, sample size of 5011.

<sup>7</sup>Corporate Image study by Kantar TNS, November–December 2017, sample size of 2049.



To ensure effective management, holding management policies have been implemented and comprise solutions designed to achieve Parent-defined shared goals across the ORLEN Group.

These solutions are based on the ORLEN Group Constitution, which ensures uniform rules for information exchange, organisational standards, and effective monitoring of key business decisions. PKN ORLEN's effective corporate supervision relies on formal and legal supervision as well as on supervision of the companies' operating and finance activities.

The Parent's policy with respect to the ORLEN Group focuses on reinforcing the position of the core-business companies, improving management, consolidating assets, and divesting of non-core assets.

As at December 31st 2017, the ORLEN Group consisted of 69 companies, including 59 subsidiaries.

In the light of the information presented below, the Supervisory Board gives a positive assessment of the activities of the ORLEN Group's key companies.

## I. RESULTS OF THE ORLEN GROUP

The ORLEN Group generated **revenue** of PLN 95,364m, up by 19.9% on the previous year, reflecting a 7.4% year-on-year rise in volumes, by 2,929 thousand tonnes, an increase of USD 10.5/bbl in oil prices, and the resulting increase in market prices for the Group's products.

In 2017, earnings before depreciation and amortisation, net of the effect of crude price movements on the value of inventories (LIFO-based EBITDA) and net impairment losses on non-current assets<sup>8</sup> were at a record **PLN 10,448m**, up by **PLN 1,036m** y/y:

- **PLN 165m** y/y – a positive impact of macroeconomic factors, including in particular stronger margins on refined products, olefins, PTA, aromatics, and plastics, with the financial results adversely affected by the negative impact of the Urals/Brent differential, lower margins on polyolefins and fertilizers, and the appreciation of the Polish currency against foreign currencies.
- **PLN 1,660m** y/y – sales volumes growth across all operating segments, ultimately having a positive overall effect on earnings, reflecting favourable market conditions and the absence of the production constraints that occurred in 2016 due to unavailability of the ethylene and FCC units at the Unipetrol Group.
- **PLN (789)m** y/y – negative impact of other factors, including:
  - PLN (463)m y/y – change in net other income (expenses), resulting mainly from lower y/y compensation paid by insurers in respect of the failure of the Unipetrol Group's ethylene production unit,
  - PLN (323)m y/y – other factors, including mainly a lower (by PLN (446)m y/y) effect of change in inventory write-downs following remeasurement of inventories at net realisable value.

After accounting for the impairment losses, the LIFO-based EBITDA in 2017 was **PLN 10,279m**.

The positive impact of oil price changes on inventory valuation was PLN 799m. As a result, the ORLEN Group's EBITDA for 2017 came in at **PLN 11,078m**.

Earnings after depreciation and amortisation of PLN (2,421)m reached **PLN 8,657m**.

In 2017, net finance income was **PLN 60m** and included mainly net currency exchange gains of PLN 645m, net interest expense of PLN (274)m, and PLN (305)m on settlement and valuation of financial instruments.

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<sup>8</sup>) Net impairment losses on property, plant and equipment and intangible assets:

- 2017: PLN (169)m, comprising mainly impairment losses on the ORLEN Upstream Group's exploration assets in Poland;
- 2016: PLN 145m, chiefly attributable to reversal of impairment losses on the Unipetrol Group's refining assets of PLN 316m and recognition of impairment losses of PLN (73)m on the ORLEN Upstream Group's exploration assets in Poland and PLN (55)m on ORLEN Oil's assets.

After tax expense of PLN (1,544)m, the ORLEN Group posted a **net profit of PLN 7,173m** for 2017, an increase of PLN 1,433m y/y.

**Equity** as at the end of 2017 was **PLN 35,211m**, up by PLN 5,926m y/y, comprising mainly net profit of **PLN 7,173m** and dividend distributions from retained earnings of **PLN (1,372)m** in total.

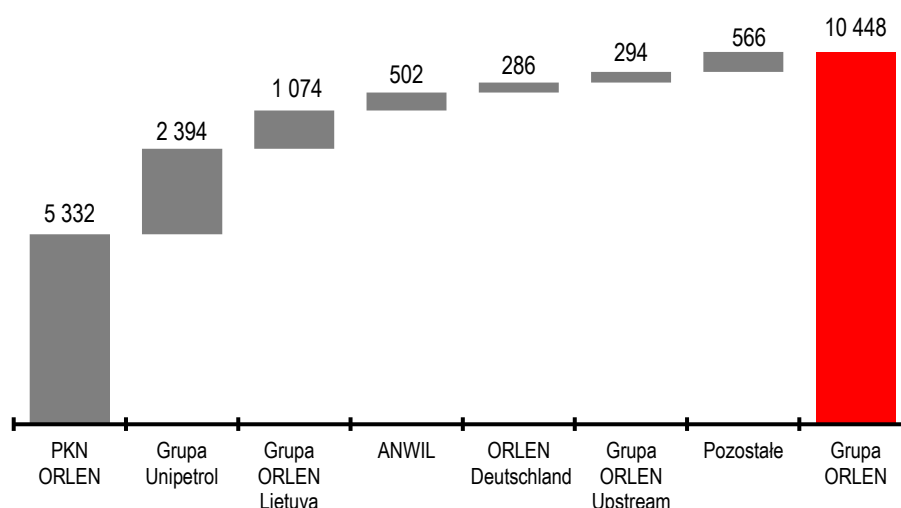
At the end of 2017, the Group reported net financial debt of **PLN 761m**, down by PLN (2,602)m y/y.

Expansion of the ORLEN Group's power generation, logistics, procurement, IT, and retail business led to an increase in total workforce by 532 employees y/y, to **20,262**.

## RESULTS OF THE KEY COMPANIES OF THE ORLEN GROUP IN 2017

(consistent with the figures used for the purpose of consolidation)

**DIAGRAM 1. LIFO-BASED EBITDA of key ORLEN Group companies before impairment of non-current assets in 2017**



### 1. PKN ORLEN S.A.

PKN ORLEN generated **revenue** of PLN 70,012m, up by 30.5% year on year, reflecting a 14.7% y/y rise in volumes, by 4,563 thousand tonnes, an increase of USD 10.5/bbl in oil prices, and the resulting increase in market prices for PKN ORLEN's products.

In 2017, earnings before depreciation and amortisation, net of the effect of crude price movements on the value of inventories (LIFO-based EBITDA) and net impairment losses on non-current assets were **PLN 5,332m**, having increased by **PLN 481m** y/y:

- **PLN 218m** y/y – the positive effect of macroeconomic factors, including in particular improved margins on refining products, olefins, PTA and aromatics, partly offset by the negative impact of the Urals/Brent differential and appreciation of the Polish zloty.
- **PLN (283)m** y/y – the negative volume-related effect recorded despite higher y/y sales volumes, attributable mainly to maintenance shutdowns leading to lower sales of Company-manufactured high-

margin fuels and petrochemicals, combined with increased commodity trading volumes, including imports.

- **PLN 546m** y/y – the positive impact of other factors included mainly: the positive effect of a change in net other income/(expenses) of PLN 278m y/y, resulting from successful collection of penalties of PLN 97m for failure to duly perform the contract for a CCGT plant in Włocławek, from lower y/y provisions for environmental and business risks, and the positive effect of higher fuel and non-fuel margins in the Retail segment.

After accounting for the impairment losses, the LIFO-based EBITDA in 2017 was **PLN 5,327m**.

The positive impact of oil price changes on inventory valuation was PLN 701m. As a result, EBITDA for 2017 came in at **PLN 6,028m**.

Earnings after depreciation and amortisation of PLN (2,241)m reached **PLN 4,787m**.

In 2017, net finance income was **PLN 2,260m**. After PLN (945)m taxes, net profit for 2017 was **PLN 6,102m**, an increase of PLN 738m y/y.

As at December 31st 2017, net financial debt decreased by PLN (4,464)m y/y, to **PLN 1,811m**.

As at December 31st 2017, the headcount was **4,980 persons**, having increased by 194 persons y/y.

## 2. UNIPETROL GROUP

**Revenue** was PLN 19,811m, having increased by 39.7% y/y, reflecting a 1,496 thousand tonnes (20.4%) y/y increase in sales volumes.

In 2017, earnings before depreciation and amortisation, net of the effect of crude price movements on the value of inventories (LIFO-based EBITDA) and net impairment losses on non-current assets were **PLN 2,394m**, having increased by **PLN 742m** y/y:

- **PLN 30m** y/y – the positive effect of macroeconomic factors, including in particular improved margins on refining products, partly offset by the negative impact of the Urals/Brent differential and appreciation of the Czech koruna.
- **PLN 1,729m** y/y – the positive effect of higher sales volumes (no production constraints caused by the 2016 shutdown of the ethylene and fluid catalytic cracking units).
- **PLN (1,017)m** y/y – other factors included the negative effect of a change in net other income/(expenses) of PLN (543)m y/y, attributable mainly to a lower y/y compensation paid by insurers in respect of the failure of the ethylene unit, and a PLN (306)m y/y decrease in net changes in inventory write-downs following remeasurement of inventories at net realisable value.

After accounting for the impairment losses, the LIFO-based EBITDA in 2017 was **PLN 2,382m**.

The positive impact of oil price changes on inventory valuation was PLN 26m. As a result, **EBITDA** for 2017 came in at **PLN 2,408m**.

Earnings after depreciation and amortisation of PLN (459)m came in at **PLN 1,949m**.

In 2017, net finance costs were **PLN (229)m**. After PLN (317)m taxes, net profit for 2017 was **PLN 1,403m**, an increase of PLN 95m y/y.

Negative net debt (cash surplus) as at December 31st 2017 was **PLN (401)m**.

As at December 31st 2017, the headcount was 4,720 persons, having increased by 144 persons y/y.

## 3. ORLEN LIETUVA GROUP

**Revenue** was PLN 17,042m, having increased by 19.4% y/y, reflecting a 75 thousand tonnes (0.8%) y/y increase in sales volumes.

In 2017, earnings before depreciation and amortisation, net of the effect of crude price movements on the value of inventories (LIFO-based EBITDA) and net impairment losses on non-current assets were **PLN 1,074m**, having decreased by **PLN (19)m** y/y:

- **PLN (46)m** y/y – the negative effect of such macroeconomic factors as the Urals-Brent differential and foreign exchange rates, partly offset by the positive impact of refining margins.
- **PLN 52m** y/y – the positive volume-related effect, achieved despite the scheduled maintenance shutdown of the Mažeikiai refinery and aggressive competition from suppliers from Finland and Belarus.
- **PLN (25)m** y/y – mainly the effect of higher costs related to the maintenance shutdown.

After accounting for the impairment losses, the LIFO-based EBITDA in 2017 was **PLN 1,073m**.

The positive impact of oil price changes on inventory valuation was PLN 69m. As a result, **EBITDA** for 2017 came in at **PLN 1,142m**.

Earnings after depreciation and amortisation of PLN (71)m came in at **PLN 1,071m**.

In 2017, net finance costs were **PLN (59)m**. After PLN (104)m taxes, net profit for 2017 was **PLN 908m**, a decrease of PLN (36)m y/y.

Negative net debt (cash surplus) as at December 31st 2017 was **PLN (53)m**.

As at December 31st 2017, the headcount was 1,612 persons, having increased by 30 persons y/y.

#### 4. ANWIL

**Revenue** was PLN 2,413m, having decreased (2.5)% y/y, with a 26 thousand tonnes (1.6%) y/y increase in sales volumes.

In 2017, earnings before depreciation and amortisation (EBITDA), net of the effect of impairment losses on non-current assets, were **PLN 502m**, having decreased by **PLN (76)m** y/y:

- **PLN (30)m** y/y – the effect of macroeconomic factors primarily included a negative effect of appreciation of the PLN exchange rate against foreign currencies, partly offset by higher margins on plastics.
- **PLN (1)m** y/y – the negative effect of lower sales volumes caused by the deteriorated situation on the fertilizer market.
- **PLN (45)m** y/y – mainly a negative impact of lower margins on fertilizers.

After accounting for impairment losses, EBITDA for 2017 was **PLN 502m**.

Earnings after depreciation and amortisation of PLN (93)m came in at **PLN 409m**.

In 2017, net finance income was **PLN 3m**. After PLN (86)m taxes, net profit for 2017 was **PLN 325m**, a decrease of PLN (208)m y/y.

As at December 31st 2017, net debt decreased by PLN (1)m y/y, to **PLN 0m**.

As at December 31st 2017, the headcount was 1,268 persons, having increased by 24 persons y/y.

#### 5. ORLEN DEUTSCHLAND

**Revenue** was PLN 14,850m, having increased by 8.4% y/y, reflecting a 163 thousand tonnes (6.2%) y/y increase in sales volumes.

In 2017, earnings before depreciation and amortisation (EBITDA), net of the effect of impairment losses on non-current assets, were **PLN 286m**, having decreased by **PLN (9)m** y/y:

- **PLN 15m** y/y – the positive effect of higher sales volumes.
- **PLN (24)m** y/y – mainly a negative effect of lower fuel margins (PLN (29)m), with relatively stable margins on non-fuel products.

After accounting for impairment losses, EBITDA for 2017 was **PLN 285m**.

Earnings after depreciation and amortisation of PLN (106)m came in at **PLN 179m**.

In 2017, net finance costs were **PLN (3)m**. After PLN (60)m taxes, net profit for 2017 was **PLN 116m**, a decrease of PLN (13)m y/y.

Negative net debt (cash surplus) as at December 31st 2017 was **PLN (11)m**.

As at December 31st 2017, the headcount was 155 persons, having increased by 9 persons y/y.

## 6. ORLEN UPSTREAM GROUP

**Revenue** was PLN 526m, having increased 14.3% y/y, reflecting an 80 thousand tonnes (14.3%) y/y increase in sales volumes.

In 2017, earnings before depreciation and amortisation (EBITDA), net of the effect of impairment losses on non-current assets, were **PLN 294m**, having increased by **PLN 24m** y/y:

- **PLN 7m** y/y – the positive effect of macroeconomic factors, mainly due to a year-on-year increase in hydrocarbon prices in Canada.
- **PLN 45m** y/y – the positive effect of higher sales volumes, mainly due to higher hydrocarbon production in Canada.
- **PLN (28)m** y/y – other factors, including mainly the negative effect of net other income/(expenses) of PLN (51)m y/y, attributable mainly to the absence of positive effect of the adjustment of allocation of FX Energy acquisition price, recognised in 2016.

After accounting for impairment losses, EBITDA for 2017 was **PLN 154m**.

Earnings after depreciation and amortisation of PLN (307)m were negative (operating loss), at **PLN (153)m**.

In 2017, net finance income was **PLN 97m**. After PLN (26)m taxes, net loss for 2017 was **PLN (30)m**, and decrease of PLN 159m y/y.

As at December 31st 2017, net debt increased by PLN 7m y/y, to **PLN 749m**.

As at December 31st 2017, the headcount was 148 persons, having increased by 2 persons y/y.

## 7. OTHER ORLEN Group companies – a PLN 566m effect on LIFO-based EBITDA, including mainly:

- PLN 248m – share of equity-accounted entities (Basell ORLEN Polyolefins),
- PLN 76m – ORLEN Południe,
- PLN 70m – ORLEN Paliwa,
- PLN 75m – ORLEN Asfalt,
- PLN 35m – IKS Solino,
- PLN 18m – ORLEN Serwis.

## **XI ASSESSMENT OF THE USE OF NON-CURRENT ASSETS BY THE COMPANY**

### **I. Property not used in PKN ORLEN S.A.'s day-to-day operations in 2017**

Property not used in day-to-day operations of PKN ORLEN S.A. (such as land on which closed-down service stations are located, non-operational service stations, petroleum product plants and storage depots) are subject to ongoing analysis in terms of their possible sale or lease. Those items of property which are found to be unsuitable for the Company's needs based on an internal analysis within the Company's areas, are classified as property for disposal.

As at December 31st 2017, PKN ORLEN S.A. held 92 properties held for sale or lease, with a total net carrying amount of PLN 81m.

In 2017, 22 properties with a carrying amount of PLN 12.13m were sold for PLN 24.53m (VAT exclusive). Moreover, following the issue of administrative decisions permitting implementation of road construction projects, the Company lost its legal title to 14 properties with a total carrying amount of PLN 1.47m, VAT exclusive, through expropriation. The Company was granted a compensation of PLN 5.82m (VAT exclusive).

Properties or parts of properties which are not directly used in the Company's day-to-day operations may be leased or rented. As at the end of 2017, the Company was a party to 54 lease agreements providing a total annual rent of PLN 2.29m (VAT exclusive).

**II. Material items of other non-current assets, including machinery and equipment, which are not used in day-to-day operations and not expected to be used in the future through sale, liquidation, lease or rental.**

No material redundant assets (other than the properties specified in section I. above) were identified at PKN ORLEN, including no machinery and equipment, which are not used in the Company's day-to-day operations.

## **XII SELF-ASSESSMENT OF THE SUPERVISORY BOARD'S WORK**

In accordance with Section II.Z.10.2. of the Code of Best Practice for WSE Listed Companies adopted by Resolution No. 26/1413/2015 of the Supervisory Board of the Warsaw Stock Exchange of October 13th 2015 ("Code of Best Practice for WSE Listed Companies"), the Company's Supervisory Board performed self-assessment of its work in 2017.

The Supervisory Board exercises ongoing supervision over the Company's activities in every area of its operations, in accordance with the powers and responsibilities defined in applicable laws and the Company's internal regulations. In the performance of their supervisory duties, Supervisory Board members were also guided by the Code of Best Practice for WSE Listed Companies. In the course of their duties, Supervisory Board members gave due regard to the Company's interests.

Members of the Supervisory Board have a high level of professional competence required to serve on a supervisory body. Their diverse skills, combined with experience in supervision of commercial law companies, ensure effective and efficient oversight of various areas of PKN ORLEN S.A.'s operations and enable comprehensive assessment of the economic and business plans of the Management Board. The

number of the Supervisory Board members is appropriate for the scale of the Company's operations. The requirement concerning the number of independent Supervisory Board members was met, with three such members on the Supervisory Board, and diversity in terms of gender and age of the members was ensured.

2017 was another period of active and intensified work for the Supervisory Board. At the beginning of 2017, the Company commenced implementation of its Strategy for 2017–2021, presented at the end of 2016. In June 2017, the Supervisory Board appointed the Company's Management Board for a new three-year term of office. Apart from active support to the Management Board in the Company's day-to-day operations, in the second quarter of 2017, the Supervisory Board approved the issue of bonds by the Company under the second retail bond programme addressed to retail investors, covered by the issue prospectus approved by the Polish Financial Supervision Authority. In the last quarter of 2017, the Supervisory Board granted its consent to the announcement and implementation by the Company of a voluntary tender offer for Unipetrol a.s. shares.

Pursuant to Art. 390.1 of the Commercial Companies Code, the Supervisory Board acts as a collective body through active participation of all its members in its meetings. In addition to those meetings, the Supervisory Board also met within specialised committees. Given the need to efficiently prepare the materials to be considered at its meetings and meetings of its committees, and to ensure that decisions are made at the required time, the Supervisory Board cooperated with the Management Board also on a workshop basis, through direct, ongoing contacts between the two bodies. The Supervisory Board members also attended the Company's General Meetings in order to ensure the possibility of substantive discussion during the meetings.

Three of the Supervisory Board members were delegated to individually supervise the Company's compliance with the corporate governance disclosure obligations specified in the Rules of the Warsaw Stock Exchange and legal regulations concerning disclosure of current and periodic information.

The Supervisory Board actively responded to the expectations of the major shareholder regarding supervision of individual segments or matters. It also ordered internal inspections in this respect.

The Management Board cooperated with the Supervisory Board, providing all necessary information and materials. The Management Board flexibly responded to the Supervisory Board's expectations also with respect to the workshop meetings outside of the Supervisory Board meetings.

The Supervisory Board members actively participated in seminars and conferences devoted to corporate governance with a view to expanding and updating their knowledge of the changing legal requirement for the operation of supervisory boards in Poland and abroad.

The Supervisory Board members' engagement in the Company's affairs in terms of the amount of time significantly exceeded market standards in this respect.

All things considered, the Supervisory Board confirms proper performance of duties by its members in 2017. In the Supervisory Board's opinion, its work during meetings, at committees and through direct contacts with the Company's Management Board, was highly efficient, transparent and effective, which ensured professional support to, effective supervision of, and provided the sense of stability to the Company.

Warsaw, May 30th 2018