



Polski Koncern Naftowy ORLEN
Spółka Akcyjna

**REPORT
OF THE SUPERVISORY BOARD OF PKN ORLEN S.A.
FOR THE FINANCIAL YEAR 2018**

WARSAW, April 2019

I. COMPOSITION OF THE SUPERVISORY BOARD

As at January 1st 2018, the composition of the Supervisory Board was as follows:

Angelina Sarota	Chair of the Supervisory Board
Radosław L. Kwaśnicki	Deputy Chair 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 Member</i>)
Izabela Felczak-Poturnicka	Member of the Supervisory Board.

Changes in the composition of the PKN ORLEN Supervisory Board in 2018:

- On January 5th 2018, the Minister of Energy, acting on behalf of the State Treasury as the Company's shareholder, pursuant to Art. 8.2.1 of the Company's Articles of Association, appointed Ms Małgorzata Niezgoda to the Supervisory Board.
- On February 1st, Ms Małgorzata Niezgoda resigned from her position as a Supervisory Board Member pursuant to Art. 386.2 in conjunction with Art. 369.5.
- On February 2nd, the Extraordinary General Meeting of PKN ORLEN S.A. removed from the Supervisory Board the following persons: Ms Angelina Sarota, Mr Adrian Dworzyński, and Ms Agnieszka Krzętowska.
- On February 2nd, the Extraordinary General Meeting of PKN ORLEN appointed Ms Jadwiga Lesisz, Ms Agnieszka Biernat-Wiatrak and Ms Małgorzata Niezgoda to the Supervisory Board.
- On February 5th, the Minister of Energy, acting on behalf of the State Treasury as the Company's shareholder, pursuant to Art. 8.2.1 of the Company's Articles of Association, appointed Mr Józef Węgrecki to the PKN ORLEN Supervisory Board.
- On February 5th, the Supervisory Board of PKN ORLEN S.A. delegated Mr Józef Węgrecki to temporarily perform the duties of a Management Board Member responsible for Procurement and Investments, for a period of up to three months.
- On March 22nd 2018, Mr Józef Węgrecki resigned as a Member of the Supervisory Board.
- On March 22nd 2018, the Supervisory Board of PKN ORLEN S.A. appointed Mr Józef Węgrecki to the position of Member of the Management Board, Chief Operating Officer, with effect from March 23rd.
- On March 22nd 2018, the Supervisory Board delegated Ms Jadwiga Lesisz, Member of the Supervisory Board, to serve, with effect from March 23rd 2018, as a Management Board Member responsible for Investments and Procurement, for a period of up to three months.
- The delegation of Ms Jadwiga Lesisz, Member of the Supervisory Board, to temporarily perform the duties of a Management Board Member, ended on June 23rd.
- On June 26th, at the request of the State Treasury as the Company's shareholder, the Annual General Meeting of PKN ORLEN S.A. appointed Mr Andrzej Kapala to the Supervisory Board.
- On June 26th 2018, acting on behalf of the State Treasury as the Company's shareholder, pursuant to Art. 8.2.1 of the Company's Articles of Association, the Head of the State Treasury Department at the Chancellery of the Prime Minister appointed Ms Anna Wójcik to the PKN ORLEN Supervisory Board.

As at December 31st 2018, the composition of the Supervisory Board of PKN ORLEN S.A. was as follows:

Izabela Felczak-Poturnicka	Chair of the Supervisory Board
Radosław L. Kwaśnicki	Deputy Chair of the Supervisory Board (<i>Independent Member</i>)
Mateusz Bochacik	Secretary of the Supervisory Board (<i>Independent Member</i>)
Agnieszka Biernat-Wiatrak	Member of the Supervisory Board
Andrzej Kapała	Member of the Supervisory Board (<i>Independent Member</i>)
Wojciech Kryński	Member of the Supervisory Board (<i>Independent Member</i>)
Jadwiga Lesisz	Member of the Supervisory Board (<i>Independent Member</i>)
Małgorzata Niezgoda	Member of the Supervisory Board
Anna Wójcik	Member of the Supervisory Board.

On February 15th 2019, Mr Mateusz Bochacik resigned as a Member of the Supervisory Board of PKN ORLEN S.A.

On March 20th 2019, Ms Anna Wójcik was appointed to the position of Secretary of the Supervisory Board.

II. ACTIVITIES OF THE SUPERVISORY BOARD

In 2018, the Supervisory Board held 21 minuted meetings and passed 177 resolutions.

The attendance of Supervisory Board members at the Supervisory Board meetings held in 2018 was 99%. In 2018, the Supervisory Board passed one resolution to authorise the absence of a member of the Supervisory Board. In 2018, there were no unauthorised absences of members of the Supervisory Board from the meetings.

In the financial year 2018, in the exercise of its supervisory and control powers and functions, the Supervisory Board among other things:

- removed the President, Vice President and Members of the Company's Management Board, and then appointed a new President and Members of the Management Board of PKN ORLEN S.A.;
- represented the Company in employment contracts and agreements with members of the Management Board;
- delegated its members to temporarily serve on the Management Board of PKN ORLEN S.A.;
- delegated its members to perform supervisory duties with respect to the disclosure requirements;
- assessed the Directors' Report on the operations of the ORLEN Group and PKN ORLEN S.A. in 2017;
- 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 2017;
- assessed the Management Board's proposal for allocation of net profit for the financial year 2017;
- issued favourable opinions on proposals submitted by the Management Board for consideration by the General Meeting;
- issued a favourable opinion on the agenda and draft resolutions for the Extraordinary General Meeting of PKN ORLEN S.A. convened for February 2nd 2018;

- issued a favourable opinion on the agenda and draft resolutions for the Annual General Meeting of PKN ORLEN S.A. convened for June 26th 2018;
- appointed a qualified auditor to audit and review the financial statements of PKN ORLEN S.A.;
- approved the 'Updated ORLEN Group Strategy and Mid-Term Plan for 2019–2022';
- issued a favourable opinion on the 2019 budget for PKN ORLEN and the ORLEN Group;
- approved the Rules of Procedure for the Management Board of PKN ORLEN S.A. and adopted amendments to the Rules of Procedure for the Supervisory Board of PKN ORLEN S.A.;
- approved MBO sheets for the Management Board members for 2018 along with a separate objective which, if achieved, would trigger payment of bonuses;
- approved the rules for setting and accounting for individual bonus targets for the Management Board for 2018;
- authorised the execution of agreements with law firms and with economic and financial advisers in connection with an M&A project;
- authorised the execution of contracts for the provision of management consultancy services;
- authorised the grant of in-kind and financial donations by PKN ORLEN S.A.;
- authorised the execution of sponsorship agreements and the award of contracts under framework agreements for the provision of marketing services;
- authorised the Company to incur financial liabilities which under a single transaction or a series of related transactions executed in 2018 exceed the equivalent of one-fifth of the Company's share capital;
- authorised the contribution of cash to a company under commercial law, pursuant to Art. 8.12.7 of the Company's Articles of Association;
- authorised PKN ORLEN S.A.'s voting at the General Meeting of ORLEN Południe S.A. on that company's merger with Euronaftrzebinia Sp. z o.o.;
- authorised the voting of shares in certain ORLEN Group companies concerning changes in their corporate documents;
- authorised PKN ORLEN S.A.'s voting at the General Meeting of AB ORLEN Lietuva concerning that company's restructuring;
- approved the 'Rules for disposal by way of an auction of non-current assets with a value exceeding 0.1% of total assets calculated on the basis of the most recent approved full-year separate financial statements of PKN ORLEN S.A.';
- 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;
- authorised the provision of excise bonds by PKN ORLEN S.A.;
- authorised equity investments and investments in property, plant and equipment carried out by the Company on foreign markets with a value exceeding one-twentieth of the Company's share capital;
- authorised the execution of agreements for technical, financial, tax and legal advisory services relating to a logistics assets project;
- authorised an increase of the share capital of ORLEN Upstream Sp. z o.o. to finance its expenditures on exploration and production projects in Poland and Canada;
- authorised additional contributions to the share capital of ORLEN Upstream Sp. z o.o. to finance its expenditures on exploration and production projects in Poland;
- authorised the 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.

The other resolutions passed 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 2018.

III. COMMITTEES OF THE SUPERVISORY BOARD

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

In 2018, 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 2018 resulted in changes in the composition of the Committees, as presented in the description of the activities of each of the Committees below.

The detailed scope of work of the Committees in 2018 was documented in minutes of the Committees' meetings (in 2018, the Committees held 55 meetings).

Audit Committee

As at January 1st 2018, the Audit Committee consisted of:

Wojciech Kryński	Chair 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.

Due to the changes in the composition of the Supervisory Board that took place in 2018, the composition of the Audit Committee also changed and as at December 31st 2018 was as follows:

Wojciech Kryński	Chair of the Committee (<i>Independent Member of the Supervisory Board</i>)
Izabela Felczak-Poturnicka	Member of the Committee
Radosław L. Kwaśnicki	Member of the Committee (<i>Independent Member of the Supervisory Board</i>)
Andrzej Kapala	Member of the Committee (<i>Independent Member of the Supervisory Board</i>)
Jadwiga Lesisz	Member of the Committee (<i>Independent Member of the Supervisory Board</i>).

In 2018, the Audit Committee held 17 minuted meetings.

Pursuant to Section 13.5 of the Rules of Procedure for the Supervisory Board, the Audit Committee made decisions by way of resolutions (four 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 Section 15 of the Rules of Procedure for the Supervisory Board, the Audit Committee is responsible for advising the Supervisory Board on proper implementation of the 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 2018, the Audit Committee formulated a recommendation with respect to the appointment of an auditing firm in accordance with the Supervisory Board-approved updated auditor selection and appointment policy and procedure, non-audit services policy, and auditor independence monitoring and oversight procedure. Key provisions of the document are as follows:

- the auditor is selected in advance in accordance with the auditor rotation rules, by way of requests for proposals issued by the Supervisory Board based on the Audit Committee's recommendation,
- the auditor is selected based on clear and non-discriminatory criteria, in a manner ensuring that the audit services provided to the Company are of the highest quality and that all criteria and standards of the auditor's and the auditing firm's independence and impartiality are met,
- the first audit engagement letter is signed with an auditing firm for at least two years, subject to the rules on rotation of the auditing firm and lead auditor stipulated under applicable laws,
- the principle of objectivity is met by analysing any non-audit services provided by the auditor that extend beyond the scope of the audit engagement letter in order to avoid any conflicts of interest.

The Audit Committee carried out the auditor selection procedure and prepared a relevant recommendation for the Supervisory Board. The Audit Committee's work related to auditor selection was led by Wojciech Kryński. The selection process was documented in meeting minutes and a report.

The Audit Committee also performed its tasks by:

- inspecting and monitoring the audit firm, work of the Company's auditors and the auditors' independence;
- assessing the qualified auditor's independence and giving consent to the provision by the auditor of permitted non-audit services;
- reviewing interim financial statements as well as full-year separate and consolidated financial statements of PKN ORLEN S.A.;
- discussing any issues or reservations that may be identified in the course of or arise from the audit of financial statements;
- analysing the auditors' letter to the Management Board, the independence and objectivity of the audit, and the Management Board's response;
- issuing an opinion on the 2019 budget;
- analysing, on a quarterly basis, the ORLEN Group's actual results and performance relative to the original targets and budgets;
- issuing an opinion on the Management Board's proposal for allocation of profit for 2017;
- assessing the Company's standing, which included assessment of the internal audit, risk management and compliance systems, and of the internal audit function;
- issuing an opinion regarding a proposed change of the head of the internal audit unit;

- reviewing the report on the activities of PKN ORLEN S.A.'s and the ORLEN Group companies' audit functions;
- reviewing the report on the activities of PKN ORLEN S.A.'s and the ORLEN Group companies' controlling functions and the Enterprise Risk Management Department;
- acquainting themselves with the uniform personal safety, process safety and fire prevention standards implemented at the ORLEN Group companies;
- discussing the report on material court proceedings involving PKN ORLEN S.A. and the Group;
- reviewing 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 2018, the Strategy and Development Committee consisted of:

Radosław L. Kwaśnicki	Chair 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>).

Due to the changes in the composition of the Supervisory Board that took place in 2018, the composition of the Strategy and Development Committee also changed and as at December 31st 2018 was as follows:

Radosław L. Kwaśnicki	Chair of the Committee
Izabela Felczak-Poturnicka	Member of the Committee
Agnieszka Biernat-Wiatrak	Member of the Committee
Andrzej Kapala	Member of the Committee (<i>Independent Member of the Supervisory Board</i>)
Małgorzata Niezgoda	Member of the Committee.

In 2018, the Strategy and Development Committee held seven 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 Section 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 2018, in the exercise of its functions, the Strategy and Development Committee:

- discussed the progress of PKN ORLEN's strategy for 2017–2021;
- discussed the status of work on updating the strategy;
- discussed the progress of implementation of innovative projects;

- issued its opinion regarding PKN ORLEN's Strategy and Mid-Term Plan for 2019–2022.

The Strategy and Development 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 Committee.

Corporate Governance Committee

As at January 1st 2018, the Corporate Governance Committee of the Supervisory Board of PKN ORLEN S.A. consisted of:

Adrian Dworzyński	Chair 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.

Due to the changes in the composition of the Supervisory Board that took place in 2018, the composition of the Corporate Governance Committee also changed and as at December 31st 2018 was as follows:

Agnieszka Biernat-Wiatrak	Chair of the Committee
Mateusz Bochacik	Member of the Committee (<i>Independent Member of the Supervisory Board</i>)
Radosław L. Kwaśnicki	Member of the Committee (<i>Independent Member of the Supervisory Board</i>).

In 2018, the Corporate Governance Committee held five minuted meetings.

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 Section 16 of the Rules of Procedure for the Supervisory Board, pursuant to which the Committee is responsible for recommending and assessing the 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 the 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 2018, in the exercise of its functions, the Corporate Governance Committee:

- discussed the annual report on PKN ORLEN S.A.'s compliance with the Code of Best Practice for WSE Listed Companies;
- assessed the Company's compliance with its corporate governance disclosure obligations;
- acquainted themselves with the Polish Financial Supervision Authority's recommendations for PKN ORLEN S.A. concerning proper discharge of its obligations to disclose information to the capital market;
- issued their opinion concerning proposed amendments to the Articles of Association of PKN ORLEN S.A.;

- gave opinions on draft resolutions of the Extraordinary and Annual General Meeting of PKN ORLEN S.A.;
- analysed and gave their opinions regarding proposed amendments to the Rules of Procedure for the Supervisory Board of PKN ORLEN S.A. and the Rules of Procedure for the Management Board of PKN ORLEN S.A.;
- formulated their recommendation regarding the Management Board's report for the General Meeting concerning entertainment expenses, legal expenses, marketing costs, public relations and communication expenses, and management consultancy fees.

Nomination and Remuneration Committee

As at January 1st 2018, the Nomination and Remuneration Committee consisted of:

Angelina Sarota	Chair 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>).

Due to the changes in the composition of the Supervisory Board that took place in 2018, the composition of the Nomination and Remuneration Committee also changed and as at December 31st 2018 was as follows:

Małgorzata Niezgoda	Chair of the Committee
Mateusz Bochacik	Member of the Committee (<i>Independent Member of the Supervisory Board</i>)
Jadwiga Lesisz	Member of the Committee (<i>Independent Member of the Supervisory Board</i>)
Wojciech Kryński	Member of the Committee (<i>Independent Member of the Supervisory Board</i>)
Anna Wójcik	Member of the Committee.

In 2018, the Nomination and Remuneration Committee held 15 minuted meetings.

Apart from the Committee members, the meetings of the Nomination and Remuneration 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 Nomination and Remuneration Committee are set out in Section 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 2018, in the exercise of its functions the Nomination and Remuneration Committee:

- recommended the 'Rules for setting and accounting for individual bonus targets for members of the Management Board of PKN ORLEN S.A. for 2018';
- provided a recommendation to the Supervisory Board concerning the terms and conditions of management contracts for new members of the Management Board of PKN ORLEN S.A.;
- formulated a recommendation as to the wording of announcements concerning the opening by the Supervisory Board of recruitment procedures to fill the positions of Management Board members;

- reviewed the applications submitted as part of the recruitment procedures announced by the Supervisory Board in terms of their consistency with formal requirements;
- prepared a recommendation concerning training for members of the Company's Management Board;
- reviewed the documents produced as part of accounting for the achievement by the Management Board of objectives as a condition triggering payment of bonuses in 2017;
- discussed the proposals of MBO sheets for members of the Management Board for 2019 along with an objective which, if achieved, would trigger payment of bonuses in 2019; gave their opinions on amendments updating the Rules of the Incentive Scheme for members of the Management Board of PKN ORLEN S.A. and the 'Rules for setting and accounting for individual bonus targets for members of the Management Board of PKN ORLEN S.A. for 2019'.

Corporate Social Responsibility Committee (CSR Committee)

As at January 1st 2018, the CSR Committee consisted of:

Agnieszka Krzętowska	Chair 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.

Due to the changes in the composition of the Supervisory Board that took place in 2017, the composition of the Corporate Social Responsibility Committee also changed and as at December 31st 2018 was as follows:

Jadwiga Lesisz	Chair of the Committee (<i>Independent Member of the Supervisory Board</i>)
Mateusz Bochacik	Member of the Committee (<i>Independent Member of the Supervisory Board</i>)
Izabela Felczak-Poturnicka	Member of the Committee
Radosław L. Kwaśnicki	Member of the Committee (<i>Independent Member of the Supervisory Board</i>)
Anna Wójcik	Member of the Committee.

The responsibilities of the CSR Committee are set out in Section 19 and Section 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 2018, the Corporate Social Responsibility Committee held 11 minuted meetings.

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 2018, in the exercise of its functions the Corporate Social Responsibility Committee:

- assessed the reasonableness of the Company's sponsorship, charitable and similar activities;
- discussed the CSR Strategy for the ORLEN Group until 2022;

- formulated recommendations for the Supervisory Board concerning the Company's proposals of award of contracts under framework agreements for the provision of marketing, public relations, and social communication services;
- issued recommendations concerning proposals of grant of in-kind and financial donations by the Company;
- discussed the sponsorship activities assessment report for the first three quarters of 2018;
- acquainted themselves with information concerning consistency of the Company's management practices with the 'Core Values and Standards of Conduct of PKN ORLEN S.A.'.

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

- The Supervisory Board provided its position concerning the pollution of air in the city of Plock by PKN ORLEN S.A.;
- The Supervisory Board provided its opinions on the rationale for the foreign operations of the ORLEN Group;
- With reference to a letter concerning the proposed streamlining and extension of the activities of the tax, accounting, HR and reporting division at PKN ORLEN S.A., the Supervisory Board examined the matter and gave a relevant reply;
- The Supervisory Board provided explanations concerning the cooperation between the ORLEN Group and Sindbud Sp. z o.o.;

In compliance with the reporting obligation, in 2018 the Supervisory Board provided the Ministry of Energy and the Chancellery of the Prime Minister with quarterly reports on the Company, signed by the Chair of the Supervisory Board and the Supervisory Board member representing the State Treasury.

The quarterly reports were submitted on the following dates:

- for the fourth quarter of 2017 – February 1st 2018
- for the first quarter of 2018 – April 27th 2018
- for the second quarter of 2018 – July 25th 2018
- for the third quarter of 2018 – October 25th 2018
- for the fourth quarter of 2018 – January 28th 2019.

V. ASSESSMENT OF THE DIRECTORS' REPORT ON THE OPERATIONS OF THE ORLEN GROUP AND PKN ORLEN S.A. IN 2018

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 Art. 49 and 55.2a of the Accounting Act in conjunction with Art. 7.7.1 of the Company's Articles of Association, the Supervisory Board gives a favourable assessment of the Directors' Report on the operations of the ORLEN Group and PKN ORLEN S.A. in 2018.

VI. ASSESSMENT OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31ST 2018

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 favourable assessment of the audited financial statements of Polski Koncern Naftowy ORLEN Spółka Akcyjna for the year ended December 31st 2018, comprising:

- separate statement of profit or loss (included in the statement of profit or loss and other comprehensive income) for the period from January 1st to December 31st 2018, with the reported year-end net profit of PLN 5,434,149,842.17 (five billion, four hundred and thirty-four million, one hundred and forty-nine thousand, eight hundred and forty-two złoty, 17/100);
- separate statement of financial position as at December 31st 2018 showing total assets and total equity and liabilities of PLN 54,797,207,211.26 (fifty-four billion, seven hundred and ninety-seven million, two hundred and seven thousand, two hundred and eleven złoty, 26/100);
- separate statement of changes in equity, showing an increase in equity as at December 31st 2018 of PLN 4,068,853,618.09 (four billion, sixty-eight million, eight hundred and fifty-three thousand, six hundred and eighteen złoty, 09/100);
- separate statement of cash flows, showing a net decrease in cash of PLN 509.52 (two billion, forty-three million, eight hundred and eleven thousand, five hundred and nine złoty, 52/100);
- supplementary information, including introduction and notes to the separate financial statements;

having found the statements true, accurate and consistent with the relevant accounting records and documents.

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 favourable assessment of the audited consolidated financial statements of the ORLEN Group for the year ended December 31st 2018, comprising:

- consolidated statement of profit or loss (included in the consolidated statement of profit or loss and other comprehensive income) for the period from January 1st to December 31st 2018, with the reported year-end net profit of PLN 5,603,962,423.53 (five billion, six hundred and three million, nine hundred and sixty-two thousand, four hundred and twenty-three złoty, 53/100);
- consolidated statement of financial position as at December 31st 2018, showing total assets and total equity and liabilities of PLN 64,141,224,225.40 (sixty-four billion, one hundred and forty-one million, two hundred and twenty-four thousand, two hundred and twenty-five złoty, 40/100);
- consolidated statement of changes in equity, showing an increase in equity as at December 31st 2018 of PLN 529,134,953.32 (five hundred and twenty-nine million, one hundred and thirty-four thousand, nine hundred and fifty-three złoty, 32/100);
- consolidated statement of cash flows, showing a net decrease in cash and cash equivalents of PLN 2,054,734,771.95 (two billion, fifty-four million, seven hundred and thirty-four thousand, seven hundred and seventy-one złoty, 95/100);
- supplementary information, including introduction and notes to the consolidated financial statements;

and based on the information and materials obtained from the Auditor, the Company's Management Board and the Company representatives, confirms consistency of the financial statements with the accounting records, documents and facts.

VII. ASSESSMENT OF THE PROPOSAL FOR ALLOCATION OF PROFIT FOR 2018 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 favourable assessment of the Management Board's proposal to allocate net profit for the financial year 2018 of PLN 5,434,149,842.17 (five billion, four hundred and thirty-four million, one hundred and forty-nine thousand, eight hundred and forty-two zloty, 17/100) in the following manner:

- 1) PLN 1,496,981,713.50 (one billion, four hundred and ninety-six million, nine hundred and eighty-one thousand, seven hundred and thirteen zloty, 50/100) shall be distributed as dividend (of PLN 3.5 per share);
- 2) the balance, of PLN 3,937,168,128.67 (three billion, nine hundred and thirty-seven million, one hundred and sixty-eight thousand, one hundred and twenty-eight zloty, 67/100), shall be transferred to the Company's statutory reserve funds.

The Supervisory Board gives a favourable assessment of the Management Board's proposal to set July 22nd 2019 as the dividend record date and August 5th 2019 as the dividend payment date.

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

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

The proper execution of financial control, risk management and compliance processes across the ORLEN Group is ensured by the Financial Control, Risk Management and Compliance Office reporting to the Member of the Management Board for Corporate Affairs. The Office has the following organisational units dedicated to the processes: Financial Control Department, Enterprise Risk Management Department, Management Systems Department, Regulatory Risk Management Department and Compliance Management Department.

Financial Control Department

The Financial Control Department operates in accordance with the rules governing financial control procedures, which, among other things, describe the organisation and manner of conducting scheduled, *ad hoc* and investigative financial control procedures, rules of conducting financial control procedures at the ORLEN Group companies, as well as rules and procedures for monitoring the execution of orders and recommendations issued as a result of the conducted procedures. The Financial Control Department's tasks related to scheduled, *ad hoc* and investigative financial control procedures include in particular:

- disclosing any irregularities;
- assessing the conduct of employees of the organisational units of Polski Koncern Naftowy ORLEN S.A. and other ORLEN Group companies for compliance with the applicable laws, internal organisational documents, established practice and professional standards;
- estimating the impact of any potential irregularities or misconduct, defining corrective measures and designating persons responsible for their implementation;
- assessing internal organisational documents.

The Financial Control Department is responsible for preparing a proposed plan of financial control procedures, implementing the annual plan of financial control procedures, carrying out *ad hoc* and investigative financial control procedures at PKN ORLEN S.A. and other ORLEN Group companies, as well as reporting to the Management Board on the financial control procedures carried out in a given year, monitoring the implementation of recommendations issued following such control procedures carried out at PKN ORLEN S.A. or other ORLEN Group companies, and reporting to the Management Board of PKN ORLEN S.A. in accordance with the applicable rules described in the Company's internal organisational documents. Depending on the assigned tasks, the functions of financial control may be classified as follows:

- informative function – to give information on the progress in the performance of tasks, their effects and any irregularities,
- preventive function – to help prevent irregularities,
- corrective and protective function – to restore the desired state of affairs,
- creative function – to push towards better results,
- instructional function – to demonstrate how to eliminate deviations and suggest solutions.

Any area audited by the Financial Control Department is assessed primarily in terms of legal compliance, relevance, good management, reliability, efficiency and proper operation.

Such assessments are made with due regard for the interests of PKN ORLEN S.A. and other ORLEN Group companies, as well as the interests of the ORLEN Group as a whole.

Enterprise Risk Management Department

The Enterprise Risk Management System (ERM) implemented by the Enterprise Risk Management Department is one of the management tools supporting the effective delivery of strategic and operational objectives, and providing information on the risks (threats, opportunities) at PKN ORLEN S.A. and on their effective management. The ERM system incorporates solutions consistent with best practices, based on the COSO (Committee of Sponsoring Organizations) standards. By supporting informed management of risks and opportunities, these solutions enable PKN ORLEN S.A. to protect the market position it has already achieved and further enhance its value. Risk management is a continuous process, though it is modified in response to the ever-changing economic environment. Therefore, in order to systematise and optimise the risk management process, in 2016 PKN ORLEN S.A. formulated and implemented its Enterprise Risk Management Policy and Procedure.

PKN ORLEN S.A.'s ERM system covers all of its key business processes, including safety, production, logistics, finance and sales, as well as a number of support function processes, such as HR, taxes, etc. In each of these areas, in addition to business risks, also compliance risks are identified. The Enterprise Risk Management Department coordinates the risk management process, providing the process participants with tools and methodological support in the form of dedicated group training programmes, one-to-one workshops and the IT system.

Risk assessment is performed by business areas at least once a year, as part of an annual risk self-assessment process and risk controls testing, and its objective is to maintain an up-to-date list of key risks affecting the organisation. The assessment is the responsibility of process, risk and control owners.

Results of the periodic risk assessments are used to develop plans of remedial actions for individual risks and risk controls, the overall objective being to bring the organisation's risks to acceptable levels. Upon completion of each risk assessment exercise and risk controls testing, a report is prepared for the Management Board and the Audit Committee of the Supervisory Board, containing information on the risks which are most relevant to PKN ORLEN S.A. and the proposed methods of their mitigation.

The Enterprise Risk Management Department also regularly conducts process compliance checks to verify the quality of the risk self-assessment and risk controls testing processes carried out by business areas.

Management Systems Department

PKN ORLEN S.A. has implemented and certified an Integrated Management System based on a process approach, which takes into account process related risks and opportunities for process improvement. In addition, the retail area (service stations and restaurants) is covered by the Food Safety Management System (HACCP) based on Codex Alimentarius requirements.

At PKN ORLEN S.A., a systemic approach is applied to the supervision of documents, products, services, and equipment, supervision of remedial and corrective measures, etc., as part of identified and mapped processes, taking into account an analysis of the context in which the organisation as a whole operates. Crucial elements of the Integrated Management System include the internal audit system, which operates based on a dedicated procedure. The Company has a team of internal auditors who, based on their documented competences and adopted auditing models, verify the operations of each area for compliance with the adopted standards.

Periodically PKN ORLEN S.A. also undergoes external audits, as a result of which it obtains certificates confirming the conformity of its operations with the requirements of international standards. PKN ORLEN S.A.'s operations are assessed by accredited external bodies, which conduct audits in the areas covered by the management systems on an annual basis.

Such external audits have confirmed the correct operation of the systems maintained by PKN ORLEN S.A. and recommended new certifications. Information on the certifications is available at www.orlen.pl and on the Company's website. The Integrated Management System that the Company has implemented and certified, supports, among other things, improved work organisation, clear definition of the tasks, remits and responsibilities of employees and their professionalism in relations with stakeholders. The system helps maintain order and eliminate overlapping tasks, which supports more effective management of resources and allows the Company to standardise and reduce the amount of documents. The management systems also facilitate compliance with legal and other requirements applicable to the Company's operations and support prompt alignment of its internal regulations with the changing regulatory environment.

In connection with the requirements set forth in the Energy Efficiency Act, PKN ORLEN S.A. has been implementing an Energy Management System consistent with ISO 50001, whose main objective is to improve the Company's energy efficiency with a view to cutting costs and reducing its greenhouse gas emissions into the atmosphere. Once the Company has this system certified in 2019, it will no longer need to undergo periodic energy audits. The new system will also facilitate standardisation of the energy management related processes.

Regulatory Risk Management Department

The regulatory risk management process conducted by the Regulatory Risk Management Department consists in monitoring of the regulatory environment (i.e. the applicable international, EU and national laws), identification and measurement of regulatory risks, working out and presenting a uniform position regarding the regulatory risks existing at a time, implementation of lobbying strategies, as well as dialogue and ongoing contact with the regulators. The main objective of the process is to ensure maximum regulatory security, based chiefly on predictability of changes taking place in the regulatory environment of the ORLEN Group, and especially in those regulations which are directly related to the ORLEN Group's business operations (e.g. the Energy Law, the Act on Stocks of Crude Oil, Petroleum Products and Natural Gas, and on Rules to be Followed in the Event of a Threat to the National Fuel Security or Disruptions on the

Petroleum Market, the Energy Efficiency Act, the Act on Renewable Energy Sources, the Excise Duty Act, the Environmental Protection Law, etc.).

Compliance Management Department

The Compliance Management Department is responsible for overall supervision of the Company's compliance with the applicable laws and internal regulations, as well as with the adopted standards of conduct and ethics applicable to the ORLEN Group. The Department's responsibilities also include ensuring that PKN ORLEN S.A. remains in compliance with all laws which are beyond the scope of responsibility of the Regulatory Risk Management Department, as specified in the section devoted to compliance with the regulations which are directly applicable to the ORLEN Group's business.

Key activities of the Compliance Management Department in 2018 included pursuing projects designed to strengthen and improve the internal consistency of compliance management processes and procedures in place at the ORLEN Group, including in particular through:

- identification and analysis of all laws and regulations forming the ORLEN Group's regulatory environment;
- analysing the enterprise risk management procedures and systems from the perspective of compliance;
- provision of compliance training for representatives of the Group companies;
- devising the concept and preparing the documentation for a compliance risk management system, featuring clear areas of responsibility, a uniform structure and efficient cooperation with respect to compliance status reporting in connection with changes taking place in the regulatory environment of the ORLEN Group as a whole.

IX ASSESSMENT OF THE COMPANY'S COMPLIANCE WITH ITS CORPORATE GOVERNANCE DISCLOSURE OBLIGATIONS

In 2018, PKN ORLEN S.A. applied all the principles included in the Code of Best Practice for WSE Listed Companies 2016 ('Code of Best Practice') applicable on the Warsaw Stock Exchange.

The Company has in place procedures ensuring its compliance with Section 29.3 of the WSE Rules, pursuant to which if 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 a current report issued through the EBI reporting system.

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.

Acting in accordance with Par. 70.6.5) of the Regulation of the Minister of Finance 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 March 29th 2018 (Dz.U. of 2018, item 757), PKN ORLEN discloses a statement of compliance with corporate governance principles in its consolidated and separate annual 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.

Pursuant to a Supervisory Board resolution, Members of the Supervisory Board of PKN ORLEN S.A., Ms Agnieszka Biernat-Wiatrak and Mr Radosław L. Kwaśnicki, have been designated 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. Until February 15th 2019, these duties were also performed by Mr Mateusz Bochacik.

X ASSESSMENT OF REASONABLENESS OF THE COMPANY'S SPONSORSHIP, CHARITABLE OR SIMILAR ACTIVITIES

Corporate social responsibility of PKN ORLEN S.A.

PKN ORLEN S.A.'s corporate social responsibility is about creating business value in a sustainable manner that ensures consistency between its business and social objectives, with future generations in mind. This broad approach to responsibility requires the implementation of CSR activities across all business areas, CSR activities involve educating stakeholders and inspiring in them a sense of responsibility, protecting health and safety of employees, commitment to employee development, optimisation of environmental impacts, promoting ethical values, anti-corruption measures, respect for human rights, customer focus and responsiveness to customer needs, and building good relations with business partners. To ensure the most effective conduct of the Company's CSR, social and charitable activities, a new unit was set up at PKN ORLEN S.A. on May 1st 2018 – the Community Relations Office. The remit of the new office has been defined in PKN ORLEN S.A.'s organisational rules.

CSR strategy

Directions of CSR activities are defined in the CSR strategy, which is consistent with the business strategy. The ORLEN Group has in place a code of ethics entitled 'Core Values and Standards of Conduct of PKN ORLEN S.A.', providing the employees with guidance on how to act ethically and responsibly both inside and outside the organisation. The 'Core Values' are the basis for formulating and implementing the Company's business and CSR objectives. In 2018, the Company continued to pursue 'PKN ORLEN's CSR Strategy for 2015–2017' in the areas defined as the strategy pillars, including: Organisation, Close Environment and Distant Environment.

In 2018, one of the key objectives of the Community Relations Office was to formulate and adopt the 'ORLEN Group CSR Strategy until 2022' as a coherent CSR action plan based on a survey of actual needs of the Company's stakeholders as well as its internal and external customers. The new CSR strategy became a part of PKN ORLEN's updated business strategy, adopted in December 2018. Besides seeking to achieve consistency between business and CSR objectives, priorities of the strategy are to build PKN ORLEN's image as a leader of CSR and sustainable development, generate CSR synergies across the Group, leverage the CSR area to build a competitive advantage, and support the implementation of the United Nations' Sustainable Development Goals and the 'Accessibility Plus' programme. The 'ORLEN Group CSR Strategy until 2022' defines several areas for CSR activity, including Society, the Environment, Employees, Customers and Business Partners. An important tool in the CSR strategy implementation is the PKN ORLEN Charitable Giving Policy.

Activities under the Charitable Giving Policy

The Company's Charitable Giving Policy defines the rules for giving, using and accounting for donations granted directly by PKN ORLEN S.A., which have been modified to ensure compliance with the provisions of the Act on State Property Management of December 16th 2016.

The Charitable Giving Policy is an important part of the Company's corporate social responsibility, offering a tool supporting it in its role as a responsible undertaking and employer, corporate citizen and good neighbour. PKN ORLEN S.A. not only undertakes its own charitable activities, but also partners with other organisations in such initiatives.

In addition to activities aimed at protecting life and health and promoting education and youth development, the new Charitable Giving Policy focuses on initiatives in the area of development of local communities, environmental protection, promotion of safety as well as sports and culture.

To enable the monitoring of the results of charitable initiatives and their further evaluation, changes have been made to annual perception surveys, to include questions about social issues and other CSR related matters.

Report on the ‘Corporate image and perception of the Company’s PR activities’ survey 2018¹

In 2018, a nationwide survey was undertaken to explore the views on PKN ORLEN S.A.’s corporate image and perception of its PR activities. Conducted between the end of December 2018 and beginning of January 2019, the survey has shown PKN ORLEN’s continued perception as the leader of the Polish fuel market and a strong player in Central Europe. Its support for Polish sports is seen as another important attribute of PKN ORLEN S.A. The Company’s ratings regarding emotional proximity with its customers have also improved, but environmental protection is an area that remains a major challenge. Furthermore, the report has demonstrated potential for PKN ORLEN S.A. to engage in more charitable giving and social outreach initiatives, with which the Company is currently associated only by a fraction of the total population (the positive benchmark in this respect being the ORLEN Safe Roads programme, as 61% of all respondents believe that ORLEN supports road traffic safety, which clearly contributes to its positive image). In this context, there is good rationale for the direction chosen in 2018 to organise events for local communities at ORLEN service stations across all Poland. In this way, PKN ORLEN S.A. can reach and communicate its charitable giving activities to smaller social groups.

Based on the survey results discussed in the report, there is need for the Company to continue supporting local communities and actively working towards the improvement of safety and health protection within local communities, such activities having been envisaged in its CSR Strategy until 2022. The key assumption is that the Company would carry out flagship campaigns in each of the areas, using existing resources and placing greater emphasis on effective and coherent communication.

Nevertheless, in image perception terms, ORLEN enjoys a clear advantage over peer fuel brands, including with regard to the social aspect of brand perception. Compared with other fuel brands, charitable activity is strongly attributed to PKN ORLEN (36% vs 12% for LOTOS).

Report on PKN ORLEN S.A.’s image perception in Płock survey²

According to the survey results presented in the Report on PKN ORLEN S.A.’s image perception in Płock, the Company continues to enjoy a strong position as a donor and partner supporting local initiatives. The Company is most frequently named as a member of the Grant Fund for Płock, while the ORLEN GIFT FROM THE HEART Foundation is perceived as an important initiative for the city by almost all its residents.

74% of the Płock domiciled respondents have indicated that it is extremely important/ very important that PKN ORLEN S.A. continue to support charitable initiatives in the city.

PKN ORLEN’s activities benefiting the city of Płock: as many as 65% of the Płock domiciled respondents have assessed PKN ORLEN’s **support for charitable causes** as excellent/ very good, and 27% – as good.

PKN ORLEN S.A.’s engagement in **health protection** projects has been assessed as excellent/ very good by 63% of the surveyed Płock residents, and as good – by 27% of the respondents.

PKN ORLEN S.A.’s commitment to **safety on the roads** has been assessed as excellent/ very good by 64% of those surveyed, and as good – by 29% of the respondents.

Activities benefiting the **local communities** have been assessed as excellent/ very good by 61% of those surveyed, and as good – by 31% of the respondents.

Activities supporting **NGOs** have been rated as excellent/ very good by 61% of those surveyed, and as good – by 30% of the respondents.

Commitment to **the natural environment** has been assessed as excellent/ very good by 64% of those surveyed, and as good – by 23% of the respondents.

¹ Report on the Corporate Image 2018 survey - wave 20 – countrywide scale: Kantar TNS

² Survey carried out for PKN ORLEN S.A. by Kantar TNS in December 2018 – January 2019

The ORLEN GIFT FROM THE HEART Foundation is familiar to four out of ten Płock residents, nearly all of them (94%) agreeing that the Foundation plays an important role for the city and its inhabitants.

These results show that the directions of PKN ORLEN S.A.'s charitable giving activities have been well chosen, and that its charitable engagement in the designated areas should be continued, as it has been noticed and appreciated by the residents of Płock and neighbouring areas.

ORLEN GIFT FROM THE HEART Foundation

An important role in pursuing the Company's CSR objectives is played by the ORLEN GIFT FROM THE HEART Foundation, established in 2001 to fulfil the social responsibility mission of its founder, PKN ORLEN S.A. It enjoys relatively the highest recognition from among the Company's CSR projects – one in four Poles and one in three motorists have heard of the Foundation¹. It provides comprehensive assistance to Family Group Homes by funding scholarships, summer and winter holidays, additional education and rehabilitation for children, the cost of dwelling repairs or redecorations, as well as fuel cards. At the moment, the Foundation's assistance covers children from more than 300 such homes. It also runs numerous scholarship programmes, some of them for children of ORLEN Group employees and for students from Płock and the surrounding areas. The aim of such programmes is to help young people in their education and improve their motivation, but also to encourage their social involvement, e.g. through volunteer work.

The CSR initiatives of PKN ORLEN S.A. and the ORLEN GIFT FROM THE HEART Foundation also engage members of the VITAY loyalty scheme and users of the YANOSIK application, who can donate their points to social causes, for instance to support Family Group Homes.

In 2018, the main objective was to achieve consistency and synergies between the activities pursued by PKN ORLEN S.A. and by the ORLEN – GIFT FROM THE HEART Foundation, including to enhance the reach of CSR projects and their recognisability.

Assessment of reasonableness of activities in the area of sports marketing, sponsorship and organisation of events – 2018

PKN ORLEN S.A.'s sponsorship activities enhance positive connotations with the ORLEN brand, and the Company's sponsorship projects are well aligned with Poles' interests reflecting positively on the brand perception. Sponsorship in the eyes of customers:

1. 67% of respondents believe that sponsorship has a positive effect on the condition of Polish culture and national heritage, while 76% claim that it has a positive effect on the condition of Polish sports.³
2. 64.8% of Poles believe that companies in which the State Treasury holds equity interests should sponsor Polish sports.⁴
3. PKN ORLEN S.A.'s sponsorship activities are very highly rated by motorists, with a positive effect on the brand perception.⁵
4. In 2018, there was an increase to 64% (from 63% in 2017) in associations linking PKN ORLEN S.A. with sponsorship activities⁵.
5. The disciplines/events indicated most frequently as those which, according to motorists, should be sponsored by PKN ORLEN S.A. included volleyball, athletics and car racing⁵.
6. The fact that ORLEN TEAM members use and recommend the Verva fuel raises demand for the product and positively contributes to the brand perception⁵.

PKN ORLEN is among the leaders in all sponsorship categories.⁶

PKN ORLEN remains the leader in corporate sponsorship – as many as 32% of the respondents indicated the Company as most often engaged in sponsorship activities. Coming second in the ranking was LOTOS, 15 percentage points below PKN ORLEN. The Company is invariably perceived as the most active sponsor of

³'Sponsoring Monitor' 2018 survey, ARC Rynek i Opinia.

⁴ Pentagon Research 2018.

⁵'Sponsoring Monitor' 2018 survey, Kantar TNS.

⁶'Sponsoring Monitor' 2018 survey, ARC Rynek i Opinia.

sports events, having been indicated as such by 32% of the respondents, with a 4% advantage over the Adidas brand.

PKN ORLEN is also perceived as the most active arts and culture sponsor, having been indicated as such by 13% of the respondents.

In the group of companies involved in charitable giving, PKN ORLEN ranks fourth (top among trading companies), with 8% of all responses. Higher positions in the ranking have been taken by Polsat (12%), TVN (11%), and WOŚP (9%).

PKN ORLEN S.A.'s involvement in sponsorship enhances positive associations with the ORLEN brand. The Company's sponsorship projects are well aligned with Poles' interests, reflecting positively on the brand perception.

Benefits of the Company's sponsorship activities in 2018 substantially exceeded their costs. On average, the total media value in sports disciplines sponsored by ORLEN is four times higher than the expenditure incurred⁷ by the Company.

Based on the findings of the Corporate Image survey, in the 'Company supporting culture and arts,' 'Company supporting sports and entertainment,' and 'Company supporting local initiatives and communities' categories, PKN ORLEN achieved its highest scores ever, following the strongest increases over previous years.

The Company's overall CSR engagement has also been recognised in numerous contests and rankings.

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

The purpose of the measures undertaken by the Group is to increase its market value, to strengthen its position on home markets, and to expand its product offering and geographical reach. The Group's key development investments are aimed at further expansion of the product portfolio, deeper product conversion, construction of new generation capacities, and prudent continuation of hydrocarbon exploration and production projects. To streamline management, the Group has implemented segment-based management solutions designed to support the achievement of Parent-defined goals shared across the Group.

These policies are based on the ORLEN Group Constitution, relying on three key regulations: the Cooperation Agreement, the Group Rules, and the respective articles of association of the ORLEN Group companies. The Constitution provides for uniform information exchange standards, organisational standards and effective monitoring of key business decisions. It also defines the legal basis for establishing a coherent strategy for the ORLEN Group. PKN ORLEN S.A.'s effective corporate supervision relies on formal and legal supervision as well as oversight of the companies' operating and financing activities.

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

As at December 31st 2018, the ORLEN Group consisted of 67 companies, including 57 subsidiaries.

Key developments at the ORLEN Group in 2018 included updating of the ORLEN Group Strategy for 2019–2022, whose objectives are to increase and enhance the Group's petrochemical production capacity, further the integration of its refinery assets, maintain its commitment to low emission energy, drive retail sales growth, and focus on strengthening the R&D base and implementing innovations to support all business lines, while maintaining solid financial foundations.

Key targets set in the PKN ORLEN S.A. strategy for 2019–2020:

- average annualised LIFO EBITDA of PLN 10.3bn,
- average annualised CAPEX of PLN 6.8bn,
- financial leverage below 30%,

⁷ Pentagon Research 2018.

- regular dividend payments, reflecting current financial condition.

Other major developments in 2018 included signing of a letter of intent on February 27th 2018 to commence the process of acquisition of equity control over Grupa LOTOS S.A. by PKN ORLEN S.A. and acquisition of 100% of the share capital of Unipetrol a.s. following buy-up of the remaining 37% of company shares from its shareholders. On September 26th 2018, Unipetrol shares were delisted from the Prague Stock Exchange.

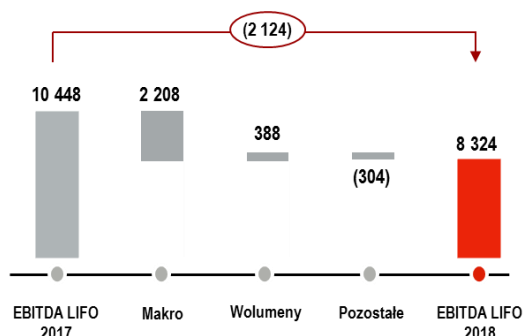
I. RESULTS OF THE ORLEN GROUP

Item	UoM	2018	2017	change	% change
1	2	3	4	6=(3-4)	7=(3-4)/4
Revenue	PLNm	109,706	95,364	14,342	15.0%
LIFO EBITDA before impairment¹	PLNm	8,324	10,448	(2,124)	(20.3%)
Operating profit before depreciation and amortisation (EBITDA)	PLNm	9,888	11,078	(1,190)	(10.7%)
Net profit	PLNm	5,604	7,173	(1,569)	(21.9%)
Equity	PLNm	35,739	35,211	528	1.5%
Total assets	PLNm	64,141	60,664	3,477	5.7%
Headcount as at Dec 31	persons	21,282	20,262	1,020	5.0%

1) Impairment losses on non-current assets recognised in 2018 and 2017 were PLN 704m and PLN (169)m, respectively.

The ORLEN Group generated revenue of PLN 109,706m, up by 15.0% on the previous year, reflecting a 1.2% year-on-year rise in sales volumes, by 0.5m tonnes, to a record level of 42.9m tonnes, and a USD 17/bbl increase in oil prices with a resulting increase in market prices for the Group's products.

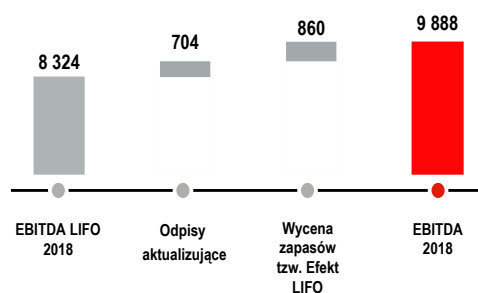
In 2018, LIFO EBITDA (i.e. earnings before depreciation and amortisation, net of the effect of crude price movements on the value of inventories) before net reversal of impairment losses on non-current assets⁸ was PLN 8,324m, down by PLN (2,124)m y/y, mainly as a result of:



- **PLN (2,208)m y/y** – negative effect of macro factors, including higher costs of consumption of raw materials for own energy needs following the USD 17/bbl crude oil prices hike, and reduced margins on light and heavy distillates, petrochemical products and fertilizers, partly offset by higher margins on middle distillates, PTA and PVC.
- **PLN 388m y/y** – increase in sales volumes by more than 1% year on year despite temporary unavailability of the petrochemical production units of the ORLEN Group.
- **PLN (304)m y/y** – combined negative effect of other factors, including:
 - **PLN (550)m y/y** – effect of the change in the net balance of other income and expenses after elimination of the effects of reversal of impairment losses on assets, due mainly to lower y/y compensation received from insurers in connection with the failure of the ethylene and FCC units at the Unipetrol Group (PLN (389)m y/y), and absence of liquidated damages received in 2017 (PLN (97)m) due to failure to properly perform the contract to construct the CCGT unit in Włocławek.
 - **PLN 246m y/y** – other elements, including mainly the PLN (403)m negative effect of revaluation of inventories to net realisable value and positive effects of higher wholesale and retail sale margins as well as of consumption of less expensive crude oil and product stocks from the first half of 2018 during maintenance shutdowns.

⁸⁾ Net impairment losses on property, plant and equipment and intangible assets:

- 2018: PLN 704m, comprising mainly reversal of impairment losses on the downstream segment assets at the Unipetrol Group (PLN 741m) and recognition of impairment losses on the upstream segment assets (PLN (18)m).
- 2017: PLN (169)m, comprising mainly impairment losses on the ORLEN Upstream Group's exploration assets in Poland.



- After accounting for the PLN 704m net reversal of impairment losses on assets, the ORLEN Group's LIFO EBITDA in 2018 came in at **PLN 9,028m**.
- The positive effect of crude price movements on the value of inventories was PLN 860m.
- After accounting for that effect, the ORLEN Group's EBITDA for 2018 amounted to **PLN 9,888m**.

LIFO EBITDA 2017	EBITDA LIFO 2017
Macro	Makro
Volumes	Wolumeny
Other	Pozostałe
LIFO EBITDA 2018	EBITDA LIFO 2018
Impairment losses	Odpisy aktualizujące
LIFO effect	Wycena zapasów tzw. Efekt LIFO
EBITDA 2018	EBITDA 2018

After accounting for depreciation and amortisation of PLN (2,673)m, the ORLEN Group reported EBIT of PLN 7,215m for 2018.

In 2018, net finance costs were PLN (104)m and included mainly net currency exchange losses of PLN (353)m, net interest expense of PLN (159)m, and a PLN 437m net gain on settlement and measurement of financial instruments not designated for hedge accounting.

After tax expense of PLN (1,506)m, the ORLEN Group posted a net profit for 2018 of PLN 5,604m, down by PLN 1,569m y/y as a consequence of the factors discussed above.

Equity at the end of 2018 stood at PLN 35,739m, up PLN 528m on the end of 2017, mainly due to the inclusion of PLN 5,604m of 2018 net profit and PLN 375m of foreign exchange differences on translation of the equity of foreign operations. At the same time, equity attributable to non-controlling interests decreased by PLN (3,002)m, which was attributable mainly to the buy-up of Unipetrol a.s. shares by PKN ORLEN S.A. and the payment of dividend from profit brought forward (PLN (1,284)m).

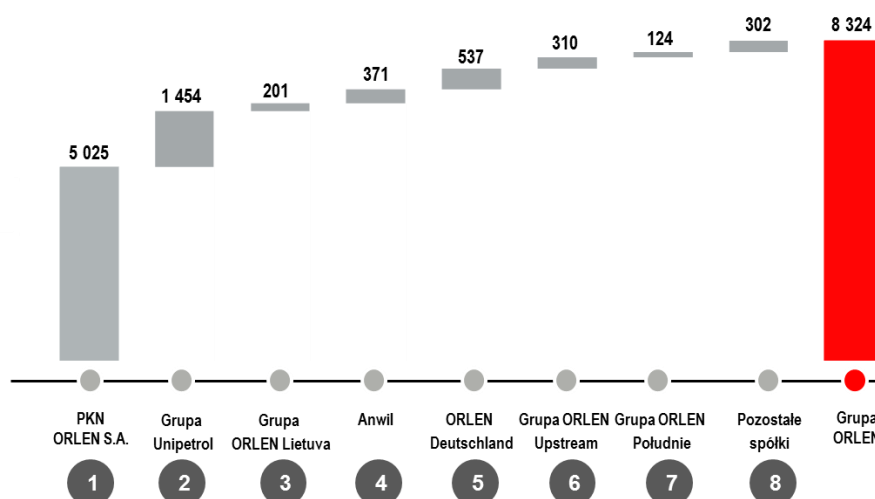
At the end of 2018, the Group reported net debt of PLN 5,599m, up by PLN 4,838m y/y.

Expansion of the ORLEN Group's power generation, logistics, procurement, IT, and retail business led to an increase in total workforce by 1,020 employees y/y, to 21,282.

II. RESULTS OF THE KEY COMPANIES OF THE ORLEN GROUP IN 2018

(consistent with the figures used for the purpose of consolidation; LIFO EBITDA/ EBITDA effect in excess of PLN 100m)

LIFO EBITDA of key ORLEN Group companies before net impairment of non-current assets in 2018



ORLEN Południe Group	Grupa ORLEN Południe
Other companies	Pozostałe spółki
ORLEN Group	Grupa ORLEN

1. PKN ORLEN S.A.

Item	UoM	2018	2017	change	% change
1	2	3	4	6=(3-4)	7=(3-4)/4
Revenue	PLNm	86,997	70,012	16,985	24.3%
LIFO EBITDA before impairment¹	PLNm	5,025	5,332	(307)	(5.8%)
Operating profit before depreciation and amortisation (EBITDA)	PLNm	5,989	6,028	(39)	(0.6%)
Net profit	PLNm	5,434	6,102	(668)	(10.9%)
Equity	PLNm	31,634	27,565	4,069	14.8%
Total assets	PLNm	54,797	49,352	5,445	11.0%
Headcount as at Dec 31	persons	5,250	4,980	270	5.4%

1) Impairment losses on non-current assets recognised in 2018 and 2017 were PLN (25)m and PLN (5)m, respectively.

PKN ORLEN S.A. generated revenue of PLN 86,997m, up by 24.3% year on year, reflecting a 7.4% y/y overall rise in volumes in the downstream and retail segments, as well as an increase in oil prices with a resulting increase in market prices for PKN ORLEN's products.

In 2018, LIFO EBITDA (i.e. earnings before depreciation and amortisation, net of the effect of crude price movements on the value of inventories) before net impairment losses on non-current assets was PLN 5,025m, down by PLN (307)m y/y, mainly as a result of:

- PLN (1,246)m y/y – negative effect of macro factors, including mainly higher costs of consumption of raw materials for own energy needs following the crude oil prices hike, and reduced margins on light and heavy distillates and petrochemical products, partly offset by higher margins on middle distillates and PTA.
- PLN 548m y/y – positive effect of sales volumes as continuing favourable conditions on the fuel market in the downstream and retail segments offset the effects of the periodic maintenance shutdown of the olefins unit in the petrochemical segment.
- PLN (391)m y/y – positive effect of other factors, including:
 - the effects of higher sales margins in the downstream and retail segments as well as of consumption of less expensive crude oil and product stocks from the first half of 2018 during maintenance shutdowns.
 - PLN (130)m y/y – effect of the change in the net balance of other income and expenses after elimination of net impairment losses on assets, due mainly to the absence of liquidated damages

received in 2017 (PLN (97)m) due to failure to properly perform the contract to construct the CCGT unit in Włocławek.

After accounting for the impairment losses, LIFO EBITDA for 2018 was PLN 5,000m.

The positive effect of oil price changes on the value of inventories was PLN 989m. As a result, EBITDA for 2018 came in at PLN 5,989m.

After depreciation and amortisation of PLN (1,365)m, EBIT for 2018 amounted to PLN 4,624m.

In 2018, net finance income amounted to PLN 1,634m and included primarily PLN 1,005m of net reversal of impairment losses on shares (mainly in ORLEN Upstream: PLN 987m), dividend income totalling PLN 870m received mainly from ORLEN Deutschland, Anwil and Basell ORLEN Polyolefins, a PLN 362m net gain on settlement and measurement of financial instruments, as well as PLN (382)m of foreign exchange losses on revaluation of borrowings and other items denominated in foreign currencies, and net interest of PLN (216)m.

After tax expense of PLN (821)m, net profit for 2018 was PLN 5,434m, down by PLN (668)m y/y.

As at December 31st 2018, net debt rose by PLN (4,491)m y/y, to PLN 6,302m.

As at December 31st 2018, the headcount was 5,250, having increased by 270 persons y/y.

2. UNIPETROL GROUP

Item	UoM	2018	2017	change	% change
1	2	3	4	6=(3-4)	7=(3-4)/4
Revenue	PLNm	21,745	19,811	1,934	9.8%
LIFO EBITDA before impairment ¹	PLNm	1,454	2,394	(940)	(39.3%)
Operating profit before depreciation and amortisation (EBITDA)	PLNm	2,079	2,408	(329)	(13.7%)
Net profit	PLNm	1,406	1,403	3	0.2%
Equity	PLNm	9,811	8,123	1,688	20.8%
Total assets	PLNm	14,683	12,361	2,322	18.8%
Headcount as at Dec 31	persons	4,835	4,720	115	2.4%

1) Impairment losses on non-current assets recognised in 2018 and 2017 were PLN 741m and PLN (12)m, respectively.

Revenue was PLN 21,745m, having increased by 9.8% y/y, reflecting higher product prices on global markets in the wake of higher prices of raw materials. Sales volumes fell by (6.2)% year on year mainly due to the maintenance shutdowns and production unit failures discussed below.

In 2018, LIFO EBITDA (i.e. earnings before depreciation and amortisation, net of the effect of crude price movements on the value of inventories) before net reversal of impairment losses on non-current assets was PLN 1,454m, down by PLN (940)m y/y, mainly as a result of:

- PLN (476)m (yoy) – negative effect of macro factors, recorded both in the refining and petrochemical segments, including a decrease in model refining and petrochemical margins, and higher costs of consumption for own energy needs.
- PLN (79)m y/y – negative volume-related effect of market constraints in early 2018 as well as of scheduled and unscheduled production unit shutdowns (failure of the POX unit in Litvínov in Q1 2018, prolonged scheduled maintenance shutdown of the Hydrodesulfurisation and FKK units in Kralupy in Q2 2018, unplanned shutdown of the DRW unit in Litvínov in Q3 2018, as well as scheduled shutdown of the Steamcracker in Q3 2018 and unplanned stoppages of that unit in Q4 2018).
- PLN (385)m y/y – combined effect of other factors, including primarily a negative effect of the change in the net balance of other income and expenses after elimination of the effects of reversal of impairment losses on assets, due mainly to lower y/y compensation received from insurers in connection with the failure of the ethylene and FCC production units at the Unipetrol Group (PLN (389)m y/y).

After accounting for the PLN 741m reversal of impairment losses on non-current assets, LIFO EBITDA in 2018 was PLN 2,195m.

The negative effect of oil price changes on the value of inventories was PLN (116)m. As a result, EBITDA for 2018 came in at PLN 2,079m.

After depreciation and amortisation of PLN (540)m, EBIT for 2018 amounted to PLN 1,539m.

In 2018, net finance income was PLN 175m. After tax expense of PLN (308)m, net profit for 2018 was PLN 1,406m, up by PLN 3m y/y.

Negative net debt (cash surplus) as at December 31st 2018 was PLN (252)m.

As at December 31st 2018, the headcount was 4,835, having increased by 115 persons y/y.

3. ORLEN LIETUVA GROUP

Item	UoM	2018	2017	change	% change
1	2	3	4	6=(3-4)	7=(3-4)/4
Revenue	PLNm	20,093	17,042	3,051	17.9%
LIFO EBITDA before impairment ¹	PLNm	201	1,074	(873)	(81.3%)
Operating profit before depreciation and amortisation (EBITDA)	PLNm	192	1,142	(950)	(83.2%)
Net profit	PLNm	97	908	(811)	(89.3%)
Equity	PLNm	1,961	1,692	269	15.9%
Total assets	PLNm	3,688	3,994	(306)	(7.7%)
Headcount as at Dec 31	persons	1,631	1,612	19	1.2%

1) Impairment losses on non-current assets recognised in 2018 and 2017 were PLN 0m and PLN (1)m, respectively.

Revenue amounted to PLN 20,093m, up 17.9% year on year, mainly on higher product prices reflecting rising prices of crude oil. Sales volumes decreased by (1.5%) year on year in connection with maintenance shutdowns of production units.

In 2018, LIFO EBITDA, i.e. earnings before depreciation and amortisation, net of the effect of crude price movements on the value of inventories, was PLN 201m, having decreased by PLN (873)m y/y as a result of:

- PLN (442)m y/y – negative effect of macro factors, including the effect of higher oil prices on costs of energy consumed and lower margins on light and heavy distillates offset by higher margins on middle distillates.
- PLN (106)m y/y – negative volume-related effect due to wider scope of work performed as part of the refinery's scheduled maintenance shutdown in Q2 2018, which also resulted in lower fuel yields and increased share of heavy distillates in total sales.
- PLN (325)m y/y – effect attributable mainly to the revaluation of inventories to net realisable value (NRV) to reflect the declining prices of crude oil and its products (PLN (298)m y/y).

No impairment losses on non-current assets were recognised in 2018.

The negative effect of crude price changes on the value of inventories was PLN (9)m, lowering EBITDA for 2018 to PLN 192m.

After depreciation and amortisation of PLN (91)m, EBIT for 2018 came in at PLN 101m.

In 2018, net finance costs were PLN (18)m. After tax expense of PLN (13)m, net profit for 2018 was PLN 97m, down by PLN (811)m y/y.

Negative net debt (cash surplus) as at December 31st 2018 was PLN (55)m.

As at December 31st 2018, the headcount was 1,631, having increased by 19 persons y/y.

4. ANWIL

Item	UoM	2018	2017	change	% change
1	2	3	4	6=(3-4)	7=(3-4)/4
Revenue	PLNm	2,345	2,413	(68)	(2.8%)
Operating profit before depreciation, amortisation and impairment	PLNm	371	502	(131)	(26.1%)
Operating profit before depreciation and amortisation (EBITDA)	PLNm	371	502	(131)	(26.1%)
Net profit	PLNm	209	325	(116)	(35.7%)
Equity	PLNm	1,060	1,157	(97)	(8.4%)
Total assets	PLNm	1,521	1,619	(98)	(6.1%)
Headcount as at Dec 31	persons	1,323	1,268	55	4.3%

Revenue reached PLN 2,345m, having decreased by (2.8)% year on year, mainly due to lower sales volumes (down (5.4)% year on year) as a result of maintenance shutdowns and weather conditions.

In 2018, earnings before depreciation and amortisation (EBITDA) were PLN 371m, having dropped by PLN (131)m y/y as a result of:

- PLN (71)m y/y – effect of macroeconomic factors, including mainly erosion of margins on fertilizers, partly offset by higher margins on PVC.
- PLN (106)m (y/y) – negative volume-related effect of lower fertilizer sales due to adverse weather conditions (limited demand) and in the PVC area (maintenance shutdowns of production units correlated with the scheduled maintenance shutdown of the olefins unit at PKN ORLEN S.A.).
- PLN 46m (y/y) – effect attributable mainly to improved sales margins on fertilizers and plastics.

After accounting for impairment losses, EBITDA for 2018 amounted to PLN 371m.

After depreciation and amortisation of PLN (116)m, EBIT came in at PLN 255m.

In 2018, net finance income was PLN 5m. After tax expense of PLN (50)m, net profit for 2018 was PLN 209m, down by PLN (116)m y/y.

As at December 31st 2018, the net debt was PLN 0m, having remained unchanged year on year.

As at December 31st 2018, the headcount was 1,323, having increased by 55 persons y/y.

5. ORLEN DEUTSCHLAND

Item	UoM	2018	2017	change	% change
1	2	3	4	6=(3-4)	7=(3-4)/4
Revenue	PLNm	13,907	14,850	(943)	(6.4%)
Operating profit before depreciation, amortisation and impairment¹	PLNm	537	286	251	87.8%
Operating profit before depreciation and amortisation (EBITDA)	PLNm	537	285	252	88.4%
Net profit	PLNm	298	116	182	156.9%
Equity	PLNm	679	603	76	12.6%
Total assets	PLNm	1,756	1,691	65	3.8%
Headcount as at Dec 31	persons	160	155	5	3.2%

1) Impairment losses on non-current assets recognised in 2018 and 2017 were PLN 0m and PLN (1) m, respectively.

Revenue was PLN 13,907m, having decreased 6.4% y/y, while fuel sales volumes rose by 3.0% y/y.

In 2018, earnings before depreciation and amortisation (EBITDA) were PLN 537m, up by PLN 251m y/y as a result of:

- PLN 14m y/y – positive effect of higher sales volumes.
- PLN 215m (y/y) – effect of higher fuel margins with non-fuel margins staying relatively unchanged.

- PLN 22m (y/y) – other factors, including higher sales margins on products sold outside the network of Company owned service stations.

After depreciation and amortisation of PLN (112)m, EBIT for 2018 came in at PLN 425m.

In 2018, net finance costs were PLN (5)m. After tax expense of PLN (122)m, net profit for 2018 was PLN 298m, up by PLN 182m y/y.

Negative net debt (cash surplus) as at December 31st 2018 was PLN (34)m.

As at December 31st 2018, the headcount was 160, having increased by 5 persons y/y.

6. ORLEN UPSTREAM GROUP

Item	UoM	2018	2017	change	% change
1	2	3	4	6=(3-4)	7=(3-4)/4
Revenue	PLNm	605	526	79	15.0%
Operating profit before depreciation, amortisation and impairment¹	PLNm	310	294	16	5.4%
Operating profit before depreciation and amortisation (EBITDA)	PLNm	292	154	138	89.6%
Net loss	PLNm	(91)	(30)	(61)	(203.3%)
Equity	PLNm	2,953	2,800	153	5.5%
Total assets	PLNm	4,334	3,949	385	9.7%
Headcount as at Dec 31	persons	147	148	(1)	(0.7%)

1) Impairment losses on non-current assets recognised in 2018 and 2017 were PLN (18)m and PLN (140)m, respectively.

Revenue was PLN 605m, having increased 15.0% y/y, reflecting a 14.1% y/y increase in production and sales of hydrocarbons, mainly in the Canadian market.

In 2018, earnings before depreciation and amortisation (EBITDA) and before impairment losses on non-current assets were PLN 310m, having increased by PLN 16m y/y as a result of:

- PLN 7m y/y – positive effect of higher prices of Canadian Light Sweet crude and NGLs, with lower AECO gas prices.
- PLN 85m y/y – positive volume-related effect, owing mainly to higher production of hydrocarbons in Canada (up 16.7% y/y).
- PLN (76)m y/y – other factors, including chiefly the negative effect of net other expenses of PLN (34)m y/y (after net impairment losses), attributable mainly to the settlement and measurement of derivative financial instruments.

After accounting for PLN (18)m of impairment losses on non-current assets, EBITDA for 2018 came in at PLN 292m.

After depreciation and amortisation of PLN (298)m, EBIT for 2018 came in negative at PLN (6)m.

In 2018, net finance costs were PLN (51)m. After tax expense of PLN (34)m, net loss for 2018 was PLN (91)m, an increase of PLN (61)m y/y.

As at December 31st 2018, net debt rose by PLN 120m y/y, to PLN 869m.

As at December 31st 2018, the headcount was 147, having decreased by 1 person y/y.

7. ORLEN POLUDNIE GROUP

Item	UoM	2018	2017	change	% change
1	2	3	4	6=(3-4)	7=(3-4)/4
Revenue	PLNm	2,103	1,812	291	16.1%
LIFO EBITDA before impairment¹	PLNm	124	76	48	63.2%
Operating profit before depreciation and amortisation (EBITDA)	PLNm	118	73	45	61.6%
Net profit	PLNm	69	(91)	160	-
Equity	PLNm	449	380	69	18.2%
Total assets	PLNm	810	864	(54)	(6.3%)
Headcount as at Dec 31	persons	672	716	(44)	(6.1%)

1) Impairment losses on non-current assets recognised in 2018 and 2017 were PLN (0)m and PLN (1)m, respectively.

Revenue was PLN 2,103m, having increased by 16.1% y/y, reflecting 7.9% y/y higher sales volumes and higher product prices.

In 2018, LIFO EBITDA, i.e. earnings before depreciation and amortisation, net of the effect of crude price movements on the value of inventories, was PLN 124m, having increased by PLN 48m y/y as a result of:

- PLN 77m (y/y) – positive effect of macro factors, mainly in the biocomponents segment.
- PLN 7m (y/y) – positive effect of higher sales volumes of biocomponents and solvents, with relatively unchanged sales volumes of paraffins and lower sales volumes of middle distillates.
- PLN (36)m (yoy) – combined effect of other factors, including mainly lower sales margins and the absence of profits generated by the Fuel Terminal following its sale to PKN ORLEN S.A. in December 2017.

The negative effect of oil price changes on the value of inventories was PLN (6)m. As a result, EBITDA for 2018 came in at PLN 118m.

After depreciation and amortisation of PLN (30)m, EBIT for 2018 amounted to PLN 89m.

In 2018, net finance costs were PLN (1)m. After tax expense of PLN (19)m, net profit for 2018 was PLN 69m, up by PLN 160m y/y.

Net debt as at December 31st 2018 was PLN 45m.

As at December 31st 2018, the headcount was 672, having decreased by (44) persons y/y.

8. OTHER ORLEN GROUP COMPANIES – a PLN 302m effect on LIFO EBITDA, including mainly:

- PLN 127m – share of equity-accounted entities (consolidation of net profit of Basell ORLEN Polyolefins),
- PLN 62m – ORLEN Asfalt,
- PLN 46m – IKS Solino,
- PLN 26m – ORLEN Aviation,
- PLN 18m – ORLEN Serwis,
- PLN 12m – ORLEN Paliwa.

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

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) is reviewed on an ongoing basis in terms of its possible sale or lease. Real property items which, following internal analysis within the Company, are recognised as unsuitable for the Company's needs, are directed to disposal.

As at December 31st 2018, 93 of PKN ORLEN S.A.'s properties, with a total net carrying amount of PLN 84.9m, were held for sale or lease.

In 2018, the Company sold 10 properties with a carrying amount of PLN 2.85m for a price of PLN 3.28m (VAT exclusive).

Moreover, following the issue of administrative decisions permitting the execution of road construction projects, the Company lost legal titles to 17 properties with a total carrying amount of PLN 3.69m, through expropriation. Net compensation received by the Company was PLN 8.94m.

Properties or parts of properties which are not directly used in the Company's day-to-day operations may be leased or rented.

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

In October 2018, work commenced on a project to optimise management of the Group's assets through the introduction of clear and transparent rules for liquidation and disposal of movable assets that have been withdrawn from operations. An initial draft of the internal 'Instruction on the rules and procedure for the liquidation of movable assets through sale' was prepared and work started to prepare a draft Cooperation Agreement in this respect with ORLEN Administracja Sp. z o.o., which is to act as the sale operator responsible for disposing of redundant movable assets of PKN ORLEN S.A.

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 2018.

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. When performing their supervisory and control 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, and diversity in terms of gender and age of the members was ensured. As at January 1st 2018, there were three members on the Supervisory Board meeting the independence criteria, and as at December 31st 2018 there were five such members on the Supervisory Board.

2018 was another period of active and intensified work for the Supervisory Board. In 2018, the Supervisory Board held 21 meetings, and the Supervisory Board Committees – 55 meetings. During their meetings, the Supervisory Board and its Committees formulated a total of 87 statements for the Company. For detailed information on the scope of work performed by the Supervisory Board and its Committees in 2018, see Sections II and III of this report. In addition to actively supporting the Management Board in running the Company's day-to-day operations, the Supervisory Board appointed a qualified auditor to audit and review PKN ORLEN S.A.'s financial statements, and also approved the 'Updated ORLEN Group Strategy and Mid-Term Plan for 2019–2022'.

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 dedicated 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.

Moreover, 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 with the laws and regulations concerning disclosure of current and periodic information by issuers of securities.

The Supervisory Board actively responded to the expectations of the major shareholder regarding supervision of individual segments or matters. It also ordered relevant internal inspections and audits.

The Management Board cooperated with the Supervisory Board, providing it with 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 2018. 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 a sense of stability to the Company.

Warsaw, April 24th 2019

.....
Izabela Felczak- Poturnicka
Chair of the Supervisory Board
PKN ORLEN S.A.