



**Polski Koncern Naftowy ORLEN**  
Spółka Akcyjna

**REPORT  
OF THE SUPERVISORY BOARD OF PKN ORLEN S.A.  
FOR THE FINANCIAL YEAR 2019**

**WARSAW, May 2020**

## I. COMPOSITION OF THE SUPERVISORY BOARD

As at January 1st 2019, the composition of the Supervisory Board 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.

Changes in the composition of the PKN ORLEN Supervisory Board in 2019:

- on February 15th 2019, Mr Mateusz Bochacik resigned as a Member of the Supervisory Board of PKN ORLEN S.A.
- on March 20th 2019, the Supervisory Board appointed Ms Anna Wójcik, Member of the Supervisory Board, as Secretary of the Supervisory Board.
- on June 14th 2019, Mr Radosław L. Kwaśnicki, Deputy Chairman of the Supervisory Board, resigned as Member of the Supervisory Board of PKN ORLEN S.A.
- on June 14th 2019, the Annual General Meeting of PKN ORLEN S.A. appointed the following persons to the Supervisory Board for a new term of office:
  - Supervisory Board Chair: Izabela Felczak-Poturnicka;
  - Supervisory Board members: Małgorzata Niezgoda, Andrzej Kapała, Jadwiga Lesisz, Anna Wójcik, Andrzej Szumański, Barbara Jarzembowska, Anna Sakowicz-Kacz, and Michał Klimaszewski;
- on June 27th 2019, the Supervisory Board appointed its members Mr Andrzej Szumański and Ms Anna Wójcik as, respectively, Deputy Chair and Secretary of the Supervisory Board.
- on October 29th 2019, acting on behalf of the State Treasury and 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 Roman Kusz to the PKN ORLEN Supervisory Board.

As at December 31st 2019, the composition of the Supervisory Board of PKN ORLEN S.A. was as follows:

Izabela Felczak-Poturnicka	Chair of the Supervisory Board
Andrzej Szumański	Deputy Chair of the Supervisory Board ( <i>Independent Member</i> )
Anna Wójcik	Secretary of the Supervisory Board
Barbara Jarzembowska	Member of the Supervisory Board ( <i>Independent Member</i> )
Andrzej Kapała	Member of the Supervisory Board ( <i>Independent Member</i> )

Michał Klimaszewski	Member of the Supervisory Board ( <i>Independent Member</i> )
Jadwiga Lewisz	Member of the Supervisory Board
Małgorzata Niezgoda	Member of the Supervisory Board
Adrian Dworzyński	Member of the Supervisory Board ( <i>Independent Member</i> )
Roman Kusz	Member of the Supervisory Board ( <i>Independent Member</i> )

## II. ACTIVITIES OF THE SUPERVISORY BOARD

In 2019, the Supervisory Board held 15 minuted meetings and passed 193 resolutions.

The attendance of Supervisory Board members at the Supervisory Board meetings held in 2019 was 99%. If a Supervisory Board member was absent from a meeting, the Supervisory Board, having considered the cause of the absence, passed a resolution to authorise the absence.

In 2019, there were no unauthorised absences of members of the Supervisory Board from the meetings.

In the financial year 2019, in the exercise of its supervisory and control powers and functions, the Supervisory Board among other things:

- Represented the Company in employment contracts and agreements with members of the Management Board;
- Assessed the Directors' Report on the operations of the ORLEN Group and PKN ORLEN S.A. in 2018;
- 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 2018;
- Assessed the Management Board's proposal for allocation of net profit for the financial year 2018;
- Issued favourable opinions on proposals submitted by the Management Board for consideration by the General Meeting;
- Issued favourable opinions on the agenda and draft resolutions for the Annual General Meeting of PKN ORLEN S.A. convened for June 14th 2019;
- Delegated its members to perform supervisory duties with respect to the disclosure requirements;
- Determined the consolidated text of the Company's Articles of Association;
- 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.;
- Authorised the acquisition by PKN ORLEN S.A. of shares in Energa S.A. and execution of a financing agreement;
- Issued a favourable opinion on the 2020 budget for PKN ORLEN S.A. and the ORLEN Group;
- Authorised the execution of agreements for legal, strategic, financial, commercial, tax and technical consultancy services in strategic and investment projects covering PKN ORLEN S.A.'s core business areas;
- Authorised the execution of investment projects and assumption of related liabilities if these involve expenditure or charges exceeding the equivalent of a half of the Company's share capital;
- Granted its consent for PKN ORLEN S.A. to incur financial liabilities which under a single legal transaction or a series of related legal transactions executed in 2019 exceed the equivalent of one-fifth of the Company's share capital;

- Approved MBO sheets for the Management Board members for 2019 along with separate objectives which, if achieved, would trigger payment of bonuses;
- Approved the “Rules for setting and accounting for the individual bonus-related targets for the Management Board for 2019”;
- Reviewed the achievement of the individual bonus-related targets set for the Management Board of PKN ORLEN S.A. for 2018;
- Authorised the granting 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 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 the granting of loans to selected Group companies;
- Removed a member of the Company's Management Board and commenced the recruitment procedure for this position.

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 2019.

### **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 2019, 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 2019 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 2019 was documented in minutes of the Committees' meetings (in 2019, the Committees held 37 meetings).

#### **Audit Committee**

As at January 1st 2019, the Audit Committee consisted of:

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> ).

Due to the changes in the composition of the Supervisory Board that took place in 2019, the composition of the Audit Committee also changed and as at December 31st 2019 was as follows:

Andrzej Kapala	Chair of the Committee ( <i>Independent Member of the Supervisory Board</i> )
Izabela Felczak-Poturnicka	Member of the Committee
Michał Klimaszewski	Member of the Committee ( <i>Independent Member of the Supervisory Board</i> )
Barbara Jarzembowska	Member of the Committee ( <i>Independent Member of the Supervisory Board</i> )
Jadwiga Lesisz	Member of the Committee

In 2019, the Audit Committee held 10 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 (two 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 2019, the Audit Committee 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;
- issuing an opinion on the 2020 budget;
- analysing, on a quarterly basis, the ORLEN Group's actual results and performance relative to the original targets and budgets;
- reading the information about the current discount rates at the ORLEN Group;
- issuing an opinion on the Management Board's proposal for allocation of profit for 2018;
- assessing the Company's standing, which included assessment of the internal audit, risk management and compliance systems, and of the internal audit function;
- assessment of the use of non-current assets by the Company.
- reviewing the report on the activities of PKN ORLEN S.A.'s and the ORLEN Group companies' audit functions;
- reviewing internal control, risk management and internal audit systems at the ORLEN Group.

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 2019, the Strategy and Development Committee consisted of:

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.

Due to the changes in the composition of the Supervisory Board that took place in 2019, the composition of the Strategy and Development Committee also changed and as at December 31st 2019 was as follows:

Michał Klimaszewski	Chair of the Committee ( <i>Independent Member of the Supervisory Board</i> )
Izabela Felczak-Poturnicka	Member of the Committee
Anna Sakowicz-Kacz	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> )
Małgorzata Niezgoda	Member of the Committee.

In 2019, the Strategy and Development Committee held ten 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 potentially material effect on the Company; and giving opinions on all strategic documents, the Company's development strategies and long-term budgets.

In 2019, in the exercise of its functions, the Strategy and Development Committee:

- reviewed, on a quarterly basis, the progress of PKN ORLEN's strategy for 2017–2021;
- discussed the status of work on preparing the ORLEN Group's Decarbonisation Strategy;
- discussed the status of work on the preparation of PKN ORLEN's 2020-2030 Strategy;
- discussed the progress of implementation of innovative projects.

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 2019, the Corporate Governance Committee of the Supervisory Board of PKN ORLEN S.A. consisted of:

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> )

Due to the changes in the composition of the Supervisory Board that took place in 2019, the composition of the Corporate Governance Committee also changed and as at December 31st 2019 was as follows:

Andrzej Szumański	Chair of the Committee ( <i>Independent Member of the Supervisory Board</i> )
Andrzej Kapała	Member of the Committee ( <i>Independent Member of the Supervisory Board</i> )
Barbara Jarzembowska	Member of the Committee ( <i>Independent Member of the Supervisory Board</i> )
Izabela Felczak-Poturnicka	Member of the Committee
Roman Kusz	Member of the Committee ( <i>Independent Member of the Supervisory Board</i> )

In 2019, 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 2019, 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;
- 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 a recommendation on introducing a uniform standard for the corporate documentation of the Polish companies and implementing the amended Act on State Property Management at the ORLEN Group.

### **Nomination and Remuneration Committee**

As at January 1st 2019, the Nomination and Remuneration Committee consisted of:

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.

Due to the changes in the composition of the Supervisory Board that took place in 2019, the composition of the Nomination and Remuneration Committee also changed and as at December 31st 2019 was as follows:

Małgorzata Niezgoda	Chair of the Committee
Anna Sakowicz-Kacz	Member of the Committee ( <i>Independent Member of the Supervisory Board</i> )
Michał Klimaszewski	Member of the Committee ( <i>Independent Member of the Supervisory Board</i> )
Andrzej Szumański	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 8 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 2019, in the exercise of its functions the Nomination and Remuneration Committee:

- recommended the 'Rules for setting and accounting for the Individual Bonus-Related Targets set for members of the Management Board of PKN ORLEN S.A. for 2019';
- recommended the adoption by the Supervisory Board of an update of the MBO sheets for the Company's Management Board for 2019;
- prepared a recommendation for the Supervisory Board regarding assessment of delivery of the qualitative targets and the Individual Bonus-Related Targets set for the Management Board Members for 2018;
- prepared a recommendation for the Supervisory Board concerning amendment of the terms and conditions of management contracts with members of the PKN ORLEN S.A. Management Board;
- formulated a recommendation as to the wording of the announcement concerning the opening by the Supervisory Board of a recruitment procedure to fill the position of Management Board Member for Finance;
- reviewed the applications submitted as part of the recruitment procedure announced by the Supervisory Board in terms of their consistency with formal requirements;
- 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 recommendation prepared by the Company's legal function, concerning the court proceedings and appeal against the court judgment issued in a case brought by a former Management Board Member;

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

As at January 1st 2019, the CSR Committee consisted of:

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.

Due to the changes in the composition of the Supervisory Board that took place in 2019, the composition of the CSR Committee also changed and as at December 31st 2019 was as follows:

Jadwiga Lesisz	Chair of the Committee
Andrzej Kapała	Member of the Committee ( <i>Independent Member of the Supervisory Board</i> )
Izabela Felczak-Poturnicka	Member of the Committee
Roman Kusz	Member of the Committee ( <i>Independent Member of the Supervisory Board</i> )

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 2019, the CSR Committee held 4 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 2019, in the exercise of its functions the CSR Committee:

- assessed the reasonableness of the Company's sponsorship, charitable and similar activities in 2018;
- discussed the CSR Strategy for the ORLEN Group until 2022;
- acquainted themselves with information on the implementation of PKN ORLEN S.A.'s charitable policy in 2018;
- acquainted themselves with information on the progress of implementation of the CSR strategy and the periodic assessment of CSR activities for H1 2019;
- discussed the sponsorship activities assessment report for 2018;

- acquainted themselves with information on consistency of the Company's management practices with the 'Core Values and Standards of Conduct of PKN ORLEN'.

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

In compliance with the reporting obligation, in 2019 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 2018 – January 28th 2019
- for the first quarter of 2019 – April 25th 2019
- for the second quarter of 2019 – July 19th 2019
- for the third quarter of 2019 – October 24th 2018
- for the fourth quarter of 2019 – January 30th 2020.

The Supervisory Board also responded without undue delay to any correspondence from the shareholder authorised to exercise rights attached to shares held by the State Treasury, relating to the supervision exercised by the Supervisory Board.

#### **V. ASSESSMENT OF THE DIRECTORS' REPORT ON THE OPERATIONS OF THE ORLEN GROUP AND PKN ORLEN S.A. IN 2019**

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 2019.

#### **VI. ASSESSMENT OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31ST 2019**

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 2019, comprising:

- the separate statement of profit or loss (presented in the statement of profit or loss and other comprehensive income) for the period from January 1st 2019 to December 31st 2019, showing a net profit of PLN 4,813,592,019.09 (four billion, eight hundred and thirteen million, five hundred and ninety-two thousand, nineteen zloty, 9/100);
- the separate statement of financial position as at December 31st 2019, showing total assets and total equity and liabilities of PLN 60,276,304,609.02 (sixty billion, two hundred and seventy-six million, three hundred and four thousand, six hundred and nine zloty, 2/100);
- the separate statement of changes in equity, showing an increase in equity as at December 31st 2019 of PLN 3,290,222,072.90 (three billion, two hundred and ninety million, two hundred and twenty-two thousand, seventy two zloty, 90/100);

- the separate statement of cash flows, showing a net increase in cash of PLN 1,602,598,880.80 (one billion, six hundred and two million, five hundred and ninety-eight thousand, eight hundred and eighty złoty, 80/100);
  - 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 2019, comprising:

- the consolidated statement of profit or loss (presented in the consolidated statement of profit or loss and other comprehensive income) for the period from January 1st 2019 to December 31st 2019, showing a net profit of PLN 4,298,461,487.21 (four billion, two hundred and ninety-eight million, four hundred and sixty-one thousand, four hundred and eighty-seven złoty, 21/100);
  - the consolidated statement of financial position as at December 31st 2019, showing total assets and total equity and liabilities of PLN 71,201,742,484.93 (seventy-one billion, two hundred and one million, seven hundred and forty-two thousand, four hundred and eighty-four złoty, 93/100);
  - the consolidated statement of changes in equity, showing an increase in equity as at December 31st 2019 of PLN 2,868,232,847.36 (two billion, eight hundred and sixty-eight million, two hundred and thirty-two thousand, eight hundred and forty-seven złoty, 36/100),
  - the consolidated statement of cash flows showing a net increase in cash and cash equivalents of PLN 1,961,330,352.09 (one billion, nine hundred and sixty-one million, three hundred and thirty thousand, three hundred and fifty-two złoty, 9/100);
  - supplementary information, including introduction and notes to the consolidated financial statements;
- having found the statements true, accurate and consistent with the relevant accounting records and documents.

## **VII. ASSESSMENT OF THE PROPOSAL FOR DISTRIBUTION OF PROFIT FOR 2019 AND DIVIDEND PAYMENT**

In accordance with the Management Board's request submitted to the Supervisory Board on May 5th 2020, 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 reassessed the Management Board's profit distribution proposal and gives a favourable assessment of the Management Board's proposal to distribute the net profit for the financial year 2019 of PLN 4,813,592,019.09 (four billion, eight hundred and thirteen million, five hundred and ninety-two thousand, nineteen złoty, 9/100) in the following manner:

- 1) PLN 427,709,061.00 (four hundred and twenty-seven million, seven hundred and nine thousand, sixty-one złoty, 0/100) to be paid out as dividend (PLN 1 per share)
- 2) the remaining amount, i.e. PLN 4,385,882,958.09 (four billion, three hundred and eighty-five million, eight hundred and eighty-two thousand, nine hundred and fifty-eight złoty, 9/100), to be allocated to the Company's statutory reserve funds.

The Supervisory Board gives a favourable assessment of the Management Board's proposal to set July 14th 2020 as the dividend record date and July 28th 2020 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**

## **Risk management system at PKN ORLEN S.A. in 2019**

PKN ORLEN S.A.'s Financial Control, Risk and Compliance Management Office includes an Enterprise Risk Management Team which coordinates (in accordance with the ERM Policy and Procedure in place at the Company) the Enterprise Risk Management (ERM) process, providing tools and methodological support for the participants of this process at PKN ORLEN S.A. and key ORLEN Group companies.

The principal objectives of the ERM are as follows:

- to support the achievement of strategic objectives as part of monitoring and evaluating the risks related to the objectives,
- to support the achievement of project objectives while minimising workload and optimising project value by providing regular training in identifying, describing and assessing risks related to their implementation,
- to implement ERM at the key companies of the ORLEN Group,
- to introduce a systematic and transparent approach to the risk management process,
- to identify and manage key risks based on segment membership,
- to enhance factual control by implementing remedial measures,
- to promote and communicate the risk management principles set out in the ERM Policy and Procedure.

## **Compliance system at PKN ORLEN S.A. in 2019**

The Compliance Management Department (KFZ) was established within the Financial Control, Risk and Compliance Management Office (KF) in August 2018. The reason for setting up an organisational unit responsible for compliance at PKN ORLEN S.A. was the need to optimise the activities related to the constantly evolving regulatory environment, and then to adapt to the regulatory environment by implementing an effective and modern compliance system.

The Compliance Management Department supervises the Group companies' compliance with applicable laws, internal regulations, voluntary standards of conduct and ethical standards by:

- managing the non-compliance risk,
- monitoring the regulatory environment of all business processes of the Group companies,
- identifying potential risks arising from non-compliance,
- reporting on requirement compliance,
- developing a uniform compliance standard applicable across the Group,
- conducting regular compliance training and workshops for the entire Group.

In connection with these tasks, in 2019 the Compliance Management Department prepared and completed, *inter alia*, the following projects:

- draft Compliance Policy for PKN ORLEN S.A., implemented on April 16th 2019

The Compliance Policy sets out the standards applicable across the Group in managing compliance with applicable laws, internal regulations, voluntary standards of conduct and the ethical standards in place at the Group.

The Policy sets out three procedures which form the basis of the Group's compliance system:

- Regulatory risk management rules
  - Licence management rules
  - Rules of conducting lobbying activities.
- preparation of the ORLEN Group Compliance Organisational Standard which, in line with the principle of consistency within the Group, introduces uniform Compliance Policy standards across the Group. The Organisational Standard was approved and adopted on June 12th 2019;
  - cooperation with Compliance Officers at the Group Companies and supporting them in addressing current issues and challenges within individual projects (e.g. implementation of the Anti-Corruption Policy and supporting procedures, the Antitrust Policy, updating PKN ORLEN's Core Values and Standards of Conduct, The World's Most Ethical Companies certification, analysis of compliance/AML forms for

- customers and trading partners, etc.);
- preparation of a description of key changes in the regulatory environment for the Company's Management Board, presenting compliance requirements under the key legislation, level of risk relating to the Company's compliance with these requirements, and preparing recommendations for risk mitigation or elimination.

### **Internal control system at PKN ORLEN S.A. in 2019**

#### **PKN ORLEN S.A. Audit Office**

In 2019, the PKN ORLEN S.A. Audit Office, operating in conditions guaranteeing objectivity and independence, carried out audits scheduled in the annual audit plan as well as ad hoc tasks. In addition, the objective of the Office's activities was to coordinate audit activities at the ORLEN Group, thus enhancing the effectiveness of the Group's audit function.

Apart from its audit tasks, the Audit Office performed many other assignments, including organisational and coordination tasks.

In 2019, the Audit Office supported the organisation in maintaining effective controls by promoting their continuous improvement and by assessing them during the performance of audit tasks, observing in this respect International Standard for the Professional Practice of Internal Auditing 2130 - Control.

In 2019, an audit procedure entitled "Evaluation of the Internal Control System at PKN ORLEN S.A." (OSKW) was carried out, based on the COSO III model – a best practice benchmark for internal control systems, covering such areas as:

- internal control environment;
- risk management;
- selected control activities and steps;
- information and communication;
- monitoring and supervision.

The evaluation was carried out using the OSKW Questionnaire, which enables a comprehensive view of the internal control system at the Company level and identification of areas where internal control can be improved.

A properly designed and implemented internal control system forms an integral part of a well-functioning modern organisation. It not only supports smooth and effective operation of business processes, but also lays down rules of cooperation, information flow, monitoring of activities within the organisation, etc. The internal control system is a comprehensive approach that helps the organisation to achieve its objectives, including in such areas as effectiveness and efficiency of operations, reliability of financial reporting, compliance with applicable laws and regulations, development of desired attitudes and behaviour, and supervision of business processes.

The OSKW audit covered the entire organisation of PKN ORLEN S.A., including the activities of the Audit Office. The OSKW Questionnaire included criteria for assessing the quality of design of the internal control system and a scoring system to assess the degree of compliance of the implemented practices, solutions and processes with the reference model. Its structure is consistent with the COSO 2013 model.

The Audit Office supports the Company by identifying and assessing significant risks and threats to the operation of the Company's existing organisational system and by issuing recommendations which, once implemented, contribute to securing and improving the organisation and increasing its value.

The Audit Office monitors the implementation of recommendations issued as part of the audits based on Standard 2500 - Monitoring Progress and in accordance with the "Rules for the implementation of audits, consultancy and business analysis assignments at PKN ORLEN".

Monitoring of the implementation of recommendations issued by the Audit Office is presented to the Supervisory Board's Audit Committee on a regular basis.

## **PKN ORLEN S.A. Control and Security Office**

Regulatory basis for the control activities of the Control and Security Office in 2019:

- Order No. 17/2018/DG of the President of the Management Board, Chief Executive Officer, dated May 21st 2018, on the rules of control and verification procedures at PKN ORLEN S.A. The appendices to the Order are:
  - the rules of control procedures carried out by the Control and Security Office,
  - the rules of verification procedures carried out by the Control and Security Office.
- The Control and Security Office also performs its control functions on the basis of Order No. 35/2019/DG of the President of the Management Board, Chief Executive Officer, dated June 4th 2019, on the rules of inspection of service stations and fuel terminals by the Control and Security Office.
- In addition, the Company has put in place an Anonymous Misconduct Reporting System (ASZN) in accordance with Order No. 12/2019/DG of February 8th 2019 – “Introduction of the Rules of Anonymous Misconduct Reporting at PKN ORLEN S.A.”, which is supervised by the Economic Security Department at the Audit and Security Office.

The implementation of follow-up recommendations is monitored in line with applicable rules by the control staff. The rules for monitoring the implementation of follow-up instructions and recommendations are laid down in the Rules of Control Procedures Performed by the Control and Security Office.

The Control and Security Office carries out a process to monitor the implementation of follow-up instructions and recommendations twice a year (at the beginning and in the middle of the year). After completion of the monitoring process, the Head of the Control and Security Office provides the PKN ORLEN Management Board with a half-year summary statement of the status of implementation of follow-up instructions and recommendations.

External inspections by public administration bodies are monitored and archived in the Electronic Control Portal.

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

In 2019, PKN ORLEN 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.

The PKN ORLEN Supervisory Board passed resolutions delegating its members to individually perform supervisory duties with respect to the Company's compliance with the corporate governance disclosure obligations set forth in the WSE Rules and the regulations on current and periodic information to be published by issuers of securities. In 2019, in connection with changes in the composition of the Supervisory Board, the following persons were delegated to perform these duties: Mr Mateusz Bochacik until February 15th 2019, Ms Agnieszka Biernat-Wiatrak and Mr Radosław L. Kwaśnicki until June 14th 2019, and from July 18th 2019 – Ms Izabela Felczak-Poturnicka and Mr Andrzej Szumański. Currently, after the resignation of Mr Izabela Felczak-Poturnicka, i.e. as of January 16th 2020, these duties have been performed by Mr Andrzej Szumański, Deputy Chair of the PKN ORLEN Supervisory Board.

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

### **PKN ORLEN S.A.'s charitable activities**

In 2019, through consistent pursuit of its strategy, the Sports Marketing, Sponsorship and Events Office maintained PKN ORLEN's position as:

- the most active sponsor in Poland – No. 1 invariably since 2017
- the most active sponsor of sports events – No. 1, indicated as such by 33% of respondents (with Adidas and Nike ranking 2nd and 3rd)
- the most active sponsor of culture and arts
- one of Poland's most active companies in the area of charity – with a score only 1% worse than that of the leader – the Polsat brand.

In 2019, the Sports Marketing, Sponsorship and Events Office supported 277 projects as part of which 3,373 events were organised in Poland and abroad. This means an average of nine events per day with the participation of the ORLEN brand.

The 277 implemented projects comprised:

- 107 professional and amateur sports sponsorship projects
- 110 social sponsorship projects
- 26 projects implemented as part of culture sponsorship and patronage
- the remaining 34 projects were related to sponsoring special and media events and projects

The top five athletes generating the highest media value were:

- Robert Kubica
- Jakub Przygoński
- Piotr Lisek
- Justyna Święty-Ersetic
- Paweł Fajdek

In 2019, Robert Kubica was invariably the second strongest brand (measured by the media value) among the brands sponsored or owned by the ORLEN Group. In August, the 'Kubica' brand was overtaken by the largest automotive event, Verva Street Racing, which ranked second, with a media value of PLN 4.2m (Pentagon Research, August 2019).

The largest projects implemented in 2019 included: Cooperation with Robert Kubica and ROKiT Williams Racing, ORLEN Team sports activities, cooperation with the Polish Athletics Association, the Polish

Volleyball Federation, Wisła Płock (handball and football teams), ORLEN Sports Group (individual athletes), the ORLEN Race of Nations (international bicycle racing event). As regards culture and arts, PKN ORLEN cooperated with the Grand Theatre - National Opera, the Fryderyk Chopin Institute, and the National Museum. Among the events organised by PKN ORLEN itself were ORLEN Olympics (Chemists' Days), as well as ORLEN Warsaw Marathon and Verva Street Racing.

### **Charitable or similar activities of PKN ORLEN S.A.**

PKN ORLEN's corporate social responsibility is to create business value in a sustainable manner that ensures consistency between its business and social objectives, with future generations in mind. This broad approach requires the implementation of CSR activities across all business areas.

Directions of PKN ORLEN's CSR activities are defined in the CSR strategy, consistent with the Company's business strategy. Implementation of the ORLEN Group CSR Strategy until 2022 commenced in 2019. The Strategy builds on the Company's business strategy, the Core Values and Standards of Conduct of PKN ORLEN – our internal code of ethics, and Agenda 2030 – the UN resolution on sustainable development at the global and local level. Besides seeking to align business with social objectives, other priorities of the CSR Strategy are to build PKN ORLEN's image as a leader in CSR and sustainability, generate CSR synergies across the Group, leverage the CSR area to gain a competitive advantage on the market, and support the pursuit of Sustainable Development Goals and the 'Accessibility Plus' programme.

The CSR strategy is implemented within five key areas of responsibility: Society, Environment, Employees, Customers, and Business Partners. The identification of these areas facilitated the allocation of tasks corresponding to the needs of specific Stakeholder groups.

In order to best implement the CSR Strategy, actions are prioritised on a yearly basis. In 2019–2020, emphasis is placed on projects involving environmental protection, promotion of safety (including road safety), as well as promotion and protection of health. Environmental protection is a key element of CSR. Together with other ORLEN Group companies, PKN ORLEN undertakes various initiatives to foster the public's environmental conscience, protect biodiversity and optimise business impacts. PKN ORLEN is also engaged in projects involving disease prevention as well as education on active and healthy lifestyles.

The Charitable Giving Policy is an important component of PKN ORLEN's corporate social responsibility and one of the key tools in implementing the ORLEN Group's CSR Strategy until 2022.

PKN ORLEN's commitment to charitable projects is a response to the needs of stakeholders, mainly local communities. The nationwide nature of many initiatives makes it possible to reach the areas that need aid and the Company's support makes a real change in the life of communities.

There are four priority areas of PKN ORLEN's charitable activities:

- ORLEN for the environment
- ORLEN for society
- ORLEN for safety and health
- ORLEN for sports, education and culture

PKN ORLEN's Charitable Giving Policy also defines the rules of making, using and accounting for donations.

In 2019, PKN ORLEN initiated a 'Comprehensive Programme for the Prevention, Diagnostics and Treatment of Cancers and Respiratory System Diseases for Residents of the City and County of Płock', a pioneering initiative in Poland, and signed an agreement with the National Institute of Oncology to implement this project. Its focus is on early diagnosis, promotion of recognised treatment standards, as well as education and outreach activities motivating people to change their lifestyles.



At the end of January and beginning of February 2020, a survey entitled “PKN ORLEN’s image among the residents of Płock” was conducted. The main goal of the survey was to provide recommendations regarding PKN ORLEN’s activities in Płock.

Care for road safety was viewed as PKN ORLEN’s best CSR activity (53% of the respondents assessed PKN ORLEN’s care for road safety as perfect or very good). Commitment to disease prevention projects was ranked second (52% of the respondents assessed PKN ORLEN’s commitment to disease prevention projects as perfect or very good). As regards the expectations of Płock residents regarding CSR activities, disease prevention projects and overall support for local communities were viewed as number one priority.

Less than 50% of the respondents were aware of PKN ORLEN’s environmental initiatives.

The Płock residents recommend further implementation of modern environmentally friendly technologies by PKN ORLEN (61%), installation of pollution control systems at production plants (38%), as well as education of the residents (36%).

In conclusion, PKN ORLEN continues to be the highest ranked company among those operating in Płock, and its advantage over other business organisations and institutions follows from its engagement in the life of the town and commitment to its development as well as from its image as a potential employer. The residents of Płock appreciate the Company’s role in the town’s life, as evidenced by the high scores relating to the Company’s importance for the town and its residents.

As the most preferred areas of support from PKN ORLEN, the residents of Płock indicate:

- health care services and purchase of medical equipment – 77%
- rescue services – 76%
- promotion of healthy lifestyle – 72%
- environmental initiatives and protection of the natural environment - 70%
- help for the socially excluded - 67%.

PKN ORLEN continues to enjoy a very strong position as a donor and partner supporting local initiatives, but still there are challenges it needs to address. PKN ORLEN should continue and expand its environmental initiatives, as well as its charitable giving projects for Płock and its residents.

CSR activities, including charitable projects, are vital for building the positive image of PKN ORLEN. In order to best implement the ORLEN Group CSR Strategy until 2022, actions are prioritised on a yearly basis. In 2019–2020, emphasis is placed on projects involving environmental protection, promotion of safety (including road safety), as well as promotion and protection of health. These areas were identified as the most important ones for both Płock residents and the rest of Poland. Environmental protection is a key element of CSR. Together with other ORLEN Group companies, PKN ORLEN undertakes various initiatives to foster the public’s environmental conscience, protect biodiversity and optimise business impacts. This area requires particular intensification of CSR efforts, including in the form of charitable projects, because, according to surveys, it has the worst perception among the public. PKN ORLEN is also engaged in disease prevention projects as well as education on active and healthy lifestyles, which is highly appreciated by the public. The Company is committed to ensuring the best possible health and safety conditions for its employees and contractors. It enhances the safety of production processes, striving to create safe conditions for local communities. In order to increase the awareness of the Company’s charitable projects among the public, on December 7th 2019 the Company’s Foundation changed its name from ‘ORLEN – GIFT FROM THE HEART’ to the ORLEN Foundation. The Foundation fulfils the Company’s social mission by running numerous scholarship and grant programmes, among other projects. It reaches out to many communities and contributes to enhancing PKN ORLEN’s positive image. The Foundation’s activities are very well received, therefore its programmes should be continued and expanded.

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

The ORLEN Group consistently strengthens the position of its core business Companies and develops its operations in the energy generation and upstream segments. The purpose of the measures undertaken by the Group is to increase its market value, boost its position on home markets, and expand its product offering and geographical reach. In addition, the ORLEN Group seeks to diversify its operations towards a multi-energy group, both organically and through acquisitions. 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.

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 asset management and consolidating assets.

In 2019, the ORLEN Group operated on the basis of the updated 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.

In 2019, in the pursuit of the above objectives, the ORLEN Group recorded the following financial and operating metrics:

- LIFO-based EBITDA of PLN 9.2bn, including the best-ever result of the retail segment of PLN 3.0bn,
- Record crude oil throughput of 33.9 million tonnes (96% capacity utilisation) and sales volumes of 43.3 million tonnes (up 1% year on year),
- Operating cash flow: PLN 9.3bn
- Increase in non-current assets: PLN 5.5 billion
- Net debt: PLN 2.4bn/financial leverage: 6.3%,
- Dividend payment: PLN 1.5bn (PLN 3.50 per share)

Another major event in 2019 was the continued process of PKN ORLEN S.A. acquiring equity control over Grupa LOTOS S.A. and the announcement of a tender offer for 100.0% of shares in Grupa Energia S.A. In addition, significant events took place in 2019 as part of the ORLEN Group's investment policy, such as the completion of the Metathesis (Płock) and PPF Splitter (ORLEN Lietuva) units.

Further flagship capital investment projects were also launched at the ORLEN Group:

- Expansion of fertilizer production capacity (ANWIL),
- Construction of a propylene glycol unit and purchase of a licence and front-end-engineering design for a 2G bioethanol unit (ORLEN Południe),
- Construction of a visbreaking unit (Płock),
- Commencement of the process to select a contractor to design an offshore wind farm on the Baltic Sea.
- Construction of EV chargers in Poland.

## I. RESULTS OF THE ORLEN GROUP

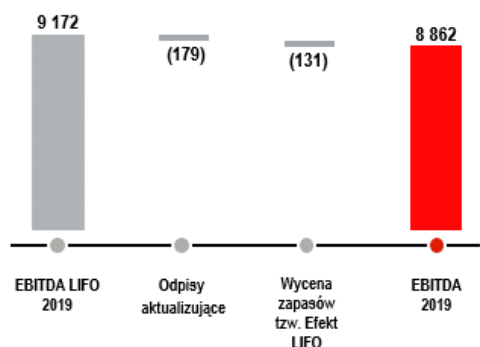
Wyszczególnienie	J.M.	2019	2018	2017	zmiana	zmiana %
1	2	3	4	5	6=(3-4)	7=(3-4)/4
Przychody ze sprzedaży	mln PLN	111 203	109 706	95 364	1 497	1.4%
<b>Zysk z działalności operacyjnej powiększony o amortyzację (EBITDA)</b>	<b>mln PLN</b>	<b>8 862</b>	<b>9 888</b>	<b>11 078</b>	<b>(1 026)</b>	<b>(10.4%)</b>
Zysk z działalności operacyjnej powiększony o amortyzację (EBITDA) przed opisami aktualizującymi <sup>1</sup>	mln PLN	9 041	9 184	11 247	(143)	(1.6%)
<b>Zysk z działalności operacyjnej wg LIFO powiększony o amortyzację (EBITDA LIFO) przed opisami aktualizującymi<sup>1</sup></b>	<b>mln PLN</b>	<b>9 172</b>	<b>8 324</b>	<b>10 448</b>	<b>848</b>	<b>10.2%</b>
Zysk z działalności operacyjnej (EBIT)	mln PLN	5 365	7 215	8 657	(1 850)	(25.6%)
Zysk netto	mln PLN	4 298	5 604	7 173	(1 306)	(23.3%)
Kapitał własny	mln PLN	38 607	35 739	35 211	2 868	8.0%
Aktywa razem	mln PLN	71 202	64 141	60 664	7 061	11.0%
Zatrudnienie na dzień 31 grudnia	osoby	22 337	21 282	20 262	1 055	5.0%

1) Impairment losses on non-current assets recognised in 2019, 2018 and 2017 were PLN (179)m, PLN 704m, and PLN (169)m, respectively.

Wyszczególnienie	Item
J.M.	UoM
Przychody ze sprzedaży	Revenue
Zysk z działalności operacyjnej powiększony o amortyzację (EBITDA)	EBITDA
Zysk z działalności operacyjnej powiększony o amortyzację (EBITDA) przed opisami aktualizującymi	EBITDA before impairment losses
Zysk z działalności operacyjnej wg LIFO powiększony o amortyzację (EBITDA LIFO) przed odpisami aktualizującymi	LIFO-based EBITDA before impairment losses
Zysk z działalności operacyjnej (EBIT)	EBIT
Zysk netto	Net profit
Kapitał własny	Equity
Aktywa razem	Total assets
Zatrudnienie na dzień 31 grudnia	Workforce as at Dec 31
Mln PLN	PLNm
osoby	persons
Zmiana	Change
Zmiana %	% change

The ORLEN Group's **revenue** was PLN 111,203m, up 1.4% year on year, mainly due to higher sales volumes across all operating segments and a change in the sales structure:

- The **Downstream segment's** revenue grew 1.1% year on year despite lower product prices, mainly thanks to reduced sales of low-margin heavy refining fractions by (355) thousand tonnes and higher sales volumes (up 24 thousand tonnes).
- Revenue of the **Retail segment** grew 4.3% year on year, mainly on higher fuel sales volumes (up 369,000 tonnes year on year) and higher non-fuel sales.
- The **Upstream segment** posted a 0.5% year-on-year increase in revenue, mainly on higher hydrocarbon production, which grew 8 thousand tonnes year on year.

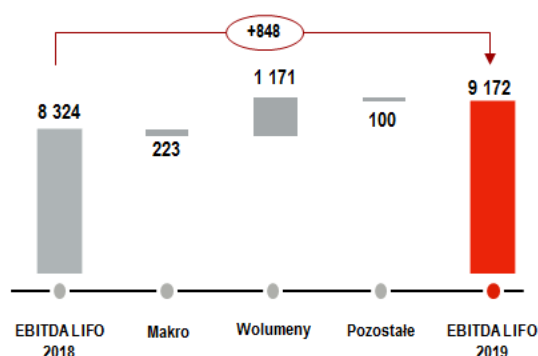


- EBITDA came in at **PLN 8,862m**.
- Impairment losses on non-current assets recognised in 2019 were PLN (179)m, down by PLN (883)m year on year.
- EBITDA before impairment losses was **PLN 9,041m**.

EBITDA LIFO 2019	LIFO-based EBITDA 2019
Odpisy aktualizujące	Impairment losses
Wycena zapasów tzw. Efekt LIFO	Inventory valuation (LIFO adjustment)
EBITDA 2019	EBITDA 2019

The effect of oil price movements on the value of inventories, reflected in EBITDA, was PLN (131)m.

**As a result, the ORLEN Group's LIFO-based EBITDA for 2019 before impairment losses was PLN 9,172m, up PLN 848m year on year:**



- Macroeconomic volatility drove down the ORLEN Group's results by **PLN (223)m year on year**, which was mainly due to the negative impact of lower Ural/Brent differential (down USD (0.7)/bbl) and lower margins on light distillates, heavy refining fractions, olefins, PTA and PVC, partly offset by higher margins on middle distillates and fertilizers as well as the depreciation of the zloty against other currencies.
- The downstream segment's sales structure, improved as a result of lower sales of heavy refining fractions, combined with higher sales volumes across all operating segments (up 1% year on year), triggered a positive volume-related effect of **PLN 1,171m year on year**.
- The positive impact of other factors was **PLN (100)m year on year** and included mainly:
  - the negative effect of change in net other income/(expenses) of PLN (586)m (y/y) (after elimination of the net effect of impairment losses on assets), mainly due to the absence of the compensation of PLN (264)m paid by insurers in 2018 in connection with the accident at the Unipetrol Group's ethylene unit, as well as the measurement and net settlement of derivative financial instruments related to operating exposures and the net ineffective portion of the measurement and settlement of operating exposures of PLN (180)m (y/y) and materials shortages in third-party warehouses of PLN (156)m (y/y).
  - the effect of net changes in inventory write-downs to net realisable values, of PLN 203m (y/y), mainly due to the negative effect of falling crude prices in 2018.
  - PLN 283m (y/y) – other factors, including mainly the effect of higher fuel wholesale and retail margins combined with higher overheads and labour costs.

EBITDA LIFO 2018	LIFO-based EBITDA 2018
Makro	Macro
Wolumeny	Volumes
Pozostałe	Other
EBITDA LIFO 2019	LIFO-based EBITDA 2019

After accounting for depreciation and amortisation of PLN (3,497)m, the ORLEN Group reported EBIT of PLN 5,365m for 2019.

In 2019, net finance costs were PLN (11)m and included mainly net interest expense calculated using the effective interest rate of PLN (241)m as well as the settlement and measurement of net financial instruments of PLN 254m.

After tax expense of PLN (1,054)m, the ORLEN Group posted a net profit of PLN 4,298m, down by PLN (1,306)m year on year.

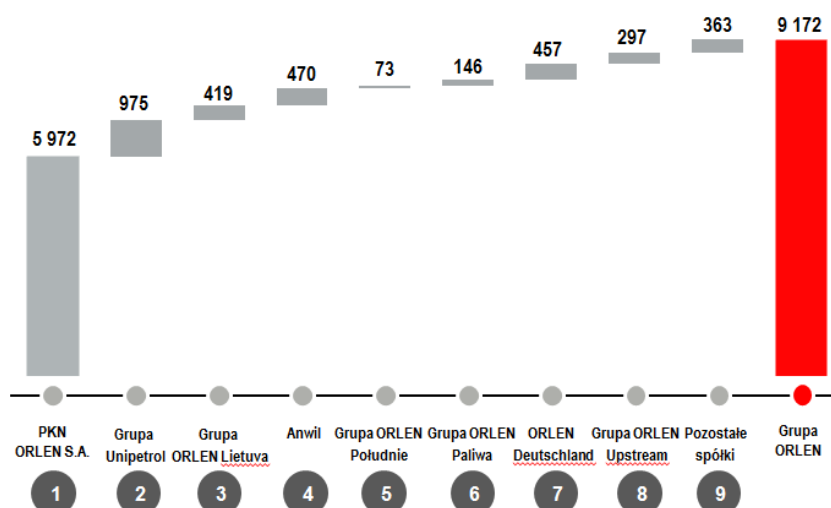
Equity at the end of 2019 stood at PLN 38,607m, up PLN 2,868m on the end of 2018, mainly due to the recognition of the PLN 4,298m net profit for 2019, payment of dividend from retained earnings of PLN (1,497)m, PLN 138m of foreign exchange differences on translation of the equity of foreign operations, and the negative effect of change in hedging reserve of PLN (33)m.

At the end of 2019, the Group reported net debt of PLN 2,448m, down by PLN (3,151)m y/y.

Expansion of the ORLEN Group's power generation, petrochemicals, maintenance services, IT and sale activities led to a 1,055 year-on-year increase in total workforce, to 22,337 employees.

## II. LIFO-BASED EBITDA OF KEY ORLEN GROUP COMPANIES IN 2019

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



### 1. PKN ORLEN S.A.

Wyszczególnienie	J.M.	2019	2018	2017	zmiana	zmiana %
1	2	3	4	5	6=(3-4)	7=(3-4)/4
Przychody ze sprzedaży	mIn PLN	89 049	86 997	70 012	2 052	2,4%
<b>Zysk z działalności operacyjnej powiększony o amortyzację (EBITDA)</b>	<b>mIn PLN</b>	<b>5 818</b>	<b>5 989</b>	<b>6 028</b>	<b>(171)</b>	<b>(2,9%)</b>
Zysk z działalności operacyjnej powiększony o amortyzację (EBITDA) przed opisami aktualizującymi <sup>1</sup>	mIn PLN	5 826	6 014	6 033	(188)	(3,1%)
<b>Zysk z działalności operacyjnej wg LIFO powiększony o amortyzację (EBITDA LIFO) przed opisami aktualizującymi<sup>1</sup></b>	<b>mIn PLN</b>	<b>5 972</b>	<b>5 025</b>	<b>5 332</b>	<b>947</b>	<b>18,8%</b>
Zysk z działalności operacyjnej (EBIT)	mIn PLN	4 059	4 624	4 787	(565)	(12,2%)
Zysk netto	mIn PLN	4 813	5 434	6 102	(621)	(11,4%)
Kapitał własny	mIn PLN	34 924	31 634	27 565	3 290	10,4%
Aktywa razem	mIn PLN	60 276	54 797	49 352	5 479	10,0%
Zatrudnienie na dzień 31 grudnia	osoby	5 447	5 250	4 980	197	3,8%

1) Impairment losses on non-current assets recognised in 2019, 2018 and 2017 were PLN (8)m, PLN (25)m, and PLN (5)m, respectively.

Grupa Unipetrol	Unipetrol Group
Grupa ORLEN Lietuva	ORLEN Lietuva Group
Grupa ORLEN Południe	ORLEN Południe Group
Grupa ORLEN Paliwa	ORLEN Paliwa Group
Grupa ORLEN Upstream	ORLEN Upstream Group
Pozostałe spółki	Other companies
Grupa ORLEN	ORLEN Group
Wyszczególnienie	Item
J.M.	UoM
Przychody ze sprzedaży	Revenue
Zysk z działalności operacyjnej powiększony o	EBITDA

amortyzację (EBITDA)	
Zysk z działalności operacyjnej powiększony o amortyzację (EBITDA) przed opisami aktualizującymi	EBITDA before impairment losses
Zysk z działalności operacyjnej wg LIFO powiększony o amortyzację (EBITDA LIFO) przed odpisami aktualizującymi	LIFO-based EBITDA before impairment losses
Zysk z działalności operacyjnej (EBIT)	EBIT
Zysk netto	Net profit
Kapitał własny	Equity
Aktywa razem	Total assets
Zatrudnienie na dzień 31 grudnia	Workforce as at Dec 31
Mln PLN	PLNm
osoby	persons
Zmiana	Change
Zmiana %	% change

PKN ORLEN's revenue was PLN 89,049m, up 2.4% year on year, mainly due to higher sales volumes and improved sales structure in the Downstream segment (reduced sales of heavy refining fractions), with lower market prices of key products.

PKN ORLEN's EBITDA in 2019 was PLN 5,818m. Impairment losses recognised in 2019 amounted to PLN (8)m and EBITDA before the impairment losses was PLN 5,826m.

The effect of crude price movements on the value of inventories, reflected in EBITDA, was PLN (146)m. As a result, the ORLEN Group's LIFO-based EBITDA for 2019 before impairment losses was PLN 5,972m, up PLN 947m year on year:

- PLN 179m year on year – positive effect of macroeconomic factors driven mainly by a favourable macro backdrop in the power generation sector on the back of lower natural gas prices and higher electricity prices (y/y). The negative effect of macroeconomic volatility in the refining and petrochemicals segment, mainly due to a lower Ural/Brent differential and shrinking margins on light distillates, heavy refining fractions, olefins and PTA, was offset by higher margins on middle distillates and the depreciation of the złoty against other currencies.
- PLN 995m (y/y) – a year-on-year increase in downstream and retail sales volumes and improved sales structure.
- PLN (227)m (y/y) – mainly the negative effect of change in net other income/(expenses) of PLN (179)m y/y (after elimination of the net effect of impairment losses on assets), related mainly to materials inventory shortages at third-party warehouses of PLN (189)m y/y as well as other factors, including mainly the effect of higher fuel wholesale and retail margins combined with higher overheads and labour costs.

After depreciation and amortisation of PLN (1,759)m, EBIT for 2019 amounted to PLN 4,059m.

In 2019, net finance income was PLN 1,566m and mainly included the following items:

- net reversal of impairment losses on shares of PLN 1,010m, mainly at ORLEN Lietuva, in the amount of PLN 1,120m,
- dividend income totalling PLN 470m, received chiefly from ORLEN Deutschland, ORLEN Asphalt and Basell ORLEN Polyolefins,
- net settlement and measurement of financial instruments of PLN 244m,
- PLN 86m exchange gains on foreign currency loans and other items,
- net interest calculated using the effective interest rate and lease income totalling PLN (231)m.

After PLN (819)m in taxes, PKN ORLEN posted a net profit of PLN 4,813m for 2019, down PLN (621m) y/y.

As at December 31st 2019, net debt fell by PLN (2,790)m y/y, to PLN 3,512m.

As at December 31st 2019, the workforce was 5,447, having increased by 197 persons y/y.

## 2. UNIPETROL GROUP

Wyszczególnienie	J.M.	2019	2018	2017	zmiana	zmiana %
1	2	3	4	5	6=(3-4)	7=(3-4)/4
Przychody ze sprzedaży	mln PLN	21 582	21 745	19 811	(163)	(0,7%)
<b>Zysk z działalności operacyjnej powiększony o amortyzację (EBITDA)</b>	<b>mln PLN</b>	<b>938</b>	<b>2 079</b>	<b>2 408</b>	<b>(1 141)</b>	<b>(54,9%)</b>
Zysk z działalności operacyjnej powiększony o amortyzację (EBITDA) przed opisami aktualizującymi <sup>1</sup>	mln PLN	977	1 338	2 420	(361)	(27,0%)
<b>Zysk z działalności operacyjnej wg LIFO powiększony o amortyzację (EBITDA LIFO) przed opisami aktualizującymi<sup>1</sup></b>	<b>mln PLN</b>	<b>975</b>	<b>1 454</b>	<b>2 394</b>	<b>(479)</b>	<b>(32,9%)</b>
Zysk z działalności operacyjnej (EBIT)	mln PLN	174	1 539	1 949	(1 365)	(88,7%)
Zysk netto	mln PLN	105	1 406	1 403	(1 301)	(92,5%)
Kapitał własny	mln PLN	9 867	9 811	8 123	56	0,6%
Aktywa razem	mln PLN	15 696	14 683	12 361	1 013	6,9%
Zatrudnienie na dzień 31 grudnia	osoby	4 913	4 835	4 720	78	1,6%

1) Impairment losses on non-current assets recognised in 2019, 2018 and 2017 were PLN (39)m, PLN 741m, and PLN (12)m, respectively.

Wyszczególnienie	Item
J.M.	UoM
Przychody ze sprzedaży	Revenue
Zysk z działalności operacyjnej powiększony o amortyzację (EBITDA)	EBITDA
Zysk z działalności operacyjnej powiększony o amortyzację (EBITDA) przed opisami aktualizującymi	EBITDA before impairment losses
Zysk z działalności operacyjnej wg LIFO powiększony o amortyzację (EBITDA LIFO) przed odpisami aktualizującymi	LIFO-based EBITDA before impairment losses
Zysk z działalności operacyjnej (EBIT)	EBIT
Zysk netto	Net profit
Kapitał własny	Equity
Aktywa razem	Total assets
Zatrudnienie na dzień 31 grudnia	Workforce as at Dec 31
Mln PLN	PLNm
osoby	persons
Zmiana	Change
Zmiana %	% change

Revenue amounted to PLN 21,582m, down by (0.7)% year on year, as a result of lower market prices of the main products. Revenue growth was achieved thanks to higher sales volumes (up 3.0% year on year; mainly sales at the refinery and retail sales) as a result of higher availability of production units.

EBITDA for 2019 amounted to PLN 938m. Impairment losses on non-current assets recognised in 2019 were PLN (39)m, down by PLN (780)m year on year. EBITDA before those impairment losses amounted to PLN 977m, down PLN (361m) year on year.

The effect of crude oil price movements on the valuation of inventories, recognised in EBITDA, was PLN 2m. As a result, the ORLEN Group's LIFO-based EBITDA for 2019 before impairment losses was PLN 975m, down PLN (479)m year on year:

- PLN (385)m (y/y) – negative effect of macroeconomic volatility in the refining and petrochemicals segment, due mainly to a lower Ural/Brent differential and shrinking margins on light distillates, heavy refining fractions and olefins, partly offset by higher margins on middle distillates and polyolefins.
  - PLN (364)m (y/y) – negative effect of change in net other income/(expenses) (after eliminating the effect of reversing impairment losses on assets) – mainly absence of the PLN (-)264m compensation paid by insurers in 2018 in connection with the accident at the Unipetrol Group's ethylene unit, and recognition of measurement and net settlement of derivative financial instruments, including the ineffective portion, of PLN (-)76m (y/y).
  - PLN 88m (y/y) – positive effect of higher sales volumes (mainly sales at the refinery and retail sales) achieved thanks to higher availability of production units in 2019 (absence of the Q2 2018 periodic shutdown of the refinery in Kralupy), with lower petrochemical sales (market constraints and unplanned unit shutdowns).
  - PLN 182m (y/y) – positive effect of other factors, including higher fuel margins in wholesale and retail.
- After depreciation and amortisation of PLN (764)m, EBIT came in at PLN 174m.

In 2019, net finance income was PLN 8m. After tax expense of PLN (77)m, net profit for 2019 was PLN 105m, compared with PLN 1,404m in 2018.

Negative net debt (cash surplus) as at December 31st 2019 was PLN (716)m.

As at December 31st 2019, the workforce was 4,913, having increased by 78 persons y/y.

### 3. ORLEN LIETUVA GROUP

Wyszczególnienie	J.M.	2019	2018	2017	zmiana	zmiana %
1	2	3	4	5	6=(3-4)	7=(3-4)/4
Przychody ze sprzedaży	mln PLN	19 676	20 093	17 042	(417)	(2,1%)
<b>Zysk z działalności operacyjnej powiększony o amortyzację (EBITDA)</b>	<b>mln PLN</b>	<b>427</b>	<b>192</b>	<b>1 142</b>	<b>235</b>	<b>122,4%</b>
Zysk z działalności operacyjnej powiększony o amortyzację (EBITDA) przed opisami aktualizującymi <sup>1</sup>	mln PLN	426	192	1 143	234	121,9%
<b>Zysk z działalności operacyjnej wg LIFO powiększony o amortyzację (EBITDA LIFO) przed opisami aktualizującymi<sup>1</sup></b>	<b>mln PLN</b>	<b>419</b>	<b>201</b>	<b>1 074</b>	<b>218</b>	<b>108,5%</b>
Zysk z działalności operacyjnej (EBIT)	mln PLN	276	101	1 071	175	173,3%
Zysk netto	mln PLN	290	97	908	193	199,0%
Kapitał własny	mln PLN	2 233	1 961	1 692	272	13,9%
Aktywa razem	mln PLN	4 078	3 688	3 994	390	10,6%
Zatrudnienie na dzień 31 grudnia	osoby	1 429	1 631	1 612	(202)	(12,4%)

1) Impairment losses on non-current assets recognised in 2019, 2018 and 2017 were PLN 1bn, PLN 0m, and PLN (1)m, respectively.

Wyszczególnienie	Item
J.M.	UoM
Przychody ze sprzedaży	Revenue
Zysk z działalności operacyjnej powiększony o amortyzację (EBITDA)	EBITDA
Zysk z działalności operacyjnej powiększony o amortyzację (EBITDA) przed opisami aktualizującymi	EBITDA before impairment losses
Zysk z działalności operacyjnej wg LIFO powiększony o amortyzację (EBITDA LIFO) przed opisami aktualizującymi	LIFO-based EBITDA before impairment losses
Zysk z działalności operacyjnej (EBIT)	EBIT
Zysk netto	Net profit
Kapitał własny	Equity



Aktywa razem	Total assets
Zatrudnienie na dzień 31 grudnia	Workforce as at Dec 31
Mln PLN	PLNm
osoby	persons
Zmiana	Change
Zmiana %	% change

Revenue was PLN 19,676m, down 2.1% year on year as a result lower prices of products on global markets and a slight decline in sales volumes as a result of reduced oil throughput at the end of 2019.

EBITDA for 2019 amounted to PLN 427m. Net impairment losses on assets recognised in 2019 amounted to PLN 1m and EBITDA before those impairment losses was PLN 426m, up PLN 234m year on year.

The effect of crude oil price movements on the valuation of inventories, recognised in EBITDA, was PLN 7m. As a result, the ORLEN Group's LIFO-based EBITDA for 2019 before impairment losses was PLN 419m, up PLN 218m year on year:

- PLN (82)m (y/y) – negative effect of macroeconomic volatility, including mainly the effect of lower Ural/Brent differential and shrinking margins on light distillates and heavy refining fractions, partly offset by higher margins on middle distillates.
- PLN 211m (y/y) – effect of net changes in inventory write-downs to net realisable values, mainly due to the negative effect of falling crude prices in 2018.
- PLN 48m (y/y) – positive volume-related effect despite lower sales volumes (y/y), mainly due to the reduced share of heavy refining fractions in the sales structure.
- PLN 41m (y/y) – effect of other factors, including higher wholesale margins.

After depreciation and amortisation of PLN (151)m, EBIT came in at PLN 276m.

In 2019, net finance costs were PLN (4)m. After tax expense of PLN (18)m, net profit for 2019 was PLN 290m, up by PLN 193m y/y.

Negative net debt (cash surplus) as at December 31st 2019 was PLN (43)m.

As at December 31st 2019, the workforce was 1,429, having decreased by (202) persons.

#### 4. ANWIL

Wyszczególnienie	J.M.	2019	2018	2017	zmiana	zmiana %
1	2	3	4	5	6=(3-4)	7=(3-4)/4
Przychody ze sprzedaży	mln PLN	2 234	2 345	2 413	(111)	(4,7%)
Zysk z działalności operacyjnej powiększony o amortyzację (EBITDA)	mln PLN	470	371	502	99	26,7%
Zysk z działalności operacyjnej powiększony o amortyzację (EBITDA) przed opisami aktualizującymi	mln PLN	470	371	502	99	26,7%
Zysk z działalności operacyjnej (EBIT)	mln PLN	325	255	409	70	27,5%
Zysk netto	mln PLN	257	209	325	48	23,0%
Kapitał własny	mln PLN	1 318	1 060	1 157	258	24,3%
Aktywa razem	mln PLN	2 199	1 521	1 619	678	44,6%
Zatrudnienie na dzień 31 grudnia	osoby	1 364	1 323	1 268	41	3,1%

In 2017-2019, no impairment losses on non-current assets were recognised.

Wyszczególnienie	Item
J.M.	UoM
Przychody ze sprzedaży	Revenue
Zysk z działalności operacyjnej powiększony o amortyzację (EBITDA)	EBITDA
Zysk z działalności operacyjnej powiększony o amortyzację (EBITDA) przed opisami aktualizującymi	EBITDA before impairment losses
Zysk z działalności operacyjnej wg LIFO powiększony o	LIFO-based EBITDA before impairment losses

amortyzację (EBITDA LIFO) przed odpisami aktualizującymi	
Zysk z działalności operacyjnej (EBIT)	EBIT
Zysk netto	Net profit
Kapitał własny	Equity
Aktywa razem	Total assets
Zatrudnienie na dzień 31 grudnia	Workforce as at Dec 31
Mln PLN	PLNm
osoby	persons
Zmiana	Change
Zmiana %	% change

Revenue reached PLN 2,234m, having decreased by (4.7)% year on year, mainly due to lower sales volumes (down (2.8)% year on year) as a result of maintenance shutdowns and adverse weather conditions.

In 2019, EBITDA was PLN 470m, up by PLN 99m y/y as a result of:

- PLN (147)m y/y – effect of macroeconomic factors, including mainly improvement of margins on fertilizers, with a year-on-year drop in margins on PVC.
- PLN 6m (y/y) – positive effect due mainly to lower consumption of energy utilities, with fertilizer sales down by (2)% (y/y) as a result of adverse weather conditions, and PVC sales down (6)% (y/y) as a result of plant shutdowns and increased competition.
- PLN (54)m (y/y) – mainly higher overheads and labour costs.

After depreciation and amortisation of PLN (145)m, EBIT came in at PLN 325m.

In 2019, net finance income was PLN (1)m. After tax expense of PLN (67)m, net profit for 2019 was PLN 257m, up by PLN 48m y/y.

Net debt as at December 31st 2019 was PLN 176m and rose by PLN (176m) on the back of the ongoing project to expand the fertilizer production capacity.

As at December 31st 2019, the workforce was 1,364, having increased by 41 persons.

## 5. ORLEN POŁUDNIE GROUP

Wyszczególnienie	J.M.	2019	2018	2017	zmiana	zmiana %
1	2	3	4		6=(3-4)	7=(3-4)/4
Przychody ze sprzedaży	mIn PLN	2 155	2 103	1 812	52	2.5%
<b>Zysk z działalności operacyjnej powiększony o amortyzację (EBITDA)</b>	<b>mIn PLN</b>	<b>81</b>	<b>118</b>	<b>73</b>	<b>(37)</b>	<b>(31,4%)</b>
Zysk z działalności operacyjnej powiększony o amortyzację (EBITDA) przed opisami aktualizującymi <sup>1</sup>	mIn PLN	82	118	74	(36)	(30,5%)
<b>Zysk z działalności operacyjnej wg LIFO powiększony o amortyzację (EBITDA LIFO) przed opisami aktualizującymi<sup>1</sup></b>	<b>mIn PLN</b>	<b>73</b>	<b>124</b>	<b>76</b>	<b>(51)</b>	<b>(41,1%)</b>
Zysk z działalności operacyjnej (EBIT)	mIn PLN	46	89	40	(43)	(48,3%)
Zysk netto	mIn PLN	38	69	(91)	(31)	(44,9%)
Kapitał własny	mIn PLN	486	449	380	37	8,2%
Aktywa razem	mIn PLN	1 075	810	864	265	32,7%
Zatrudnienie na dzień 31 grudnia	osoby	665	672	716	(7)	(1,0%)

1) Impairment losses on non-current assets recognised in 2019, 2018 and 2017 were PLN (1)m, PLN (0)m, and PLN (1)m, respectively.

Wyszczególnienie	Item
J.M.	UoM
Przychody ze sprzedaży	Revenue
Zysk z działalności operacyjnej powiększony o amortyzację (EBITDA)	EBITDA
Zysk z działalności operacyjnej powiększony o	EBITDA before impairment losses

amortyzację (EBITDA) przed opisami aktualizującymi	
Zysk z działalności operacyjnej wg LIFO powiększony o amortyzację (EBITDA LIFO) przed odpisami aktualizującymi	LIFO-based EBITDA before impairment losses
Zysk z działalności operacyjnej (EBIT)	EBIT
Zysk netto	Net profit
Kapitał własny	Equity
Aktywa razem	Total assets
Zatrudnienie na dzień 31 grudnia	Workforce as at Dec 31
Mln PLN	PLNm
osoby	persons
Zmiana	Change
Zmiana %	% change

Revenue was PLN 2,155m, having increased by 2.5% y/y, reflecting, among others, a 3.1% y/y increase in sales volumes.

EBITDA in 2019 was PLN 81m. Net impairment losses on assets recognised in 2019 amounted to PLN (1)m, and EBITDA before those impairment losses was PLN 82m.

The effect of crude oil price movements on the valuation of inventories, recognised in EBITDA, was PLN 9m. As a result, the ORLEN Group's LIFO-based EBITDA for 2019 before impairment losses was PLN 73m, down PLN (51)m year on year:

- PLN (73)m (y/y) – negative effect of macroeconomic factors, mainly on biocomponents, paraffins and fuels, with higher margins in the solvent segment.
- PLN 22m (y/y) – positive effect of other factors, mainly higher margins.

After depreciation and amortisation of PLN (35)m, EBIT came in at PLN 46m.

In 2019, net finance costs were PLN (2)m. After tax expense of PLN (7)m, net profit for 2019 was PLN 38m, up by PLN (31)m y/y.

Net debt as at December 31st 2018 was PLN 123m, having increased by PLN 78m.

As at December 31st 2019, the workforce was 665, down by (7) persons.

## 6. ORLEN PALIWA

Wyszczególnienie	J.M.	2019	2018	2017	zmiana	zmiana %
1	2	3	4		6=(3-4)	7=(3-4)/4
Przychody ze sprzedaży	mIn PLN	21 706	20 496	17 192	1 210	5.9%
<b>Zysk z działalności operacyjnej powiększony o amortyzację (EBITDA)</b>	<b>mIn PLN</b>	<b>146</b>	<b>12</b>	<b>69</b>	<b>134</b>	<b>1116.7%</b>
<b>Zysk z działalności operacyjnej powiększony o amortyzację (EBITDA) przed opisami aktualizującymi<sup>1</sup></b>	<b>mIn PLN</b>	<b>146</b>	<b>12</b>	<b>69</b>	<b>134</b>	<b>1116.7%</b>
Zysk z działalności operacyjnej (EBIT)	mIn PLN	129	(2)	49	131	-
Zysk netto	mIn PLN	106	1	49	105	10500.0%
Kapitał własny	mIn PLN	301	196	244	105	53.6%
Aktywa razem	mIn PLN	1 747	1 513	1 495	234	15.5%
Zatrudnienie na dzień 31 grudnia	osoby	355	358	357	(3)	(0.8%)

In 2017-2019, no impairment losses on non-current assets were recognised.

Wyszczególnienie	Item
J.M.	UoM
Przychody ze sprzedaży	Revenue
Zysk z działalności operacyjnej powiększony o amortyzację (EBITDA)	EBITDA
Zysk z działalności operacyjnej powiększony o amortyzację (EBITDA) przed opisami aktualizującymi	EBITDA before impairment losses
Zysk z działalności operacyjnej wg LIFO powiększony o	LIFO-based EBITDA before impairment losses

amortyzację (EBITDA LIFO) przed odpisami aktualizującymi	
Zysk z działalności operacyjnej (EBIT)	EBIT
Zysk netto	Net profit
Kapitał własny	Equity
Aktywa razem	Total assets
Zatrudnienie na dzień 31 grudnia	Workforce as at Dec 31
Mln PLN	PLNm
osoby	persons
Zmiana	Change
Zmiana %	% change

Revenue was PLN 21 706m, having increased 5.9% y/y, mainly on the back of higher product sales volumes (up 4.4% y/y).

In 2019, EBITDA was PLN 146m, up by PLN 134m y/y as a result of:

- PLN 135m (y/y) – positive effect of higher margins on wholesale of fuels.
- PLN 11m (y/y) – positive effect of higher sales volumes of liquid fuels.
- PLN (12)m (y/y) – other factors, including higher overheads and labour costs.

After depreciation and amortisation of PLN (17)m, EBIT came in at PLN 129m.

In 2019, net finance income was PLN 6m. After tax expense of PLN (28)m, net profit for 2019 was PLN 106m, up by PLN 105m y/y.

Negative net debt (cash surplus) as at December 31st 2019 was PLN (26)m.

As at December 31st 2019, the workforce was 355, having decreased by (3) persons.

## 7. ORLEN DEUTSCHLAND GROUP

Wyszczególnienie	J.M.	2019	2018	2017	zmiana	zmiana %
1	2	3	4	5	6=(3-4)	7=(3-4)/4
Przychody ze sprzedaży	mIn PLN	13 586	13 907	14 850	(321)	(2,3%)
Zysk z działalności operacyjnej powiększony o amortyzację (EBITDA)	mIn PLN	457	537	285	(80)	(14,9%)
Zysk z działalności operacyjnej powiększony o amortyzację (EBITDA) przed opisami aktualizującymi <sup>1</sup>	mIn PLN	457	537	286	(80)	(14,9%)
Zysk z działalności operacyjnej (EBIT)	mIn PLN	283	425	180	(142)	(33,4%)
Zysk netto	mIn PLN	187	298	116	(111)	(37,2%)
Kapitał własny	mIn PLN	560	679	603	(119)	(17,5%)
Aktywa razem	mIn PLN	2 800	1 756	1 691	1 044	59,5%
Zatrudnienie na dzień 31 grudnia	osoby	167	160	155	7	4,4%

1) Impairment losses on non-current assets recognised in 2019, 2018 and 2017 were PLN 0m, PLN 0m, and PLN (1)m, respectively.

Wyszczególnienie	Item
J.M.	UoM
Przychody ze sprzedaży	Revenue
Zysk z działalności operacyjnej powiększony o amortyzację (EBITDA)	EBITDA
Zysk z działalności operacyjnej powiększony o amortyzację (EBITDA) przed opisami aktualizującymi	EBITDA before impairment losses
Zysk z działalności operacyjnej wg LIFO powiększony o amortyzację (EBITDA LIFO) przed odpisami aktualizującymi	LIFO-based EBITDA before impairment losses
Zysk z działalności operacyjnej (EBIT)	EBIT

Zysk netto	Net profit
Kapitał własny	Equity
Aktywa razem	Total assets
Zatrudnienie na dzień 31 grudnia	Workforce as at Dec 31
Mln PLN	PLNm
osoby	persons
Zmiana	Change
Zmiana %	% change

Revenue was PLN 13,586m, down (2.3)% year on year, due to lower fuel prices at service stations, with fuel sales up 4.7% year on year.

In 2019, EBITDA was PLN 464m, down by PLN (73)m y/y as a result of:

- PLN (85)m (y/y) – effect of lower fuel margins compared with the high recorded margins in 2018 (problems related to product logistics on the German market).
- PLN 11m (y/y) – effect of higher fuel sales volumes.
- PLN 1m (y/y) – other factors, effect on a PLN 3m (y/y) increase in non-fuel margins.

After depreciation and amortisation of PLN (174)m, EBIT came in at PLN 283m.

In 2019, net finance costs were PLN (9)m. After tax expense of PLN (88)m, net profit for 2019 was PLN 187.

Negative net debt (cash surplus) as at December 31st 2019 was PLN (19)m.

As at December 31st 2019, the workforce was 167, having increased by 7 persons.

## 8. ORLEN UPSTREAM GROUP

Wyszczególnienie	J.M.	2019	2018	2017	zmiana	zmiana %
1	2	3	4	5	6=(3-4)	7=(3-4)/4
Przychody ze sprzedaży	mln PLN	609	605	526	4	0.7%
Zysk z działalności operacyjnej powiększony o amortyzację (EBITDA)	mln PLN	166	292	154	(126)	(43,2%)
Zysk z działalności operacyjnej powiększony o amortyzację (EBITDA) przed opisami aktualizującymi <sup>1</sup>	mln PLN	297	310	294	(13)	(4,2%)
Zysk z działalności operacyjnej (EBIT)	mln PLN	(147)	(6)	(153)		
Strata netto	mln PLN	(150)	(91)	(30)	(59)	(64,8%)
Kapitał własny	mln PLN	3 034	2 953	2 800	81	2,7%
Aktywa razem	mln PLN	4 572	4 334	3 949	238	5,5%
Zatrudnienie na dzień 31 grudnia	osoby	135	147	148	(12)	(8,2%)

1) Impairment losses on non-current assets recognised in 2019, 2018 and 2017 were PLN (131)m, PLN (18)m, and PLN (140)m, respectively.

Wyszczególnienie	Item
J.M.	UoM
Przychody ze sprzedaży	Revenue
Zysk z działalności operacyjnej powiększony o amortyzację (EBITDA)	EBITDA
Zysk z działalności operacyjnej powiększony o amortyzację (EBITDA) przed opisami aktualizującymi	EBITDA before impairment losses
Zysk z działalności operacyjnej wg LIFO powiększony o amortyzację (EBITDA LIFO) przed odpisami aktualizującymi	LIFO-based EBITDA before impairment losses
Zysk z działalności operacyjnej (EBIT)	EBIT
Zysk netto	Net profit

Kapitał własny	Equity
Aktywa razem	Total assets
Zatrudnienie na dzień 31 grudnia	Workforce as at Dec 31
Mln PLN	PLNm
osoby	persons
Zmiana	Change
Zmiana %	% change

Revenue was PLN 609m, having increased by PLN 4m y/y, reflecting a 1.1% y/y increase in production and sales of hydrocarbons, mainly in the Canadian market.

EBITDA in 2019 was PLN 166m. Net impairment losses on assets recognised in 2019 amounted to PLN (131)m, and EBITDA before those impairment losses was PLN 297m, down PLN (13)m year on year.

- PLN (2)m (y/y) – lower CLS and NGL prices, with higher AECO gas prices.
- PLN 6m (y/y) – positive effect of higher hydrocarbon production, mainly on the Canadian market (y/y).
- PLN (17)m (y/y) – other factors, including mainly higher operating expenses of the segment in connection with the exploration and production activities and higher hydrocarbon output.

After depreciation and amortisation of PLN (313)m, EBIT for 2019 came in negative at PLN (147)m.

In 2019, net finance costs were PLN (37)m. After tax expense of PLN (34)m, net loss for 2019 was PLN 150m.

As at December 31st 2019, net debt rose by PLN 96m y/y, to PLN 965m.

As at December 31st 2019, the workforce was 135, having decreased by 12 persons.

#### **9. OTHER ORLEN GROUP COMPANIES – LIFO-based EBITDA of PLN 363m, including mainly:**

- PLN 136m – share of equity-accounted entities (consolidation of net profit of Basell ORLEN Polyolefins and PPPT).
- PLN 54m – ORLEN Asfalt,
- PLN 31m – Koltrans,
- PLN 30m – ORLEN Aviation,
- PLN 26m – ORLEN Serwis,
- PLN 22m – ORLEN Oil,
- PLN 64m – other and consolidation adjustments.

## **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 and storage depots) is reviewed on an ongoing basis in terms of its possible sale or lease. Property which, following an internal analysis within the Company, are recognised as unsuitable for the Company's needs, are assigned for disposal.

As at December 31st 2019, 40 of PKN ORLEN S.A.'s properties, with a total net carrying amount of PLN 31.5m, were held for sale or lease.

In 2019, seven properties with a net carrying amount of PLN 0.415m were sold for PLN 0.528m (VAT exclusive).

Moreover, following the issue of administrative decisions permitting the execution of road construction projects, the Company lost legal titles to 12 properties with a total carrying amount of PLN 1.51m, through expropriation. Net compensation received by the Company was PLN 3.59m.

Properties or parts of properties which are not directly used in the Company's day-to-day operations may be leased or rented. As at the end of 2019, 58 lease or rental agreements were in force, with a total value of PLN 2.60m (VAT exclusive):

At PKN ORLEN, 65 non-current assets (including plant and equipment) which are not used in day-to-day operations and are not planned to be used in the future have been identified for potential disposal, decommissioning, lease or rental. Their total carrying amount is PLN 3.365m. The assets include one significant item, namely Reforming Unit 1 at the Płock Production Plant, with a total carrying amount of PLN 3.325m.

## **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 2019.

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. In the period from January 1st to December 31st 2019, the Supervisory Board included six members meeting the independence criteria.

2019 was another period of active and intensified work for the Supervisory Board. In 2019, the Supervisory Board held 15 meetings, and the Supervisory Board Committees – 37 meetings. During their meetings, the Supervisory Board and its Committees formulated a total of 117 statements for the Company. For detailed information on the scope of work performed by the Supervisory Board and its Committees in 2019, see Sections II and III of this report.

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, selected Supervisory Board members were delegated by resolution 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.

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

The Supervisory Board confirms proper performance of duties by its members in 2019. 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 and effective supervision.

Chair of the Supervisory Board  
PKN ORLEN S.A.  
Wojciech Jasiński

Warsaw, May 2020