Polski Koncern Naftowy ORLEN
Spółka Akcyjna

ORLEN CAPITAL GROUP

MANAGEMENT BOARD REPORT ON THE OPERATIONS

FOR THE YEAR ENDED 31 DECEMBER 2014

Table of contents:

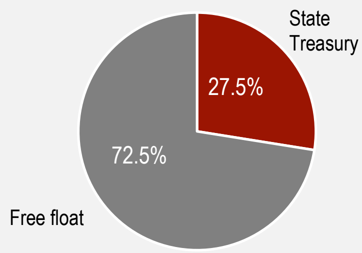
1. BASIC INFORMATION ON POLSKI KONCERN NAFTOWY ORLEN S.A. CAPITAL GROUP (“ORLEN GROUP”, “GROUP”, “CONCERN”)

1.1 Who we are

Business profile

- **The largest company in Poland and Central Europe**, the number 323 on the Fortune Global 500 by revenues for 2013 years
- Listed on the Warsaw Stock Exhange since 1999
- **Market capitalization:** PLN 20.9 billion (as of 30/12/14)

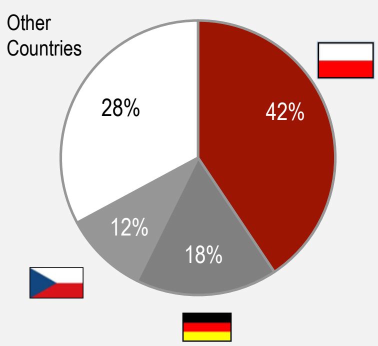
Shareholders, %



TOP 10 products by sales revenue

- Diesel
- Gasoline
- Heavy fuel oil
- LPG
- Aviation fuel Jet-A1
- Light Heating Oil (Ekoterm)
- Bitumen
- Ethylene
- PTA
- Benzene

Revenues by country, 2014, %



Chain of value

UPSTREAM	DOWNSTREAM	RETAIL
▪ Upstream activity of crude oil in Canada ▪ One of the key owners of concession to explore for shale gas in Poland	▪ Leader of oil processing in the region – refineries located in Poland, Czech Republic and Lithuania ▪ Integrated refining assets, petrochemical and energy and extensive network of fuel storage and pipelines ▪ Fuel sales leader in Poland, Lithuania, and an important player on neighbouring markets ▪ Leading supplier of petrochemical products on the Polish market and a significant exporter in Central Europe	▪ Regional leader ~2700 fuel stations and the Polish most valuable brand worth PLN 4.4 billion ▪ Competitive non-fuel offer, biggest gastronomic chain in Poland – 1250 Stop Cafe and Stop Cafe Bistro locations

Polski Koncern Naftowy ORLEN S.A. (“PKN ORLEN”; “the Parent Company”; “the Company”) together with the companies being members of the ORLEN Group is the leader in the petroleum industry in Central and Eastern Europe.
According to the British financial magazine Euromoney, in the oil industry, PKN ORLEN is the best managed company in the region. The Company represents the most valuable Polish brand, the value of which in 2014 exceeded 4.4 billion. Moreover, PKN ORLEN is the most desirable employer, for many years the leader of the largest companies lists in the country and in 2014 the first in the central part of Europe received the title of The World's Most Ethical Company granted by the US Ethisphere Institute. The Company has been listed on the Warsaw Stock Exchange (WSE) for 15 years, now part of WIG 20 WIG 30 and elite Respect Index. For years, PKN ORLEN Investor Relations and the quality of published financial reports on the WSE are at the forefront of the best rated by analysts and investors.

The ORLEN Group manages 6 refineries, three of which are located in Poland (Płock, Trzebinia, Jedlicze), two[1)] in the Czech Republic (Litvinov, Kralupy) and one in Lithuania (Mazeiku). The total crude oil’s capacity per year amounts to more than 32 million tonnes. The Group is also a leading manufacturer of petrochemicals, and their products are the basic raw material for a large group of chemical companies.

According to the strategy of building a multi energy company ORLEN Group has been consistently developing a segment of exploration and extraction of hydrocarbons, as well as the generation of electricity. The Group holds 10 licenses for exploration of oil and natural gas all over the country. One of our priorities is revaluation and gas exploration from unconventional Polish resources. Through the purchase of Canadian extraction companies TriOil and Birchill, ORLEN Group is present in one of the most technologically advanced extraction markets.

1) The production plant in Paramo does not proces crude oil.

The Group has implemented: the construction of a gas and steam power plant with a capacity of 463 MWe in Włocławek with a planned date of putting it into use in 2015 as well as launched a similar project in Płock.

ORLEN Group`s market flagship is the largest network in the region close to 2 700 modern fuel stations located in Poland, Germany, Czech Republic and Lithuania.

The logistic facilities have been made with efficient infrastructure consisting of ground and underground storage depots and pipeline networks.

ORLEN Group gives a lot of importance to impact on the environment. People are our most important asset, and this is the case no matter who they are − customers, employees or stakeholders. Our success, created every single day through the commitment of over 20 thousand employees, is built on respect for ethics and the key values of the ORLEN Group.

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

ORLEN, FUELLING THE FUTURE

1.2 The core values and standards of conduct, corporate social responsibility

Jacek Krawiec, The President of the Management Board of PKN ORLEN:
"Top global companies stand out by building long-term strategies on the foundation of value. As a company with an international reach, we want to strengthen our competitive advantage, by concentrating on responsibility, development, people, power, and reliability. Values provide us with stable support, give strength to develop and implement strategies, and on every day basis allow tomake the right decisions, even in questionable situations."

Values and rules of conduct

Updated in 2012 „The core values and standards of conduct of PKN ORLEN" has been a guide in the internal and external area of relationships of the Group's environment - with business partners, local communities and competitors of the Group.
Since the launch of the ORLEN values project: Responsibility, Development, People, Energy and Reliability permanently have attached to the activities of ORLEN Group. The values strengthen the position of PKN ORLEN - provide the company and the people creating it the way to achieve ambitious goals.
The document supplements the business strategy of PKN ORLEN by placing significant emphasis on building relationships and mutual trust in the organization, provides employees with the opportunity to clarify doubts and notice irregularities. In PKN ORLEN, there is a spokesperson representing matters of Ethics and the Ethics Committee. Conducted training help staff in solving some doubts related to the values and ethical behavior. A new approach to the subject of ethics positions- ORLEN Group among the leaders prepared for the challenges of the future. Thus creating potential positive energy which the translates into market results and realization of business objectives.

Corporate social responsibility (CSR)

For many years ORLEN Group sets the highest standards both in the current market activity and in relation to the issue of sustainable development. In implementing business strategy we have been guided by the principle that the increase in value of the company should be in line with the interests of the surroundings in which it operates and be based on sustainable and responsible use of resources.

Since 2003, when ORLEN Group joined the Global Compact - an initiative of the Secretary General of the United Nations, the determinant of the social activities of PKN ORLEN are 10 principles in the areas of human rights, labor standards, the environment protection and anti-corruption. The spectrum of actions in the area of corporate social responsibility is wide and includes, among others, reducing the impact of production facilities on the environment, responsible personnel policy, also in relation to former employees, initiating public debates on important social and economic issues, sports and cultural patronage, support and dialogue with local communities, as well as educational programs and charities, in particular the supporting of family homes.

In 2014, PKN ORLEN has developed CSR Strategy, whose main idea is to translate adopted in 2012 “Values and rules of conduct of PKN ORLEN S.A.” into specific directions, goals and activities within the business strategy. In the perspective of 3 years, CSR Strategy identifies the key areas of activity and priorities within CSR:

- ORGANIZATION, where the foundation is to build relationship. Priorities in this area include: safety of employees, management of development and diversity and the so-called work life balance and social involvement of employees.
- CLOSE ENVIRONMENT, based on the attitudes shaping, where the priorities are: building the image of a responsible company, engaging stakeholders and social commitment of the Company
- FAR ENVIRONMENT, where the aim is to lead the changes on priority basis, such as the responsible development, ethical leadership, new areas of business and innovation.

Committee of Corporate Social Responsibility was also created, whose task is to support the achievement of strategic objectives by taking into account the social, ethical and environmental issues in activities and contacts with stakeholders. Committee’s task include particularly:

- supervising the implementation of Corporate Social Responsibility strategy
- management monitoring for compliance with the requirements of PKN ORLEN’s values and rules of conduct,
- periodic assessment of activities in the area of CSR

acceptance the annual report, summarizing realized CSR activities.

Reducing the impact on the environment has been one of the priorities of the ORLEN Group for years. Environmental responsibility is not only compliance with the legislation on environmental standards, and educational activities directed to employees, customers, suppliers and the local community. It is also the implementation of environmental management systems and investing in innovative, environmentally friendly technologies that provide benefits and competitive advantage in the market. As part of the program Responsoble Care since 1997 implemented hundreds voluntarily adopted environmental commitments. Environmental issues have been discussed in detail in Point 4.6 of this report.

As part of the efforts towards employees, ORLEN Group aims to create an environment of trust and equal opportunities, fair treatment for all, regardless of gender, age, position, seniority, trade union membership, religion, nationality, beliefs, appearance or sexual orientation. We are implementing a clear policy of respecting human rights and non-discrimination. Recruitment processes ensure equal opportunities for all interviewers and take place in accordance with the procedures, rules of corporate governance. We also take care to ensure a work – life balance. Issues of employment policy and human resources programs are further described in Point 3.9 of this Report.

As part of the corporate social responsibility activities are also oriented to the realization of “Charity policy of Polski Koncern Naftowy ORLEN S.A.”, which are the protection of health and life, education and upbringing. PKN ORLEN independently initiates and conducts charitable activities, but also participates in them as a partner. In achieving the objectives, the Foundation ORLEN – DAR SERCA plays a key role, which in 2001 was established to implement the social mission of the Founder - PKN ORLEN.

Invariable care about positive changes in the surroundings is reflected in a wide range of social programs realized by the ORLEN – DAR SERCA Foundation. Since its establishment, the Foundation offers a comprehensive support for family orphanages, as the most effective method to ensure children who are deprived of their natural family appropriate conditions for the full personal development. The Foundation also takes initiatives aimed at supporting young people in education process and strengthening their motivation (i.e. a scholarship program for junior high and high schools of the county Płock and city Płock and also the program called "Masters of CHEMISTRY)". Corporate Foundation is also involved in projects to improve safety and health care, which is an example of social action "NO FOR SMOKE" and close cooperation with units of PKN ORLEN firefighters. The Foundation actively supports and promotes the local community.

A regular part of a wide system of communication of ORLEN Group’s social action is social reporting. It changes along with the changes taking place within the Group and in the external environment to cope with the expectations of stakeholders.

Social responsibility report of PKN ORLEN comprehensively presents economic, social and environmental information about PKN ORLEN and several of ORLEN Group’s companies. Social Report (2008) has been the first drawn up in accordance with international reporting standard GRI (Global Reporting Initiative). The tenth anniversary of publication for the year 2014 (CSR Report for the year 2013) is a completely new quality – thanks to developments made in accordance with the the latest editions of the GRI G4 standard, and subjected to verification by independent experts.

The funpage ”Incredible People” is a type of support for communication between social activities undertaken by PKN ORLEN and corporate Foundation. The funpage has received sympathy of nearly 60 thousand fans.

1.3 The Management Board of PKN ORLEN

DARIUSZ JACEK KRAWIEC

President of the Management Board, Chief Executive Officer

On 18 September 2008, Mr Dariusz Jacek Krawiec was appointed President of the Management Board and CEO of the Company. On 24 March 2011, for the first time in the history of PKN ORLEN, Mr Dariusz Jacek Krawiec was reappointed by the Supervisory Board for the Board's President for the next term of office. On 6 March 2014 he was appointed for the position of Board President for the third term beginning at 16 May 2014.

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

SŁAWOMIR JĘDRZEJCZYK

Vice-President of the Management Board, Chief Financial Officer

In In June 2008, Mr Sławomir Jędrzejczyk was appointed as Member of the Management Board of PKN ORLEN. He served as the Member of the Management Board until September 2008, on 18 September he became Vice-President of the Management Board. On 24 March 2011 Mr Sławomir Jędrzejczyk was reappointed by the Supervisory Board of PKN ORLEN to the position of Vice-President of the Management Board, for three year term of office, starting from 30 June 2011. On 6 March 2014, Mr Sławomir Jędrzejczyk was appointed for the position of Board's Vice-President of the third term beginning 16 May 2014.

He is a graduate of the Łódź University of Technology and obtained the title of Certified Auditor of ACCA association. In 2005 - 2008, he served as President of the Management Board – Chief Financial Officer of Emitel. Previously he had worked for companies listed on WSE as: Member of Management Board – Chief Financial Officer of Impexmetal S.A. and the Director of Controlling in Telekomunikacja Polska S.A. and in Audit and Business Advisory Department of Price WaterHouse. Currently, he serves as Vice-Chairman of the Supervisory Board of Unipetrol a.s. Since 1 January 2014 he acts as a member of the Board of Directors of TriOil Resources Ltd., Canada.

PIOTR CHEŁMIŃSKI

Member of the Management Board, Business Development/Power and Heat Generation Officer

Mr Piotr Chełmiński was appointed as the Member of PKN ORLEN Management Board on 10 March 2012. On 6 March 2014 Mr Piotr Chełmiński was reappointed by the Supervisory Board of PKN ORLEN for a Member of Management Board for three years term office.

Mr Piotr Chełmiński is a graduate of the Warsaw University of Agriculture. In the years 1995 – 1996 he served as Vice-President for sales, marketing and export of Okocimskie Zaklady Piwowarskie S.A. From 1996 to 1999 he worked for Eckes Granini GmbH & Co. KG as Regional Director for Central and Eastern Europe region and as President of its subsidiary, Aronia S.A. During 1999 – 2001 he has been a Member of the Board of Directors, Browar Dojlidy Sp. z o.o. In 2001 – 2006 he served as Member of the Management Board and as Member of Supervisory Board of Kamis-Przyprawy S.A. In 2006-2009 he served as Directors and as Member of the Supervisory Board – direct operational supervision of Sales and Marketing, Kamis-Przyprawy S.A. From 2006 to 2009 he served as Vice-President for Sales and Marketing, Gamet S.A. in Torun and as Member of the Board of Directors, Gamet Holdings S.A. Luxembourg. He was entrusted with the post of President of Directors and CEO at Unipetrol a.s. in December 2009. Currently, he serves as Chairman of the Supervisory Board of ANWIL S.A. and Vice-Chairman of Supervisory Board of Basell ORLEN Polyolefins Sp. z o.o

KRYSTIAN PATER

Member of the Management Board, Production

In March 2007, Mr Krystian Pater was appointed the Member of the Management Board of PKN ORLEN. On 24 March 2011 he was reappointed by the Supervisory Board of PKN ORLEN to the position of Member of the Management Board, for three year term of office, starting from 30 June 2011. On 6 March 2014, Mr Krystan Pater was reappointed for term of office, starting from 16 May 2014.

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

MAREK PODSTAWA

Member of the Management Board, Sales

Mr Marek Podstawa was appointed to the position of Member of PKN ORLEN Management Board in charge of Sales, effective from 19 March, 2012. On 6 March 2014, Mr Marek Podstawa was reappointed for term of office starting from 16 May 2014.

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

1.4 The Supervisory Board of PKN ORLEN

ANGELINA ANNA SAROTA

Chairman of the Supervisory Board

Mrs. Angelina Sarota was appointed the Member of the Supervisory Board of PKN ORLEN from June, 2008. She held the function of the Secretary of the Company's Supervisory Board during two previous terms. On 27 June 2013 Mrs. Angelina Sarota was appointed as the Chairman of the Supervisory Board of the company for the following term.

Ph.D. in law, legal adviser, graduate of the Faculty of Law and Administration of the Jagiellonian University, the National School of Public Administration and postgraduate studies „Strategic Management of Human Resources" at the Kozminski University.

Vice President of the Management Board of PGE EJ 1 Sp. z o.o., responsible for legal and regulatory affairs.

From 2005 to 2014 Director of the Legal Department of the Prime Minister's Office responsible for legal and legislative support, in particular for the Prime Minister, the Head of the Prime Minister's Office and the General Director. From 2003 – 2005 Deputy Director of the Department of Science Strategy and Development in the Ministry of Scientific Research and Information Technology. From 2001 to 2003, chief specialist in the Court Representation Department and the Restructuring and State Aid Department in the Ministry of Treasury. She was a member of the Supervisory Boards among others of the following companies: Cerg Spółka z o.o. in Gliwice, Chemar Spółka z o.o. in Kielce, Vice Chairman of the Supervisory Board of Warsaw Technology Park S.A and Vice Chairman of the Supervisory Board of the Polish Security Printing Works S.A.

Member of the Board of the College of Europe Foundation in Warsaw.

LESZEK JERZY PAWŁOWICZ

Member of the Supervisory Bocard

Mr Leszek Jerzy Pawłowicz has been ViceChairman of the Supervisory Board of PKN ORLEN for previous term. On 27 June, 2013 was reappointed to the Company's Supervisory Board for next term office and again he serves as Vice-Chairman.

He is a graduate of the Production Faculty of the Gdansk University. In 1977, he awarded PhD in Economics and then in 1988 he became a doctor habilitus (higher academic degree than doctor's degree).

Since 1973 he has been associated with the University of Gdańsk. Since 1993 he has been worked as a professor and since October 2003 he has been served as Manager of the Banking Department at the University of Gdańsk.

Since 1990 he has been Vice President of the Management Board of the Market Economy Research Institute, and since 1992, Director of the Banking Academy.

In the years 1991-1993 he served as Chairman and in the years 1993-1996 as a Member of the Supervisory Board of Bank Gdański S.A. In the years 1955-1996 he was a Chariman of the Programme Board of "Bank" monthly magazine. In the years 1996-1997 was a Member of the Experts Group for Privatization of Telekomunikacja Polska S.A. and in the years 1995-2001 was a Member of the Scientific Board of Bank Gospodarki Żywnościowej SA. In the years 1997-2000 served as a Chairman of the Economic Section of the Scientific Research Committee. In the years 2003-2005 served as a Member of the Board of PPUP Poczta Polska. Since 8 January 1998, Mr Leszek Pawłowicz has been a Member of the Supervisory Board of Bank Pekao S.A. and since 7 November 2012 has been a Vice Chairman of the Supervisory Board of Bank Pekao S.A. In the years 2004-2011 he has served as a Member of the Supervisory Board of PTE Allianz Polska S.A. Since 30 June 2004, he has been a Member of the Supervisory Board of BEST S.A. and since 29 August 2014 he has been a Vice Chairman of the Supervisory Board of BEST S.A. Since October 2004 he has been a Member of the Programme Board of "Real Estate Financing" quarterly. From 12 February 2008 to 25 July 2014 he served as a Member of the Supervisory Board of WSE and from 22 February 2008 to 17 July 2013 he served as a Chairman of the Supervisory Board of WSE. Since September 2006, he has been a Member of the Editorial Board of "Kwartalnik Nauk o Przedsiębiorstwie" quarterly and since April 2010 has been a Member of the Programme and Scientific Board of "Safe Bank" magazine. Since November 2011 he has been a Member of the Finance Committee of Sciences of the Polish Academy of Sciences.

ADAM AMBROZIK

Member and Secretary of the Supervisory Board

On 15 May 2014, Mr Adam Ambrozik was appointed the Member of the Supervisory Board of PKN ORLEN.

He graduated in law at the Catholic University of Lublin and Marketing and Management at the Technical University of Lublin.

Counselor of the Minister. He holds the position of the Director of the Department of Restructuring and Public Aid at the Ministry of the State Treasury. He supervises the companies under restructuring, as well as oversees issues related to providing support and public aid from the entrepreneurs restructuring fund and the Industrial Development Agency. He is a Chairman of the Supervisory Board of Polimex – Mostostal S.A.

In the past his duties included ownership supervision and implementation of new business projects in a private capital group. In addition, he served for five years as Secretary of the Tripartite Commission for Socio - Economic Issues on behalf of non-governmental organization Employers of Poland.

MACIEJ BAŁTOWSKI

Member of the Supervisory Board

Mr Maciej Bałtowski was appointed the Member of the Supervisory Board of PKN ORLEN, effective from 15 May 2014.

Full Professor at the Faculty of Economics at Maria Curie-Skłodowska University in Lublin. From March 2008 to June 2013 he served as a Member of the Supervisory Board at PGE Polska Grupa Energetyczna SA. Previously a Member of the Supervisory Boards at a number of companies, he served as, among others, Chairman of the Supervisory Board at Wschodni Bank Cukrownictwa S.A. in Lublin (1998-2000) and Chairman of the Supervisory Board at Lubelska Fabryka Wag FAWAG SA (2001-2003).

He is an author of eight books and numerous articles and expert opinions on transformation and privatisation of the Polish economy and ownership supervision. In 2001-2003, he was an expert at the Parliament's State Treasury Committee and a co-author of a bill on the State ownership supervision. Since November 2010 he has been a Member of the Council of the Supreme Audit Office.

CEZARY BANASIŃSKI

Member of the Supervisory Board

Mr Cezary Banasiński was appointed the Member of Supervisory Board of PKN ORLEN S.A. in 2012. On 27 June, 2013 Mr Cezary Banasiński was reappointed to the Company's Supervisory Board for next term office.

Ph.D., reader at the Faculty of Law and Administration of the University of Warsaw. He graduated in Management (1977) and Law and Administration of the University of Warsaw (1980). He received scholarship among others at the Faculty of Law of the University of Vienna and of the University of Tubingen, of the Humboldt Foundation at the University of Constance.

From 1997 to 2000 he was an advisor at the Constitutional Tribunal's Office of Adjudication. From 1999 to 2001 he held the position of under-secretary of state at the European Integration Committee and he was responsible for harmonization of the Polish law with the EU law. From 2001 to 2007 he served as President of the Office of Competition and Consumer Protection. From 2002 to 2004 he was a head of the team negotiating Poland's membership in the EU, responsible for the "Competition policy" negotiating area. From 2005 to 2006 he served as a member of the Polish Securities and Exchange Commission and the Commission for Insurance and Pension Fund Supervision and from 2006 to 2007 as a member of the Coordinating Committee for Financial Conglomerations. Expert, advisor of teams and state-owned committees, arbitrator of the Court of Arbitration at the National Chamber of Commerce (from 2004), member of the Board Program Foundation "European Law" (2002-2010) and other foundations, associations and courts. He was the Chairman of the Supervisory Board of PKO BP S.A. as well as other companies with share of the State Treasury and council legal entities.

He is the author and co-author of many publications: books, articles, commentaries for acts and judgments of the Court of Justice in the scope of the administration and economic law and the European economiclaw.

GRZEGORZ BOROWIEC

Member of the Supervisory Board

Mr Grzegorz Borowiec has been a Member of the Supervisory Board of PKN ORLEN for the two previous terms of office. On 27 June, 2013 Mr Grzegorz Borowiec was reappointed to the Company's Supervisory Board for next term office.

He graduated from the Gdynia Maritime University (1987) , the National School of Public Administration (1997), Master of Business Administration at the University of Warsaw/University of Illinois (2002) and the University of Warsaw (2002). He was appointed as a civil servant.

Since 12 December 2007, he has served as General Director of the Ministry of State Treasury. Since January 2010, he has been a member of the Audit Committee at the Ministry of Regional Development.

From 1987 to 1994, Mr Borowiec worked as a deck officer for Polish and foreign ship owners in a merchant fleet. From April 1997 to June 1998, he held the position of the Deputy Director of the Ministry of the State Treasury Office for Free of Charge Distribution of Shares to Entitled Employees. From 1998 to 2001 he worked as General Director in the Energy Regulatory Authority. From August 2001 to December 2007, Mr Borowiec was the Director of the Finance Department in the Ministry of Finance. He served as a Member of the Supervisory Board of WSK "Rzeszów" (1998) and PKP SKM Fast City Railway in the Polish Tricity area (2002-2007). From October 2009 to July 2014, he was the representative of the Minister of State Treasury in the Supervisory Board of TVP S.A. Since 28 July 2014, he was appointed the Member of the Supervisory Board of Polskie Radio S.A.

He graduated from many domestic and foreign training courses, which are attested by relevant certificates, e.g. the Internal Auditor Certificate (2005), the NATO Security Certificate (NATO secret – 2002), course on institutional and economic reform of the energy sector (Power Sector Reform – USAID, USA - 1999) and training in project management (PRINCE2 - 2006).

ARTUR GABOR

Independent Member of the Supervisory Board

Mr Artur Gabor was appointed the Supervisory Board of PKN ORLEN in 2010. On 27 June, 2013 Mr Artur Gabor was reappointed to the Company's Supervisory Board for next term office.

He graduated in Economics at the University College of London and graduated in Law at the Warsaw University.

He has worked as a Partner of Investment & Advisory Services in the company Gabor&Gabor.

In the years 1986-1987 Mr Artur Gabor worked as an Assistant of Institute of Economics of Polish Academy of Sciences. In the years 1987-1990 he was a Business Development Director of Paged S.A. and in the years 1990-1994 he worked as a Partner of Warsaw Consulting Group. He served as a Managing Director of Poland of Credit Lyonnais Investment Banking Group (1994-1998), served as a Merger and Acquisition Director of Central Europe and Russia of General Electric Capital (1998-2004) and as a Director of Financial Sector of IBM Poland (2005-2006).

In the years 2003-2004 was a Member of the Management Board of American Chamber of Commerce and since 2005 he has been a Member of American Chamber of Commerce. Moreover, since 2006 he has been a Member of the Corps of Independent Members of the Supervisory Boards of Polish Institute of Directors.

In the years 2001-2004 he served as a Vice-Chairman of the Supervisory Board of GE Capital Bank S.A. and a Member of the Supervisory Board of GE Bank Mieszkaniowy S.A. In the years 2004-2005 was a Chairman of the Supervisory Board of Getin Bank S.A. and a Member of the Supervisory Board of Getin Holding S.A. In the years 2004-2008 he served as a Vice-Chairman of the Supervisory Board of Energomontaz Polnoc S.A. In the years 2006-2007 was a Member of the Supervisory Board of Polmos Lublin S.A and in the years 2007-2011 a Vice Chairman of the supervisory Board of Energopol Katowice S.A. In the years 2011-2013 was a Member of the Supervisory Board of Fleet Holding S.A. and in the years 2012-2013 a Vice-Chairman of the Supervisory Board of For-Net S.A. Since 2007 Mr Gabor has been a Member of the Supervisory Board of Orbis S.A. and since 2008 has been a Chairman of the Supervisory Board of Lew S.A. Group. Since 2009 he has been a Vice-Chairman of the Supervisory Board of Sfinks S.A. and since 19 December 2013 he has served as a Chairman of the Supervisory Board of Sfinks S.A. Since 2014 he has been an Independent Member of the Supervisory Board of Prime Car Management, but since 1 February 2015 he has been a Member of the Supervisory Board of Idea Bank.

RADOSŁAW LESZEK KWAŚNICKI
Member of the Supervisory Board

Mr. Radosław L. Kwaśnicki has been appointed as a member of PKN ORLEN Supervisory Board on 15th of May 2014.

He received a doctorate in law and is a solicitor working as a Managing Partner in KKW - KWAŚNICKI, WRÓBEL & Partners Legal Practice. He specializes in company law, equity market law and legal proceedings.

He held the functions among others of the Chairman of the Supervisory Board of Agencja Rozwoju Przemysłu S.A. (in the year 2007), Vice-Chairman of the Supervisory Board of PGE ZEW-T Dystrybucja Sp. z o.o (2008 - 2009), the Secretary of the Supervisory Board of BOT Elektrownia Turów S.A. (2007 - 2008), Member of the Supervisory Board of PGE Energia S.A. (2008 - 2009), the Chairman of the Supervisory Board of Geometria Pyrzyce Sp. z o.o (2006 - 2007), the Chairman of the Supervisory Board of BBI Capital NFI S.A. (2012 - 2014), the Chairman of the Supervisory Board of Investments SA (2012 - 2014), the Chairman of the Supervisory Board of Investment TFI SA (2012 - 2014), Chairman of the Supervisory Board of the Brokerage of Investments SA (2012 - 2014), Member of the Supervisory Board of MAGO S.A. (2012 - 2013) and the Chairman of the Supervisory Board of NAVI GROUP (2014). He is a member of the Corps of the Polish Institute of Directors included on the list of candidates for Professional Members of the Supervisory Boards of Polish Institute of Directors.

He awarded the prestigious recommendation by the Global Law Experts as Poland's only lawyer in the area of the commercial law. He was also honored in this area by the European Legal Experts as well as in the field of corporate law and mergers and acquisitions (M&A) by the Legal 500. Mr Radosław Kwaśnicki has won 1st place in the competition „Forbes Professionals 2014 – Professions of Public Trust" in Mazovian Voivodeship.

He was the President and later Vice-President of the Permanent Court of Arbitration at the District Chamber of Legal Counsels in Warsaw (currently Arbitrator at this Court). He is also a domestic and international arbitrator, including: Arbitrator of the Court of Arbitration at the Polish Confederation Lewiatan, Arbitrator of the International Court of Arbitration at the International Chamber of Commerce in Paris, and Arbitrator of the Court of Arbitration at the Polish Bank Association.

He has participated in legislative and strategic work related to the development of the commercial law. He is an editor and author, and co-author of several handbooks and legal comments, as well as over three hundred other publications and speeches devoted to practical aspects of commercial law. Mr Kwaśnicki is a member of the Editorial Board of "Monitor of Trade Law".

He is a lecturer at classes for legal counsel trainees (the Circuit Chamber of Legal Counsel in Warsaw). He was a speaker at many conferences and seminars on economic and business law. Mr Kawaśnicki is fluent in English and German and runs a blog dedicated to commercial law " Business Law – Law in Action".

CEZARY MOŻEŃSKI
Member of the Supervisory Board

On 27 June 2013, Mr Cezary Możeński was appointed the Member of the Supervisory Board of PKN ORLEN.

He is a graduate of the Technology and Chemical Engineering Faculty of the Cracow University of Technology. PhD in Chemical Engineering obtained at the Warsaw University of Technology (faculty of Chemical and Processing Engineering).

From 1981 to 2000 he was a head of the Research Department at Institute of New Artificial Fertilisers in Puławy and then in the years 2000-2004 he worked as the Director of Production and Business Development, Director of Strategy, Business Development and Investments in Zakłady Azotowe Puławy S.A. From 2002 to 2004 he served as a President of the Management Board of „Melamina III" Sp. z o.o. From 2003 to 2005 he had the position of Chairman of the Supervisory Board of Masz - ZAP Sp. z o.o. From 2005 to 2006 he served as a Member of the Management Board of Brasco S.A. and from 2004 to 2006 as a President of the Management Board of Spirits company „Wratislawia" Polmos Wrocław S.A. Since 2006 he has served as a Director of Institute of New Artificial Fertilisers in Puławy. Since 2008 he has been a Chairman of the Supervisory Board of Zakłady Azotowe "Puławy" S.A. Since 2011 he has been a Member of the Committee of Chemical and Process Engineering of Polish Academy of Sciences.

Mr Cezary Możeński is an author of several patents and licenses used in chemical industry in the country and abroad.

He has completed number of management and OHS trainings (1998-2012). In 2002, he has also completed and passed exam for candidates for Members of the Supervisory Boards of State-owned Companies. In 2013, Mr Możeński participated in The Strategic Leadership Academy (Harvard Business Publishing).

1.5 Selected operational and financial data for 2010-2014

TABLE 1. Selected operational and financial data for 2010-2014.

Item	Unit	2014	2013	2012	2011	2010
I. MACROECONOMIC DATA (average value for the period)						
Brent crude oil price	USD/bbl	98.9	108.7	111.7	111.3	79.5
Brent/URAL differential[1)]	USD/bbl	1.7	1.0	1.3	1.7	1.4
Model refining margin[1)]	USD/bbl	3.4	3.4	5.7	2.1	3.8
Model petrochemical margin[1)]	EUR/t	781	730	685	705	694
Model downstream margin[1) 2)]	USD/bbl	11.4	10.8	-	-	-
II. OPERATING DATA						
Crude oil throughput in ORLEN Group, of which :	'000 tonnes	27 276	28 216	27 939	27 785	28 083
Crude oil throughput in PKN ORLEN	'000 tonnes	14 278	15 182	15 191	14 547	14 452
Crude oil throughput in Unipetrol Group	'000 tonnes	5 130	3 607	3 927	3 942	4 353
Crude oil throughput in ORLEN Lietuva Group	'000 tonnes	7 497	9 010	8 533	9 007	8 985
Sales of products and goods	'000 tonnes	35 740	35 909	35 288	35 446	34 177
Downstream sales	'000 tonnes	27 706	28 376	27 821	28 101	27 152
Retail sales	'000 tonnes	7 776	7 516	7 467	7 345	7 025
Upstream sales	'000 tonnes	258	17	-	-	-
Capex	PLN million	3 788	2 484	2 034	2 133	3 011
III. FINANCIAL DATA						
3.1. Consolidated statement of profit or loss and other comprehensive income						
Sales revenue	PLN million	106 832	113 597	119 864	106 973	83 547
Cost of sales, distribution expenses and administrative expenses	PLN million	(106 442)	(113 187)	(117 279)	(103 526)	(80 326)
Other operating income/expenses, net and share in profit from investment accounted for under equity method	PLN million	(5 101)	(103)	(555)	(1 381)	(98)
Profit/(Loss) from operations under LIFO before amortisation and depreciation and impairment allowances[3)]	PLN million	5 213	3 086	5 095	3 894	4 138
Profit/(Loss) from operations before amortisation and depreciation[4)]	PLN million	**(2 720)**	**2 418**	**4 232**	**4 446**	**5 546**
Profit/(Loss) from operations[4)]	PLN million	**(4 711)**	**307**	**2 030**	**2 066**	**3 123**
Financial income/costs, net	PLN million	(1 535)	(150)	586	537	(305)
Share in profit from investment accounted for under equity method[5)]	PLN million	-	-	-	189	252
Profit/(Loss) before tax	PLN million	**(6 246)**	**157**	**2 616**	**2 792**	**3 070**
Net profit/(loss)	PLN million	**(5 828)**	**90**	**2 170**	**2 015**	**2 455**
3.2. Consolidated statement of financial position						
Non-current assests, of which:	PLN million	24 971	26 907	26 808	28 599	30 431
Property, plant and equipment	PLN million	22 644	24 904	24 331	26 579	27 403
Intangible assets	PLN million	703	823	1 296	1 323	1 103
Current assests, of which:	PLN million	21 754	24 445	25 445	30 132	20 719
Inventories	PLN million	9 829	13 749	14 903	16 297	11 295
Trade and other receivables	PLN million	7 057	7 768	7 996	8 105	6 337
Cash and cash equivalents	PLN million	3 937	2 689	2 029	5 409	2 821
Total assets	PLN million	**46 725**	**51 352**	**52 253**	**58 731**	**51 150**
Equity	PLN million	**20 386**	**27 551**	**28 307**	**26 799**	**24 240**
Non-current liabilities, of which:	PLN million	12 305	7 846	9 035	12 120	10 685
Loans, borrowings and bonds	PLN million	9 670	6 507	7 523	10 538	9 124
Current liabilities, od which:	PLN million	14 034	15 955	14 911	19 812	16 225
Loans, borrowings and bonds	PLN million	987	850	1 233	2 460	1 544
Trade and other liabilities	PLN million	11 215	14 013	12 504	15 093	13 436
Total equity and liabilities	PLN million	**46 725**	**51 352**	**52 253**	**58 731**	**51 150**
3.3. Consolidated statement of cash flows						
Net cash provided by operating activities	PLN million	3 187	5 540	2 970	761	6 110
Net cash provided by/(used in) investing activities[6)]	PLN million	(4 020)	(2 441)	(2 853)	1 497	(2 920)
Net cash provided by/(used in) financing activities	PLN million	2 083	(2 438)	(3 340)	332	(3 298)
Net increase/(decrease) in cash and cash equivalents	PLN million	1 250	661	(3 223)	2 590	(108)

1) The method of margin calculation is presented in „Glossary of selected technical and financial definitions" at the end of the Report.

2) Calculated since 2014 due to change in the method of ORLEN Group business areas: refinery, petrochemical and power. Moreover, calculated due to the creation of an integrated Downstream Segment.

3) ORLEN Group's inventories are valued in the financial statements in accordance with International Financial Reporting Standards at weighted average cost method or purchase price method. This method results a recognition deferral of impact of decrease or increase in price of crude oil relative to the prices of finished goods. Therefore, an upward trend in crude oil prices has a positive effect and the downtrend has a negative impact on the reported results. The use of the LIFO method of inventory valuation makes that current production costs are measured at cost of purchased crude oil and consequently, the results of operations better represent the actual situation. As a result, the operating results based on LIFO method of inventory valuation were additionally presented in the foregoing report. In accordance with IFRS inventory valuation under LIFO is not acceptable and consequently it is not applied in the accounting principles as well as in the financial statements of the ORLEN Group.

4) Results from operations in the years 2011, 2012 and 2014 include impairment allowances in of PLN 1,797 million, PLN 688 million and PLN 5,360 million.

5) Includes mainly share in results of Polkomtel, company sold in 2011.

6) Cash flows from investing activities in 2011 result from the recognition of revenues from the sale of shares in Polkomtel S.A.in the amount of PLN 3,672 million.

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

JANUARY

On 28 January 2014, **the agreement for gathering and keeping of crude oil mandatory reserves**, concluded on 28 December 2012 between PKN ORLEN and Whirlwind Sp. z o.o. ("Whirlwind"), **has expired**.
Therefore, and in accordance with applicable regulations regarding the maintenance of mandatory reserves in Poland, PKN ORLEN acquired crude oil owned by Whirlwind. The value of the transaction was approximately USD 396 million (approximately PLN 1,223 million at the average National Bank of Poland exchange rate for USD/PLN as at 27 January 2014). On the day of signing the agreement the acquisition price of crude oil has been hedged with a forward contact. The settlement of the hedging transaction decreased the value of the acquired raw material by USD 11 million (representing PLN 34 million at the average National Bank of Poland exchange rate for USD/PLN as at 27 January 2014). Additionally, within the duration of the contract regarding gathering and maintenance of crude oil reserves, Whirlwind incurred charges to PKN ORLEN for inventory maintenance guarantees. Regulatory announcement no. 32/2014.

MARCH

On 6 March 2014, the Supervisory Board of PKN ORLEN **appointed to the Management Board of PKN ORLEN** : Mr Dariusz Jacek Krawiec to the position of a President of the Management Board, Mr Sławomir Jędrzejczyk to the position of a Vice-President of the Management Board as well as Mr Piotr Chełmiński, Mr Krystian Pater Member and, Mr Marek Podstawa for the common three year term of office starting the day after present common term of office of the Management Board expires, that is after the day of the General Shareholders Meeting of the Company approved the financial statements for 2013. Regulatory announcement no. 75/2014.

APRIL

On 1 April 2014 and on 8 April 2014, PKN ORLEN informed about **the subsequent issuance of 2 million and 1 million unsecured bearer bonds in series E and F** within the public bond issue programme, included in the prospectus approved by the Polish Financial Supervision Authority on 24 May 2013 and announced the final terms and conditions of the offer and the final terms and conditions of issue for this series of the bonds. Regulatory announcement no. 105/2014 and Regulatory announcement no. 119/2014. The detailed information regarding the bonds issue was presented in the point 5.3.3 of the foregoing Report

On 17 April 2014, **Mr Michał Gołębiowski** made a statement that effective on 21 April 2014 he resigned from the position of a Member of the Supervisory Board of PKN ORLEN due to the relevant circumstances of the professional nature. Regulatory announcement no. 130/2014.

MAY

On 15 May 2014, the General Meeting of PKN ORLEN **appointed to the Supervisory Board of PKN ORLEN:** Mr Adam Ambrozik and Mr Radosław Leszek Kwaśnicki. Furthemore, the Minister in Charge of the State Treasury on behalf of the shareholder of the State Treasure, based on § 8.2 item 1 of the Articles of Association, **appointed Mr Maciej Bałtowski** to the Supervisory Board of PKN ORLEN. Regulatory announcement no. 167/2014.

JUNE

On 30 June 2014 **the issue of debt securities with a 7-year re-purchased period** by the SPV ORLEN Capital AB has been implemented. The issue of debt securities was amounted to EUR 500 million (approximately PLN 2,080 million at the average National Bank of Poland exchange rate for USD/PLN as at 30 June 2014). The funds raised from the issue of debt securities will be used for further diversification of funding sources of ORLEN Group. Regulatory announcement no. 224/2014.

JULY

On 22 July 2014, the Supervisory Board of PKN ORLEN approved the **Strategy of ORLEN Group** for years 2014-2017("Strategy"). The detailed information regarding to PKN ORLEN Strategy for years 2014-2017 are presented on the website of PKN ORLEN and in the Chapter 2 of the foregoing Report. Regulatory announcement no. 233/2014.

SEPTEMBER

On 24 September 2014 the Supervisory Board of PKN ORLEN **appointed Mr Igor Ostachowicz to the Management Board of PKN ORLEN**, for three-year term of the Management Board, which ends of the day of the Ordinary General Shareholders' Meeting of PKN ORLEN approving the financial statements of the Company for 2016. On 26 September 2014 Mr Igor Ostachowicz made a statement of the resignation from the position of a Member of the Company's Management Board. Regulatory announcement no. 255/2014 i Regulatory announcement no. 256/2014.

NOVEMBER

On 25 November 2014 the Supervisory Board of PKN ORLEN **approved the project to build a gas-steam block of cogeneration building** at the Production Plant in Płock. The decision of the Supervisory Board has completed the process of obtaining the corporate approvals and has started the final step of preparation for signing a contract with the general contractor. Power Plant (CHP station) will have the extraction of 596 MWe. The estimated value of the project, which includes a block construction ("turn-key" formula) and infrastructure building block will be approximately PLN 1,650 million.
In parallel with the construction contract ("turn-key" formula) PKN ORLEN will conclude a long-term service agreement. Regulatory announcement no. 281/2014.

On 25 November 2014 the Supervisory Board of PKN ORLEN **appointed KPMG Audyt Sp. z o.o.** with its registered office in Warsaw, 51 Chłodna Street, to conduct the audit following financial statements: the financial statements of PKN ORLEN, the consolidated financial statements of PKN ORLEN Group for 2015 and 2016. Moreover, the chosen auditor will perform the review of following financial statements: the financial statements of PKN ORLEN, the consolidated financial statements of PKN ORLEN Group for the first and third quarter of 2015 and 2016 and for the first half of 2015 and 2016. Regulatory announcement no. 282/2014.

DECEMBER

On 2 December 2014, PKN ORLEN concluded an agreement with the consortium of companies: Siemens AG and Siemens Spółka z o.o. The agreement relates to **a gas-steam block of cogeneration building** at the Production Plant in Płock. The estimated value of the construction contract is about PLN 1.3 billion. The project budget is estimated at PLN 1.65 billion and includes: infrastructure building block, comprehensive services of the project and costs of media for start-up time (apart from the value of the construction contract).

In parallel with the construction contract of Power plant (CHP station), PKN ORLEN has concluded an agreement of service of the main block equipment with the consortium of companies. The estimated value of the service agreement during the whole term of an agreement is about PLN 0.3 billion. Regulatory announcement no. 287/2014.

The most important events in 2015 until the publication of the Management Board Report

JANUARY 2015

On 29 January 2015 **the agreement for gathering and keeping of crude oil mandatory reserves**, concluded on 27 June 2013 between PKN ORLEN and Neon Poland Sp. z o.o. („Neon"), **has expired**.
Therefore, and in accordance with applicable regulations regarding the maintenance of mandatory reserves in Poland, PKN ORLEN acquired crude oil owned by Neon. The value of the transaction was approximately USD 145 million (approximately PLN 540 million at the average National Bank of Poland exchange rate for USD/PLN as at 28 January 2015).
On the day of signing the agreement the acquisition price of crude oil has been hedged with a forward contact. The settlement of the hedging transaction increased the value of the acquired raw material by USD 112 million (representing PLN 419 million at the average National Bank of Poland exchange rate for USD/PLN as at 28 January 2015). As a result, in the first quarter of 2015 PKN ORLEN will recognize the crude oil purchase valued USD 257 million (approximately PLN 959 million at the average National Bank of Poland exchange rate for USD/PLN as at 28 January 2015).
Additionally, within the duration of the contract regarding gathering and maintenance of crude oil reserves, Neon incurred charges to PKN ORLEN for inventory maintenance guarantees.
Neon is a special purpose entity, established at the request of RBS Polish Financial Advisory Services Sp. z o.o., which is a subsidiary of Royal Bank of Scotland plc. The trade of crude oil is in the terms of the statutory activity of Neon. Regulatory announcement no. 13/2015.

Key information concerning significant agreements is provided in point 3.6 of this Management Board Report.

1.7 Awards and distinctions

Awards and distinctions granted in 2014.

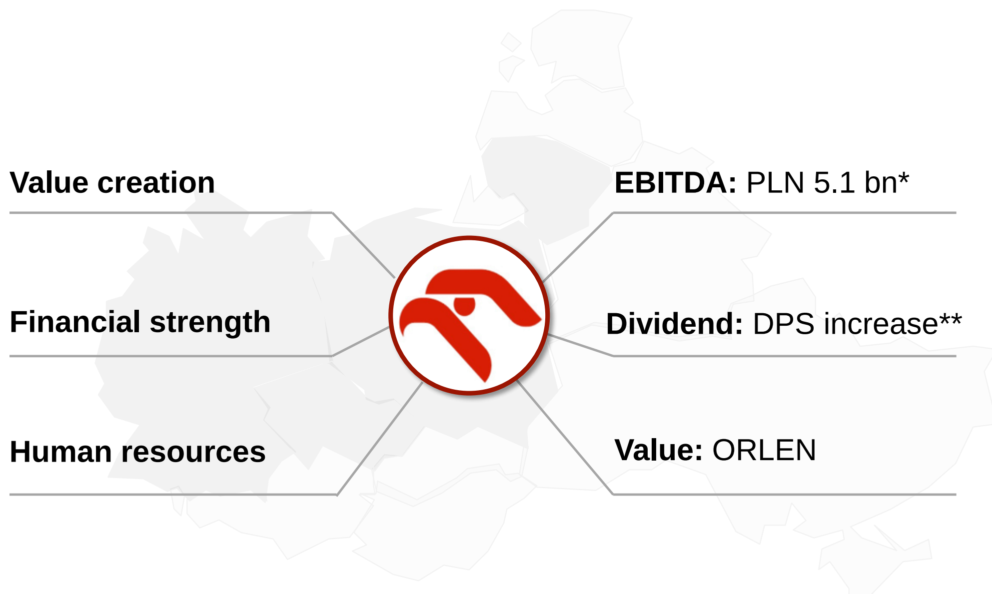
JANUARY	President of the Management Board, Mr Dariusz Jacek Krawiec and PKN ORLEN disctincted as "The one, who changes our industry" for high level of management in PKN ORLEN and consequent realisation of set, ambitious objectives. The competition takes place under the patronage of Nowy Przemysł monthly.
FEBRUARY	PKN ORLEN for the third time obtained **„Top Employers Polska 2014"**. The certification process was conducted by the Corporate Research Foundation Institute.
MARCH	PKN ORLEN obtained the prestigious title of **The World's Most Ethical Company** for its ability to implement ethics in the daily company's operations and determining the standards of ethical leadership. The distinction is awarded to companies based on the Ethics Quotient™ Framework and the comprehensive methodology developed by Ethisphere Institute with the support of an international advisors specialized in the Business Ethics and the Fair Trade Practises. The Czech Trade Inspection awarded BENZINA petrol stations in the **„Quality Seal"** program, in which the cyclic tests of the fuel quality are conducted (the tests are conducted on the fuel available at the petrol stations operating on the Czech market). BENZINA brand was the winner of the annual **CZECH SUPERBRANDS 2014** competition.
APRIL	Place and Service (ILO) Wieszowa South received the prestigious title of the **Gas Station of the Year 2014** and also won in the categories: "Eating&drinking at Gas Station", "Petrol Stations operating in the service area" and "New Property - opened in 2013". The ILO North Wieszowa awarded the title of "Corporate Concern Fuel Gas Station - Premium Segment". The competition was organized by Brog Marketing and the publisher of Petrol Stations monthly and Petrolnet.pl portal. W kolejnej edycji prestiżowego plebiscytu **Fleet Awards** organizowanego przez Magazyn Flota karta PKN ORLEN MIKROFLOTA wygrała w kategorii Karty paliwowe dla małych i średnich przedsiębiorstw.
MAY	PKN ORLEN was recognized as the most successful example of the transformation over past 25 years by the readers of „Puls Biznesu". The readers have appreciated the courage in implementing innovation and effective business management. In the next edition of the prestigious **Fleet Derby** plebiscite organized by the editors of the Fleet magazine, PKN ORLEN MIKROFLOTA card was the winner in the category of the Fuel cards.
JUNE	The President of the Management Board, Mr Dariusz Jacek Krawiec, awarded as **Sports Ambassador of Free Poland** in the plebiscite of Sport Success 25th anniversary, under the patronage of the President of Poland, Bronisław Komorowski. ORLEN petrol stations were honored with the **Golden Emblem of Trusted Brand** and **Emblem of the Most Environment Friendly Brand** in the European consumer survey – "European Trusted Brands 2014". The petrol station in Mszania Dolna got the first place in **Gold Station 2014** competition during the Petrol Station 2014 Trade Fair.
AUGUST	VERVA 100 fuel, available at the BENZINA petrol stations in Czech Republic, received the grand prize in the category of *"Premium Fuel"* in a competition organized annually by Czech car magazine *"Svět motorů"*.
SEPTEMBER	PKN ORLEN became a laureate of the prestigious award of **„Index of Success 2013"** in the category of merge and acquisitions of „CE Top 500 Index of Success" ranking, conducted under the auspices of Deloitte and daily "Rzeczpospolita".
OCTOBER	PKN ORLEN for the first time was listed at **"Top Brand 2014"** of 7th edition of prestigious ranking summarizing the most active sectors and the most media brands. PKN ORLEN was ranked as the leader of petrol stations industry.. PKN ORLEN was once again received an award in an international competition "Pantheon of Polish Ecology" in the business category. The jury awarded a Company's construction project of Installation of Catalytic Denitrogenation at the Cogeneration Plant in Płock (following Kettles: K7, K8). PKN ORLEN received a special award **"The Best of The Best"** in **"The Best Annual Report 2013"** competition, organized by the Institute of Accounting and Taxation. The company also received a special distinction for the best investor-friendly Management Board Report and exemplary adoption of IFRS/IAS in the financial statement.
NOVEMBER	PKN ORLEN was received an award of the 8th edition of the **Leaders of the Philanthropy 2014"** in the category of **"Program of the individual workers Philanthropy"**. The Leaders of the Philanthropy competition is organized by the Donors Forum in Poland. Its aim is to establish a ranking list of the companies which donate the most funds for the social objectives. PKN ORLEN for eighth time in a row became a laureate of the **Most Valuable Polish Brands Ranking.** The competition is organized by daily "Rzeczpospolita" and prepared on the basis of financial criteria and consumer surveys. PKN ORLEN obtained an award "**Diamonds of Polish Chemistry 2013**" competition in the special category of "**Efficiency in the management – Company of the Year**". The competition was taking place at the Chemical Industry Conference - "Chemical Industry Forum & Award Gala".
DECEMBER	The President of the Management Board, Mr Dariusz Jacek Krawiec was awarded as the **"Man of the Decade – the one who changed Polish Nafta and Chemistry Industry**". Mr Krawiec was recognised for the long-term development and co-creation of the strategy of the largest Polish Concern, the smart investments that changed PKN ORLEN from a regional leader into a company with the global reach as well as high management standards in times of an economic crisis. The award was granted during the anniversary tenth edition of the Conference of Petroleum Chemistry. PKN ORLEN received the award in the category "**Sports sponsoring**" in the first edition of "**Golden Laurel Super Business**" for activities generating particular benefit to the Polish economy and for the achievement of promoting the development of indigenous entrepreneurship. PKN ORLEN for the eighth time was elected to an elite group of companies being members of **RESPECT Index** portfolio covering firms which are socially responsible. The Company has been listed on the index since the moment of its creation, i.e. since 2009. PKN ORLEN was ranked at the most friendly companies list in 8th edition of the international Program **Quality Service 2015**. The Star Quality Service is an annual award for the companies that in customer opinion demonstrate the highest attention to provide a customer service.

2. ORLEN GROUP STRATEGY AND DEVELOPMENT

Jacek Krawiec, President of the PKN ORLEN's Management Board:
"Analyzing the market situation, we believe that what is happening for some time in our industry is the new reality. Therefore we decided to verify our strategic assumptions and adjust them to the market conditions. ORLEN Group's development vision does not change and the activity in the so-called Downstream area remains its foundation. We treat it as an integrated value creation's chain, with interconnected areas of refining and petrochemical production, which the effectiveness is supported with modern industrial power and a strong market position. Furthermore, in the Retail segment, we will adapt our competitive advantages: a modern network, loyal customer base and strong brand, developing our presence in growth markets. ORLEN Group's development concept is supplemented by the sustainable development of hydrocarbon extraction segment. We actively conduct research on our concessions in Poland and Canada. We meet our commitments to shareholders by declaring that we will fulfill the assumptions of the dividend policy. I am confident that the actions taken and the investments made will allow us to increase the value of the Concern".

2.1 ORLEN Group strategy for 2014-2017

On 22 July 2014 the Supervisiory Board of PKN ORLEN adopted an updated strategy for the period of 2014-2017. The implementation of development projects of the Company in the most prospective areas will be possible by strengthening the integrated chain value, financial strength and modern management culture. Pillars of the Strategy and key objectives for the period 2014-2017:



**) The average annual LIFO EBITDA (operating profit before depreciation and amortization by LIFO) for the period of 2014-2017.*
***) DPS (Dividend per Share) – dividends paid by the company per share.*

Value Creation - The Company will focus on building a strong position in the large and growth markets, strong customer orientation, operiational excellence, strengthening the chain valueof an integrated and sustainable development of oil and gas.

Financial strength - the Company's strategic objective is connected with the steady growth of the DPS (Dividend Per Share). The company's dividend policy has not changed and as so far, it is assumed the payment of dividends, including the accomplishment of strategic goal of secure financial foundations and forecasts of the macroeconomic situation.

Human resources - responsibility for people, the environment and partners: zero tolerance for accidents, business responsibility towards the community, the environment and business partners.
Development of human capital and innovation: consistent development of an experienced team of professionals, systematic increase spending on research and development, the implementation of innovative solutions.

CAPEX - in the years 2014-2017 the amount of PLN 10.8 billion will be allocated for the development of the Company. Furthermore, the amount of PLN 5.5 billion will be allocated on the modernization work connected with maintaining high system performance and fulfillment of regulatory requirements. Planned expenses on investment have been adequated for the assumed average annual value of EBITDA (according to LIFO) at level of PLN 5.1 billion.

DIAGRAM 1. CAPEX by type of investment in 2014-2017 (PLN billion).

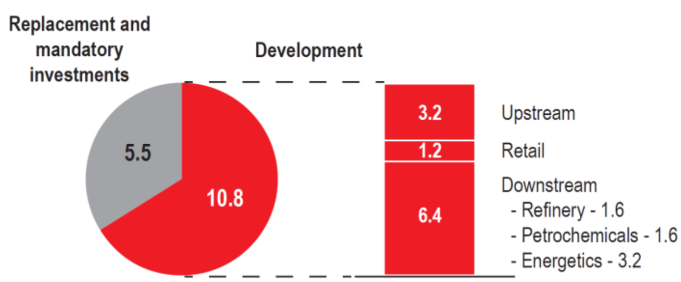
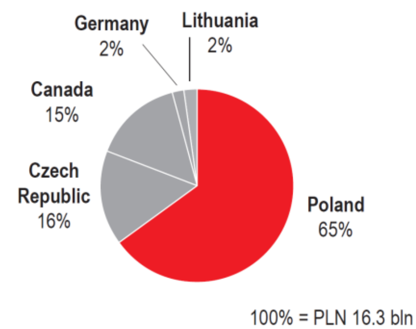


DIAGRAM 2. CAPEX by country in 2014-2017 (%).

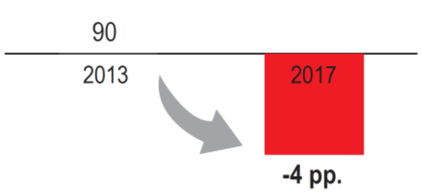


2.2 Implementation of the strategy in particular areas

Downstream Segment

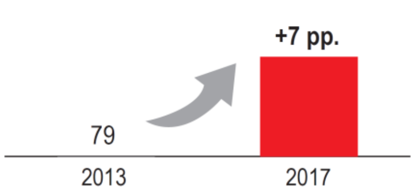
In Downstream segment (refining, petrochemicals, energy) building value will be realized through an integrated value chain management and systematic development of the portfolio of products and the degree of conversion. Consistent improvement in the area of key indicators of efficiency and the structure's optimization and assets restructuring will provide operational segment excellence.

DIAGRAM 3. Use of refining capacity [1] [%].



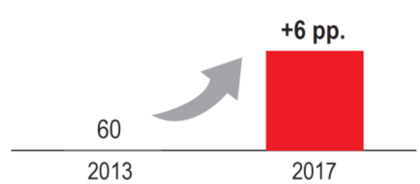
In the strategy period the utilization of refining capacity will reach the level of 86% and included an increase of processing capacity to more than 35 million tonnes per year after the acquisition of Ceska Rafinerska assets by Unipetrol a.s. The reduction in refining capacity utilization level has been the result of optimization of the oil processing in ORLEN Lietuva refinery.

DIAGRAM 4. Use of olefin installation capacity [%] [1].



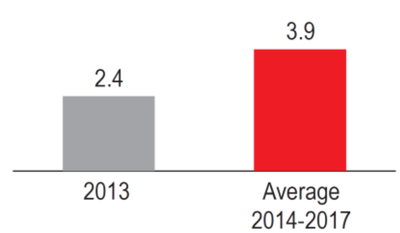
Adjustments of the sales models to the best practises and to strenghten the position in the domestic markets will allow increasing sales efficiency.

DIAGRAM 5. The share of fuel market in Poland [%].



Building of the new capacity in the area of energetics i.e. power units in Włocławek (463 MWe) and in Płock (596 MWe) and the modernization of existing assets will allow for the development of industrial cogeneration. As a result, it is assumed to achieve average EBITDA LIFO segment value on the level of PLN 3.9 billion in the years 2014-2017.

DIAGRAM 6. EBITDA LIFO growth [billion PLN].



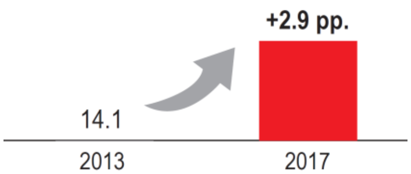
In the years 2014-2017 on the segment Downstream development the Company will allocate the amount of PLN 6.4 billion. Development projects will focus on increasing yields in refinery production, extending the value chain in the petrochemical (poliethylene and metathesis projects) and industrial cogeneration in energetics (power units in Włocławek and Płock).

[1] Use of refining and olefin installation capacity is presented as average for years 2016-2017 in order to mitigate one-off events concerning longer standstills.

Retail Segment

The value creation of Retail Segment assumes the development of a modern fuel stations network and the DOFO channel and the increase in fuel sales in the domestic markets (Poland, Czech Republic, Lithuania, Germany) by 2.9 p.p.

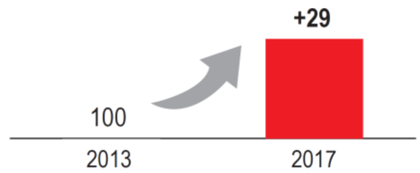
DIAGRAM 7. The growth in share of fuel sales in the domestic markets [%].[1]



1) Poland, The Czech Republic, Lithuania, Germany.

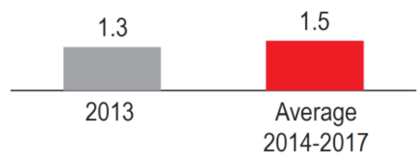
Introducing new products and services, implementation of new Stop Cafe and shop formats under the ORLEN brand – all of this activities are planned in Retail Segment. It is expected further exploit of the loyalty program and the development of the e-commerce, which will enable to achieve an increase in sales volume in stations, as well as non-fuel margins in 2017.

DIAGRAM 8. Non-fuel margins growth [index].



Value creation of the Retail Segment will lead to achieve average annual EBITDA of 1.5 billion PLN.

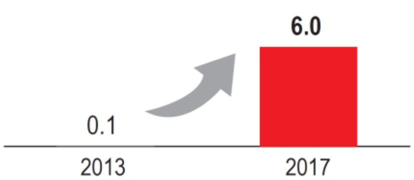
DIAGRAM 9. EBITDA growth [billion PLN].



Upstream Segment

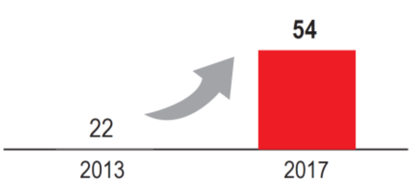
In Upstream Segment the sustainable organic growth in Poland is planned by focusing on the most perspective areas of unconventional projects and further development of conventional projects. In Poland various activities of gas and oil exploration and work connected with adjusting the extraction technology to the specifics of unconventional hydrocarbons will be constantly held. It is also planned to further increase the extraction in Canada to 16 thousand boe/day and the increase of resources called as 2P (proved and probable) to the level of 53 mln boe in 2017.

DIAGRAM 10. The extraction of hydrocarbons [mln boe/year] [2].



2) The extraction of hydrocarbons in 2017 in Poland on level of 0,2 mln boe/year, in Canada 5,8 mln boe/year.

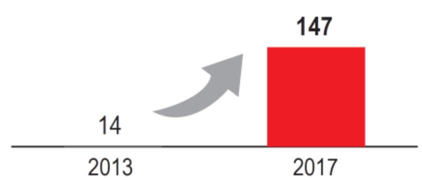
DIAGRAM 11. Hydrocarbons resources [mln boe] [3].



3) Hydrcarbons resources in Poland 1 mln boe, in Canada 53 mln boe.

ORLEN Group plans to allocate funds in the amount of PLN 3.2 blillion on the development of Upstream Segment until 2017. The strategy assumes of 147 drillings in Poland and Canada until of the end of 2017.

DIAGRAM 12. The amount of drillings at the end of the year (cumulatively).



As a part of the value creation opportunistic purchases of assets may also occur in Poland and on other markets which depend on the size of the free cash flow (i.e. FCF = EBITDA LIFO – CAPEX). We assume that Upstream Segment will generate average annual EBITDA LIFO on the level of PLN 0.4 billon.

DIAGRAM 13. EBITDA growth [billion PLN].

2.3 The summary of strategic actions in 2014

VALUE CREATION	• EBITDA LIFO: PLN 5.2 billion.[1] • Record result in Retail Segment: PLN 1.4 billion. • The increase in extraction to 8.4 thousand boe/day. • ORLEN – the most valuable brand in Poland of PLN 4.4 billion.
FINANCIAL STRENGTH	• Net financial leverage: 33.0%. • Net debt/EBITDA LIFO: 1.29. • Ensured diversfied funding. • The dividend payment: PLN 1.44 per 1 share.
PEOPLE	• The World's Most Ethical Company 2014 (Ethisphere Institute). • Top Employer Polska 2014. • ORLEN Warsaw Marathon.

The strategy realization in segments:

DOWNSTREAM	• EBITDA LIFO growth of PLN 1.8 billion (y/y).[2] • The increase in white products yield in ORLEN Group of 0.3 p.p. (y/y) to the level of 76.7% and decrease of energy consumption indicator of 1.8 p.p. (y/y). • Increase in the area of capacity utilization of Olefin in ORLEN Group of 4.4 p.p. to 83.4% and decreasing energy consumption of 0.6 p.p. to 23.9%. • The construction of new power – the continuation of building of CCGT unit in Włocławek (463 MWe) and launching of the project of CCGT unit construction in Płock (596 MWe). • Signed a contract on the license and basis project on Metathesis Installation.
RETAIL	• Increase the share of fuel sales in the domestic markets of 5% (y/y). • Improvement of fuel margins (y/y) on the Polish, German and Czech markets at their limitation in the Lithuanian market and improvement of the non-fuel margins (y/y) in all markets. • Launch a pilot program in cooperation with Eurocash and TESCO, in which a new format of store (convenience type) will be tested on ORLEN network stations. • 1 250 points: Stop Cafe and Stop Cafe Bistro in Poland; increase of 203 points. (y/y).
UPSTREAM	• The concentration on the most perspective areas of uncoventional sources and further development of conventional projects. • The purchase of 100% shares in subsequent extraction company: Birchill Exploration Limited Partnership in Canada. • At the end of 2014 11 drillings were completed, including: 7 vertical and 4 horizontal as well as 3 hydraulic fracturing. • Average production in 2014 amounted to 5.8 thousand boe/day.

[1] In 2014 impairment losses on assets amounted to negative value of PLN (-) 5.4 billion and was primarily related to impairment losses in ORLEN Lietuva Group recognized in II quarter of 2014 in negative amount of PLN (-) 4.2 bilion, impairment losses in Unipetrol Group in negative amount of PLN (-) 0.8 billion and impairment losses on assets in ORLEN Upstream Group in Canada recognized in IV quarter of 2014 in negative amount of PLN (-) 0.3 billion.

[2] Before the impairment loss of non-current assets of PLN (-) 5.1 billion.

3. ORLEN GROUP ORGANIZATION

3.1 Basis for preparation of the Management Board Report on the Operations of the ORLEN Group

The foregoing Management Board Report covers the reporting period from 1 January until 31 December 2014 and the comparative periods from 1 January to 31 December 2013 and from 1 January to 31 December 2012 for selected financial and operating data.

The Management Board Report was prepared in compliance with the consolidated financial statements and current and periodical reporting, apart from data presented under LIFO method, which is not applied in the above mentioned financial statements of the ORLEN Group and IFRS.

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

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

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

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

The entity authorized to conduct audit of financial statements of the ORLEN Group for 2014 was KPMG Audyt Sp. z o.o.

For further details on the agreement signed with the entity authorized to conduct audit of financial statements see note 40 to the Consolidated Financial Statements for the year 2014.

3.3 Capital and organisational relations in the ORLEN Group

The ORLEN Group comprises PKN ORLEN as the Parent Company and the entities located in Poland, Germany, Czech Republic, Lithuania, Malta, Sweden, Netherlands, Slovakia, Switzerland, Estonia, Latvia and Canada. As at 31 December 2014, ORLEN Group comprised 84 companies, including: 77 subsidiaries.

As compared to the end of 2013 the number of ORLEN Group companies decreased by 1 entity.

The ORLEN Group strengthens its position in the companies of the core business and coordinates their operations by segment management.

TABLE 2. Changes in respect of capital relations in the ORLEN Group in 2014.

TYPE OF TRANSCATION/COMPANY	TRANSACTION DATE	NUMBERS OF SHARES ACQUIRED/DISPOSED OF	SHARE IN THE CAPITAL AFTER THE TRANSACTION
FOUNDATION OF THE COMPANY AND SHARES AUTHORIZATION			
by PKN ORLEN:			
Kopalnia Soli Lubień Sp. z o.o.	11 February 2014	30 000	100,00%
ORLEN Capital AB	12 June 2014	500 000	100,00%
ORLEN Serwis S.A.	28 October 2014	10 000	100,00%
ACQUISITION OF SHARES AND ORGANIZED PART OF BUSINESS			
by PKN ORLEN:			
ORLEN Oil Sp. z o.o.	10 January 2014	36 278	100,00%
ORLEN Asfalt Sp. z o.o.	10 January 2014	21 270	100,00%
AB Ventus Nafta	31 July 2014	5 332 850	100,00%
Rafineria Trzebinia S.A. (since 5 January 2015 ORLEN Południe S.A.)	October 2014	563 738	99.46% 1)
Przedsiębiorstwo Inwestycyjno-Remontowe RemWil Sp. z o.o. 2)	23 January 2015	6 000	100,00%
by UNIPETROL a.s.:			
Česká Rafinérská a.s.	date of agreement - 7 November 2013 transfer of ownership - 31 January 2014	152 701	67,56%
by ORLEN UPSTREAM Sp. z o.o.:			
ORLEN International Exploration & Production Company BV	21 March 2014	218 612	100,00%
by ORLEN EKO Sp. z o.o.:			
Chemeko Sp. z o.o.	26 June 2014	177	100,00%

by ORLEN Laboratorium Sp. z o.o.			
Pro-Lab Sp. z o.o..	31 December 2014	the purchase of organized part of business Pro-Lab Sp. z o.o. from ANWIL Group	
DISPOSAL OF SHARES			
by PKN ORLEN:			
ORLEN International Exploration & Production Company BV	21 March 2014	218 612	100,00%
ORLEN Medica Sp. z o.o.	9 May 2014	17 983	100,00%
by AB ORLEN LIETUVA:			
AB Ventus Nafta	31 July 2014	5 332 850	100,00%
by ORLEN Medica Sp. z o.o.:			
Sanatorium Uzdrowiskowe "Krystynka" Sp. z o.o..	9 May 2014	4 523	98,58%
by ANWIL S.A.:			
Specjalistyczna Przychodnia Przemysłowa PROF- MED Sp. z o.o.	12 May 2014	136	96,45%
Chemeko Sp. z o.o.	26 June 2014	177	100,00%
Zakład Usługowo-Produkcyjny EKO-DRÓG Sp. z o.o.	21 August 2014	20	48,78%
Przedsiębiorstwo Inwestycyjno-Remontowe RemWil Sp. z o.o. [2)]	23 January 2015	6 000	100,00%
MERGERS			
ORLEN Eko Sp. z o.o. and Chemeko Sp. z o.o. (currently ORLEN Eko Sp. z o.o.)	31 October 2014	Transfer the property of Chemeko to ORLEN Eko without increasing the capital	
TriOil Resources Ltd. and Birchill Exploration Limited Partnership (currently TriOil Resources Ltd.)	5 June 2014	Acquisition of 100% shares of Birchill by TriOil and association of entities by increasing the capital of TriOil	
Rafineria Trzebinia S.A. („RT"), Rafineria Nafty Jedlicze S.A. („RNJ"), Fabryka Parafin Naftowax sp. z o.o. („Naftowax") and Zakładowa Straż Pożarna sp. z o.o.(„ZSP") - currently ORLEN Południe S.A. [3)]	5 January 2015	Transfer the property pf RNJ to RT along with increasing the capital of RT and transfer the property of Naftowax and ZSP to RT without increasing the capital of RT	
ORLEN Oil Sp. z o.o. and Platinum Oil Sp. z o.o. [4)]	5 January 2015	Transfer property of Platinum to ORLEN Oil without increasing the capital of ORLEN Oil	
ORLEN Serwis S.A., ORLEN Automatyka Sp. z o.o. and Przedsiębiorstwo Inwestycyjno – Remontowe RemWil Sp. z o.o. [5)]	20 February 2015	Transfer of all assets of the acquired companies ORLEN Automatyka Sp. z o.o and Przedsiębiorstwo Inwestycyjno – Remontowe RemWil Sp. z o.o the company ORLEN Serwis SA and the deletion of the acquired companies from the Register	
REMOVAL FROM NATIONAL REGISTER COURT			
RAF-BIT Sp. z o.o. in liquidation	19 September 2014	400	100,00%

1) Since 30 January 2015 (as the result of acquisition of ramaining shares of minor shareholders) PKN ORLEN S.A. helds 100% shares of ORLEN Południe.

2) As the result of the PKN Orlen Management Board's resolution dated 15 December 2014.

3) As the result of resoultion of the Extraoridnary General Meeting of Sharesholders of Rafinerai Trzebinia S.A. and Rafineria Nafty Jedlicze S.A. dated 1 December 2014.

4) As the result of resolution of the Board of Directors of ORLEN Oil Sp. z o.o. dated September 24th 2014 and the resolution of Extraordinary Meeting of Shareholders of Platinum Oil Sp. z o.o. dated 4 Novermver 2014.

5) As the result of the PKN Orlen Management Board's resolution dated 15 December 2014.

3.4 The rules of the ORLEN Group's organisation and management and changes throughout the year 2014

Major objective of the ORLEN Group is to achieve the strategic goals, including increase of efficiency and value of ORLEN Group`s production and trade assets and its market position by effective segment management.

The segment management allows consistent management of the operating activities of particular areas of the ORLEN Group, increasing their efficiency and the use of the scale and synergy. The adopted management model also ensures the uniform corporate standards and procedures and the optimization of processes relating to the implemented investment program, supply, human resources management as well as PR and marketing-related activities.
The performance of the above activities is possible thanks to the full implementation of the so called ORLEN Group's Constitution which includes the Agreement for Cooperation within the ORLEN Group along with the Regulations of the ORLEN Group.

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

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

Throughout the ORLEN Group management, the Corporate Governance Rules were implemented in the ORLEN Group companies. The range of rights and duties of PKN ORLEN's organizational units was specified, which result from new rules of companies assignment to particular directors and organizational divisions of PKN ORLEN and exercising business supervision over the operating activity of the companies.
Additionally the rules of appointing chairmen of Supervisory Boards and Supervising Bodies of the ORLEN Group companies and the rules of PKN ORLEN representation in contacts with the ORLEN Group companies were specified. The rules of organisational, corporate and business responsibility were specified for the people appointed as chairmen of Supervisory Boards and Supervising Bodies as well as people representing PKN ORLEN in contacts with the companies.

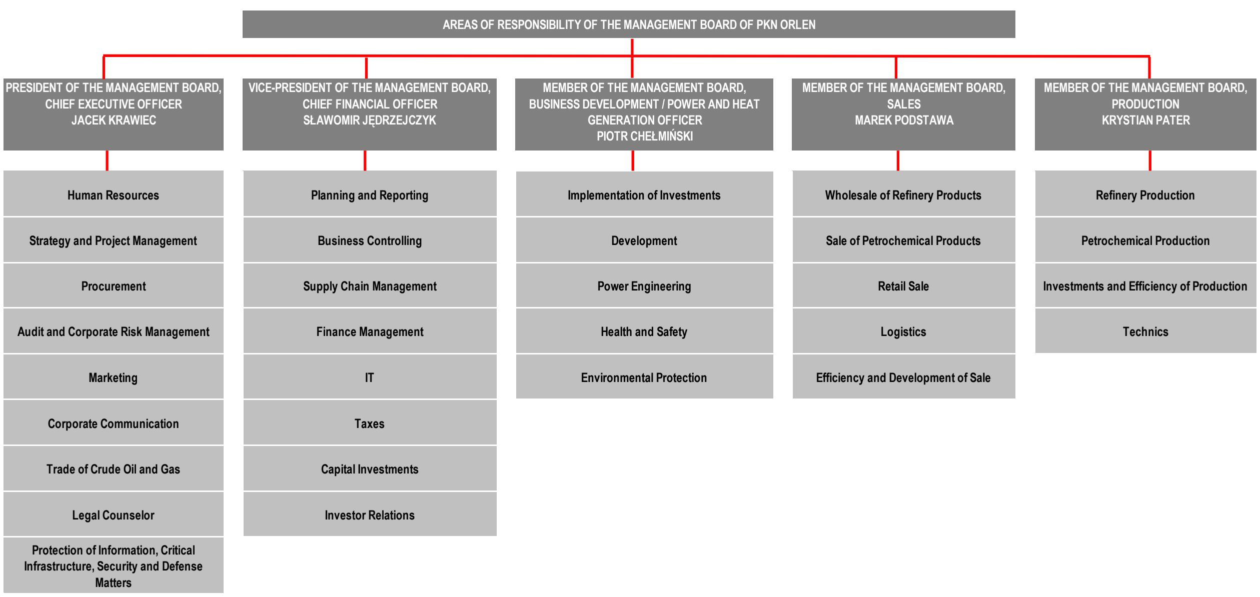
Composition of the Management Board of PKN ORLEN S.A. (Parent Company of the ORLEN Group)

The Management Board of PKN ORLEN consists of five members, appointed by the Supervisory Board. On 6 March 2014 the Supervisory Board of PKN ORLEN appointed the following members of the Management Board:

- Mr Dariusz Jacek Krawiec for the position of thePresident of the Management Board,
- Mr Sławomir Jędrzejczyk for the position of the Vice-president of the Management Board,
- Mr Piotr Chełmiński for the position of Member of the Management Board,
- Mr Krystian Pater for the position of Member of the Management Board,
- Mr Marek Podstawa for the position of Member of the Management Board.

for a joint three years term of office of the Management Board, which commenced on 16 May 2014.

SCHEME 1. The responsibility division of Members of the Management Board of PKN ORLEN valid at the end of 2014.



Changes in the Parent Company organisation and management

Integration of high-class production assets and a competitive porfolio of products allows to extend the chain of values, it created conditions for changing the method of management of the refinery, petrochemical and power industry of ORLEN Group and the creation of an integrated Downstream Segment. In 2014, the organizational structure was also adapted by introducing changes in competence of individual members of the Management Board.

Production Division took over the areas of primary production (earlier operating within the refinery and petrochemical segments), the related technical support functions (technical area) and the support of investment processes of production assets.
Merged into the one division were also the sales function including both wholesale of refinery and petrochemical products, and retail sales. The changes were also carried out in the Development and Power division (previously within the Petrochemical segment). Into the Development Department the Technology Divison and the area of Chief Engineer were transferred into the Environmental Protection Bureau in the Water and Sewer Department. The Power Bureau took responsibility for Production Plant in Płock, and for all

areas of the energy production, which is related to the dynamic development of this segment of the Group.
PKN ORLEN in order to improve the efficiency of segment management in the area of retail sales in July 2014 took over AB VENTUS Nafta from the ORLEN Lietuva Group, managing 26 petrol stations operating on the Lithuanian market.

Major changes in the ORLEN Group companies organisation and management in 2014 concerned:

Unipetrol Group
Management principles of the Unipetrol Group companies have been updated in order to ensure a consistent approach in the segment management, including among others the creation of an integrated downstream segment.

ORLEN Lietuva Group
In order to improve efficiency of segment management in the area of retail sales ORLEN Lietuva Group sold company AB VENTUS Nafta to PKN ORLEN.

During 2014 the management rules in the ORLEN Lietuva Group focused mainly on the optimisation of processes in the downstream segment.

Rafineria Jedlicze Capital Group (”Jedlicze Group”) and Rafineria Trzebinia Capital Group (”Trzebinia Group”)

In 2014 two organized parts of business were sold, from Ekonaft Sp. z o.o. to ORLEN Eko Sp. z o.o. and ORLEN Laboratorium Sp. z o.o. Preserving the continuity of previously provided services, starting from 1 May 2014 acquiring companies implemented activities related to environmental protection and laboratory services. The sale of organized parts of the enterprise of Ekonaft Sp. z o.o enterprise is the element of Rafineria Trzebinia Group restructurisation, being a part of the strategy of PKN ORLEN in the consolidation of the various specialized business areas of ORLEN Group.

In December 2014, the Extraordinary General Meeting of Rafineria Trzebinia S.A. and Rafineria Jedlicze S.A. decided to merge the two companies. At the same time Rafineria Trzebinia S.A. decided to merge with two subsidiaries: Fabryka Parafin Naftowax and Zakładowa Straż Pożarna. On 5 January 2015 merger has been registered by the District Court in Cracow. In connection with the conducted consolidation process the name of the company was changed to ORLEN Południe S.A. The current operating strategy remains unchanged, being focused on the main segments associated with the production and sale of biofuels and bio-components, paraffins and solvents.

ORLEN Asfalt Sp. z o.o.
In 2014 in accordance with the strategy of strengthening the core business of the Company and the optimization of the ownership structure of the ORLEN Group, the process of changes in the production and sale of bitumen has been implemented. As a result, the decision about moving the production assets of ORLEN Asfalt Sp. o.o to PKN ORLEN has been made. Accordingly, on 2 January 2015, PKN ORLEN acquired production assets located in Płock, along with logistics of ORLEN Asfalt Sp. z o.o as the organized part of the enterprise. Integration of production assets of ORLEN Asfalt Sp. z o.o within the manufacturing plant in Płock, will enhance operational efficiency in this area and enable the company to focus on business development in the country and foreign markets.

ORLEN OIL Sp. z o.o.
Logistic model has been changed, along with customer service by launching a central warehouse, the foundation of the Department of Logistics and External Warehouse Department and centralization of the Customer Service Department.
In connection with the proposed merger of ORLEN OIL.Sp. z o.o with the subsidiary Platinum Oil Sp. z o.o the sales department was developed. The merger took place on 5 January 2015 based on the acquisition of Platinium Oil Sp. z o.o. property by ORLEN Oil Sp. z o.o. The changes are consistent with the plan of improving the efficiency of decision-making processes, simplifying structures and increasing the efficiency of the business, including in particular the sales and distribution of oils and lubricants.
The company also carried out preparation for the sale of the Oil unit of Production Plant in Płock. On 2 January 2015, PKN ORLEN purchased from ORLEN OIL. Sp. z o.o production assets located in Płock, along with logistics and sales of base oils as the organized part of the enterprise. The integration of productive assets within the a production plant in Płock, will enhance operational efficiency in this area and will enable the ORLEN OIL. Sp. z o.o to focus on business development, including the effective implementation of the sales strategy on the domestic market.
In 2014 the Strategy and Effectiveness Department and Legal Service Department were liquidated as the result of decision of implementation of legal service by PKN ORLEN S.A. and external lawyers.

Petrolot Sp. z o.o.
Since 1 January 2014 Petrolot Sp. z o.o operates on the basis of a new business model and focuses on providing services of aviation fuel storage and refueling aircraft. During the year, the company continued with the restructurization in order to optimize the employment and boost management efficiency in the new conditions. Changes enforced the reorganization of the operational financial areas. In place of the formerly Department of Commerce and the Department of Purchasing and Logistics the company created Logistics Services Sales Department and the tasks concerning financial and assets accounting were transferred to ORLEN Centrum Usług Korporacyjnych Sp. z o.o At the end of 2014 the operational activity of the company branch in Lublin has been finished and the company begun the process of so-called. regionalization of management by combining management of branch in Katowice and in Cracow.

Consolidation of enviromental assets
In April 2014, ORLEN Eko Sp. z o.o purchased the organized part of EkoNaft Sp. z o.o from the Rafineria Trzebinia S.A. providing services in the area of environmental protection, along with specialized industrial cleaning services and transport of hazardous waste. Starting from 1 May, 2014, ORLEN Eko. Sp. z o.o carries out activities in this area previously carried out by EKONAFT Sp. z o.o.

The next stage of consolidation of the area of environmental services in the ORLEN Group is the merger with CHEMEKO Sp. z o.o by the acquisition of CHEMEKO Sp. z o.o. by

ORLEN Eko Sp. z o.o by transferring all assets of the acquired company to the acquiring company. Consolidation will improve the process of segment management, introduce the same standards for the ORLEN Group in the area of environmental protection by the full optimization of processes and services.

Support functions centralisation processes

In 2014, projects of further centralization of accounting services, payroll and personnel processes within the ORLEN Group were continued. In 2014, ORLEN Serwis Sp. z o.o. and Kopalnia Soli Lubień Sp. z o.o. were covered by central accounting services. At the end of 2014 ORLEN Centrum Usług Korporacyjnych Sp. z o.o. kept accounting books of 24 ORLEN Group companies along with payroll and personnel processes in 35 companies.

3.5 Scope of activities of the ORLEN Group consolidated entities

ORLEN Group companies operate within a wide range of business activities including:

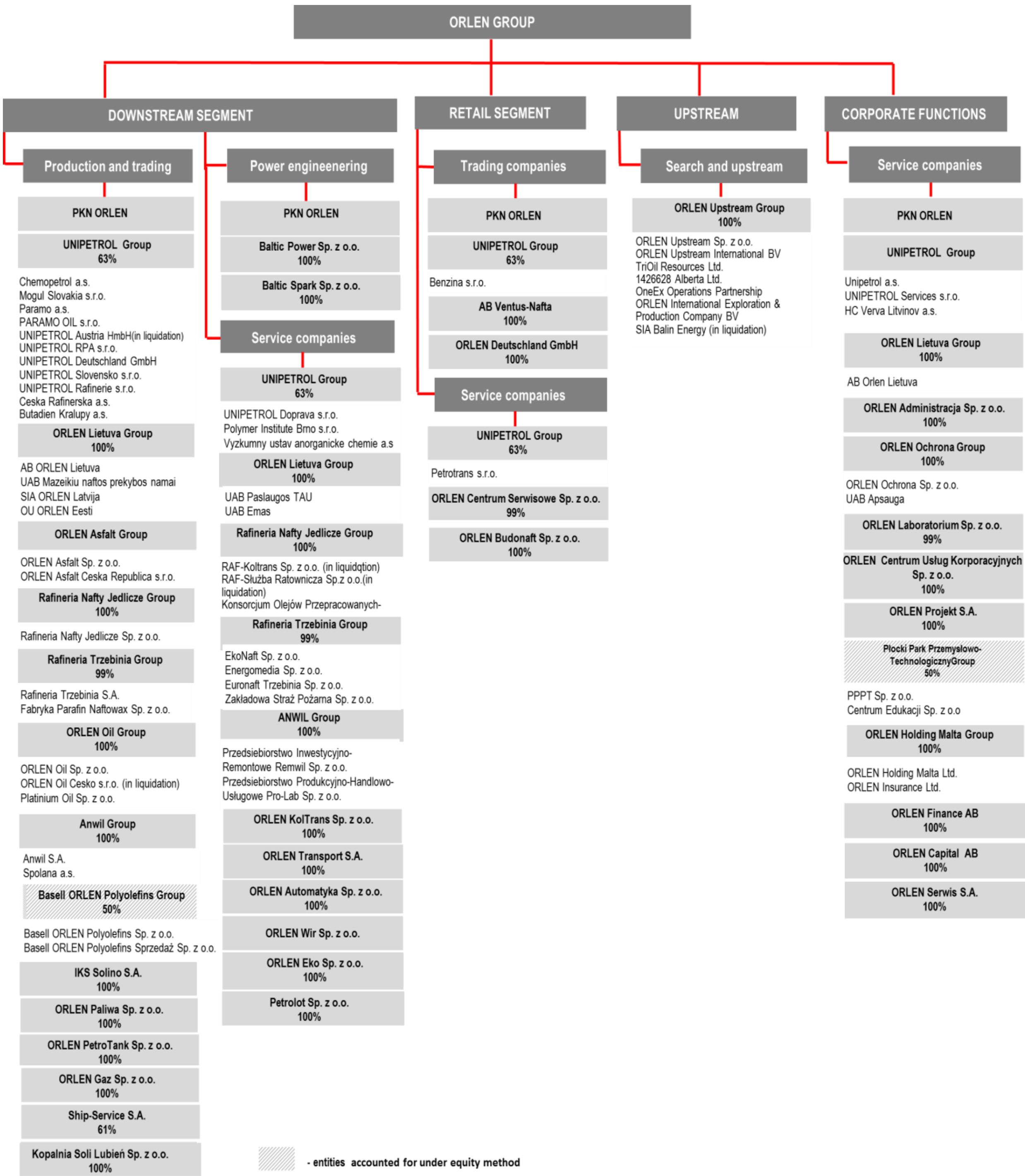
- production and commercial activities – crude oil processing, production of refining, petrochemical and chemical products and semi-products, wholesale and retail sale of fuels and other refining and petrochemical products,
- service activities – crude oil and fuels storage, road and railway transport, maintenance and repair services, laboratory, security, design, medical, administrative, insurance and finance services,
- connected with exploration and extraction of hydrocarbon deposits and with production, transport, distribution and trade in electric energy.

For the management purposes the ORLEN Group has been divided into following operating segments:

- Downstream Segment,
- Retail Segment,
- Upstream Segment,
- Corporate Functions.

Detailed description of the above management segments is presented in Chapter 4.

SCHEME 2. Segment scheme of the ORLEN Group as at 31 December 2014.



Percentage of shares owned by the Parent Company/ORLEN Group in capital of ORLEN Group companies and consolidation methods were presented in note 5 to the Consolidated Financial Statements for 2014.

3.5.1 Companies of largest importance by markets

POLISH MARKET

- **PKN ORLEN**

The core objects of PKN ORLEN's business include crude oil processing, refining and petrochemical products manufacture as well as wholesale and retail sale of the Company's products. The company was formed by merging Centrala Produktów Naftowych, a major distributor of motor fuels with the fuel manufacturer - Polski Koncern Naftowy, which took place in September 1999. On 12 April 2000, the Company changed its name to Polski Koncern Naftowy ORLEN Spółka Akcyjna.

TABLE 3. Basic financial and operating data of PKN ORLEN (in accordance with those recognised for the purposes of the ORLEN Group consolidation)

ITEM	UNIT	2014	2013	2012	CHANGE	CHANGE%
1	2	3	4	5	6=(3-4)	7=(3-4)/4
Sales volume	'000 tonnes	27 659	28 091	27 394	(432)	(1.5%)
Sales revenues	PLN million	76 972	84 040	88 349	(7 068)	(8.4%)
Operating profit under LIFO increased by depreciation and amortization (EBITDA LIFO) before impairment allowances	PLN million	2 891	2 074	2 947	817	39.4%
Operating profit increased by depreciation and amortization (EBITDA)	PLN million	648	1 479	2 866	(831)	(56.2%)
Net profit/(loss) 1)	PLN million	(4 672)	618	2 128	(5 290)	-
Equity	PLN million	16 302	23 135	22 920	(6 833)	(29.5%)
Total assets	PLN million	37 978	42 063	41 407	(4 085)	(9.7%)
Employment as at 31 December	persons	4 543	4 409	4 445	134	3.0%

1) Net result of PKN ORLEN in 2014 includes impairment of shares in related companies of PLN (-) 4 967 million concerning AB ORLEN Lietuva and ORLEN Upstream.

- **ANWIL S.A. (together with its on Capital Group)**

ANWIL S.A. was established on 15 March 1993 as a result of transformation of a state-owned enterprise into a joint-stock company fully owned by the State Treasury. As at 31 December 2014, the company's share capital was fully owned by PKN ORLEN.

The core objects of ANWIL S.A. business include manufacture of nitrogenous fertilizers and plastics (PVC, compound granulates and PVC sheets) as well as chemicals for food processing industry and agriculture (ammonia, chlorine, nitric acid, industrial salt and caustic soda).

TABLE 4. Basic financial and operating data of ANWIL Group (in accordance with those recognised for the purposes of the ORLEN Group consolidation).

ITEM	UNIT	2014	2013	2012	CHANGE	CHANGE%
1	2	3	4	5	6=(3-4)	7=(3-4)/4
Sales volume	'000 tonnes	1 898	1 783	1 821	115	6.4%
					0	-
Sales revenues	PLN million	3 291	3 338	3 358	(47)	(1.4%)
Operating profit increased by depreciation and amortization (EBITDA) before impairment allowances	PLN million	297	317	342	(20)	(6.3%)
Operating profit increased by depreciation and amortization (EBITDA) 1)	PLN million	79	317	(223)	(238)	(75.1%)
Net profit/(loss)	PLN million	2	213	(235)	(211)	(99.1%)
Equity	PLN million	863	1 668	1 446	(805)	(48.3%)
Total assets	PLN million	1 590	2 418	2 165	(828)	(34.2%)
Employment as at 31 December	persons	2 843	3 122	3 148	(279)	(8.9%)

1) The operating result of the ANWIL Group in 2014 and in 2012 was decreased by PLN (-) 218 million and PLN (-) 565 million respectively due to the update of impairment allowances of assets of the ANWIL Group. Impairment allowance from 2014 and 2012 of PLN (-) 154 million and PLN (-) 565 million was reversed as a part of consolidation procedures in relation to ANWIL assets classification, at the level of the ORLEN Group, to the petrochemical segment and carrying out tests within this segment.

- **Rafineria Trzebinia S.A. (ORLEN Południe S.A.)**

In accordance with the agreement dated 16 June 1997, PKN ORLEN concluded with Nafta Polska S.A., PKN ORLEN purchased 74.88% shares of Rafineria Trzebinia. As at 31 December 2014, the company's share capital was owned by PKN ORLEN (99.46%) and other shareholders (0.54%).
The company's business includes: crude oil processing, production and sales of bio-fuels and oils, providing logistics and storage services.

In December 2014 Extraordinary Shareholder's Meeting of Rafineria Trzebinia S.A. and Rafineria Nafty Jedlicze S.A. made a resolution about the merger of these two companies, which took place on 5 January 2015. In accordance with consolidation processes performed, the company's name was changed to ORLEN Południe S.A.

TABLE 5. Basic financial and operating data of Rafineria Trzebinia S.A. (in accordance with those recognised for the purposes of the ORLEN Group consolidation).

ITEM	UNIT	2014	2013	2012	CHANGE	CHANGE %
1	2	3	4	5	6=(3-4)	7=(3-4)/4
Sales volume	'000 tonnes	567	565	409	2	0.4%
					0	-
Sales revenues	PLN million	1 678	1 830	1 497	(152)	(8.3%)
Operating profit under LIFO increased by depreciation and amortization (EBITDA LIFO)	PLN million	71	(32)	67	103	-
Operating profit/(loss) increased by depreciation and amortization (EBITDA)	PLN million	58	(34)	59	92	-
Net profit/(Loss)	PLN million	57	(106)	27	163	-
Equity	PLN million	355	299	404	56	18.7%
Total assets	PLN million	594	753	711	(159)	(21.1%)
Employment as at 31 December	persons	492	519	546	(27)	(5.2%)

LITHUANIAN MARKET

- **AB ORLEN Lietuva (together with its own Capital Group)**

AB ORLEN Lietuva is the parent company of ORLEN Lietuva Group and was registered with the Lithuanian Registry Court on 24 January 1991 as AB Mozeikiu Nafta. On 15 December 2006 PKN ORLEN purchased a majority block of shares from Yukos International UK B.V. and on 29 April 2009 it became its sole owner after having purchased the company's shares from the Government of the Republic of Lithuania. Following 1 September 2009, the company has been operating under the business name of AB ORLEN Lietuva.

The core objects of AB ORLEN Lietuva's business include crude oil processing, manufacture of refining products and wholesale and retail sale of the company's products on the local market and in land and sea export, using Klaipedos Nafta terminal.
On July 2014 PLN ORLEN took over AB VENTUS Nafta (being a part of ORLEN Lietuva Group), operating in the area of the retail sale of fuel on the Lithuanian market.

TABLE 6. Basic financial and operating data of ORLEN Lietuva Group (in accordance with those recognised for the purposes of the ORLEN Group consolidation).

ITEM	UNIT	2014	2013	2012	CHANGE	CHANGE %
1	2	3	4	5	6=(3-4)	7=(3-4)/4
Sales volume	'000 tonnes	7 737	9 083	8 684	(1 346)	(14.8%)
					0	-
Sales revenues	PLN million	19 589	25 445	26 131	(5 856)	(23.0%)
Operating profit under LIFO increased by depreciation and amortization (EBITDA LIFO) before impairment allowances	PLN million	(194)	(23)	580	(171)	(743.5%)
Operating profit/(loss) increased by depreciation and amortization (EBITDA) 1)	PLN million	(4 365)	(67)	565	(4 298)	(6414.9%)
Net profit/(loss)	PLN million	(4 575)	(416)	115	(4 159)	(999.8%)
Equity	PLN million	253	3 830	4 349	(3 577)	(93.4%)
Total assets	PLN million	1 918	7 400	8 343	(5 482)	(74.1%)
Employment as at 31 December	persons	1 650	2 158	2 284	(508)	(23.5%)

1) The operating result of the ORLEN Lietuva Group in 2014 was decreased by PLN (-) 4,181 million due to the update of impairment allowances of assets of the ORLEN Lietuva Group.

CZECH MARKET

- **Unipetrol a.s. (together with its own Capital Group)**

Unipetrol a.s. is the parent company of Unipetrol Group which was established in 1994 as a result of restructuring of the petroleum sector in the Czech Republic. Apart from Unipetrol a.s. it was composed of: Kaucuk, Chemopetrol, Benzina, Ceska Rafinerska, Unipetrol Trade, Spolana, Paramo, Unipetrol Rafinerie. In 2005 PKN ORLEN purchased 62.99% of shares in Unipetrol a.s.
The core objects of Unipetrol Group"s business include crude oil processing as well as manufacture and distribution of refinery, petrochemical and chemical products.

TABLE 7. Basic financial and operating data of Unipetrol Group (in accordance with those recognised for the purposes of the ORLEN Group consolidation).

ITEM	UNIT	2014	2013	2012	CHANGE	CHANGE %
1	2	3	4	5	6=(3-4)	7=(3-4)/4
Sales volume	'000 tonnes	6 042	4 729	5 534	1 313	27.8%
					0	-
Sales revenues	PLN million	18 873	16 062	17 857	2 811	17.5%
Operating profit under LIFO increased by depreciation and amortization (EBITDA LIFO) before impairment allowances	PLN million	1 230	255	610	975	382.4%
Operating (loss) increased by depreciation and amortization (EBITDA) 1)	PLN million	200	245	(147)	(45)	(18.4%)
Net profit/(loss)	PLN million	(72)	(201)	(519)	129	64.2%
Equity	PLN million	4 336	4 236	4 792	100	2.4%
Total assets	PLN million	7 437	7 536	8 269	(99)	(1.3%)
Employment as at 31 December	persons	3 878	3 967	4 062	(89)	(2.2%)

1)The operating result of the Unipetrol Group in 2014 and in 2012 was decreased by PLN (-) 752 and PLN (-) 688 million respectively due to the update of impairment allowances of assets of the Unipetrol Group.

GERMAN MARKET

- **ORLEN Deutschland GmbH**

ORLEN Deutschland GmbH was established as a result of purchase by PKN ORLEN from Deutsche BP AG a network of fuel stations in northern and eastern Germany in December 2002. As at 31 December 2014, the company's share capital was fully owned by PKN ORLEN.
ORLEN Deutschland GmbH conducts retail sale and wholesale of liquid fuels in Germany.

TABLE 8. Basic financial and operating data of ORLEN Deutschland GmbH (in accordance with those recognised for the purposes of the ORLEN Group consolidation).

ITEM	UNIT	2014	2013	2012	CHANGE	CHANGE %
1	2	3	4	5	6=(3-4)	7=(3-4)/4
Sales volume	'000 tonnes	2 621	2 524	2 484	97	3.8%
					0	-
Sales revenues	PLN million	15 965	16 052	16 527	(87)	(0.5%)
Profit from operations increased by depreciation and amortisation (EBITDA)	PLN million	230	241	208	(11)	(4.6%)
Net profit/(loss)	PLN million	91	102	71	(11)	(10.8%)
Equity	PLN million	458	524	504	(66)	(12.6%)
Total assets	PLN million	1 567	1 711	1 661	(144)	(8.4%)
Employment as at 31 December	persons	143	138	134	5	3.6%

CANADIAN / POLISH MARKET

- **ORLEN Upstream Group**

ORLEN Upstream Sp. z o.o is the parent company of the Upstream Group. The share capital of the company as at 31 December 2014 was fully covered by PKN ORLEN.

The company's activities are: production of hydrocarbons in the Canadian market and conduct exploration and extraction projects in the Polish market.

TABLE 9. Basic financial data of the ORLEN Upstream Group (in accordance with those recognised for the purposes of the ORLEN Group consolidation).

ITEM	UNIT	2014	2013	2012	CHANGE	CHANGE %
1	2	3	4	5	6=(3-4)	7=(3-4)/4
Sales volume	'000 tonnes	258	17	-	241	1417.6%
Sales revenues	PLN million	340	60	30	280	466.7%
Operating profit increased by depreciation and amortization (EBITDA) before impairment allowances	PLN million	191	97	4	94	96.9%
Operating profit increased by depreciation and amortization (EBITDA) 1)	PLN million	(131)	97	4	(228)	-
Net profit/(loss)	PLN million	(139)	76	4	(215)	-
Equity	PLN million	1 855	1 140	317	715	62.7%
Total assets	PLN million	2 549	1 478	364	1 071	72.5%
Employment as at 31 December	persons	112	91	52	21	23.1%

1)The operating result of the ORLEN Upstream Group in 2014 was decreased by PLN (-) 322 million due to update of impairment allowances of assets of ORLEN Upstream Group in Canada.

3.5.2 Other selected companies of the ORLEN Group

TABLE 10. The scope of business of other companies in ORLEN Group.

COMPANY'S NAME	THE SCOPE OF BUSINESS
Production and trading companies	
ORLEN OIL Capital Group	production, distribution and sale of grease oils, lubricants, oil bases as well as car care products and maintenance liquids
ORLEN Paliwa Sp. z o.o.	wholesale of liquid fuels produced by PKN ORLEN
ORLEN Gaz Sp. z o.o.	wholesale liquefied petroleum gas
ORLEN PetroTank Sp. z o.o.	wholesale of liquid fuels produced by PKN ORLEN
ORLEN Asfalt Sp. z o.o.	sale of asphalt road, modified multigrade, industrial and specific asphalt
Rafineria Nafty Jedlicze Capital Group)	crude oil processing, waste oils processing, manufacture and sale of oil bases, heating oils and organic solvents
Inowrocławskie Kopalnie Soli SOLINO S.A.	oil and fuels storage, packaging of salt and brine extraction
Trading companies	
Petrolot Sp. z o.o.	distribution of aviation and automotive fuels, fuels storage, storing, filling, and dispatching services
Service companies	
ORLEN KolTrans Sp. z o.o.	rail transport of goods, rail servicing locations of loading and discharge, product shipping, repairs and upgrade of railway rolling stock
ORLEN Transport S.A.	transport of fuels, liquid gas and heavy chemicals
ORLEN Automatyka Sp. z o.o.	maintenance and overhaul services, assembly services, operation of automatic control engineering equipment, devices and systems

ORLEN Wir Sp. z o.o.	day-to-day and major overhauls of compressors, centrifuges, locomotive engines and engine-generators, upgrades of compressors and turbines structures as well as technical advisory
ORLEN Eko Sp. z o.o.	waste management with the use of waste recovery and disposal installation, including among others hazardous waste, provision of safety and hygiene services, fire precaution and environment protection services, rescue and fire equipment maintenance

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

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

CONTRACTS FOR RAW MATERIALS SUPPLY

TO THE BENEFIT OF PKN ORLEN:

- On the 28 July 2014 the spot contract was executed between PKN ORLEN S.A. and Mercuria Energy Trading S.A. for supply of crude oil to PKN ORLEN S.A.

  The estimated total value of the contracts executed between PKN ORLEN S.A. and Mercuria from 18 September 2013 until 28 July 2014 amounts to approximately PLN 2 326 million. Regulatory announcement no. 236/2014.
- On the 2 October 2014 the spot contract was executed between PKN ORLEN S.A. and Vitol S.A. for supply of natural gas to PKN ORLEN S.A.

  The estimated total value of the contracts executed between PKN ORLEN S.A. and Vitol from 25 July 2014 until 3 October 2014 amounts to approximately PLN 2 026 million. Regulatory announcement no. 260/2014.
- On the 16 February 2015 the spot contract was executed between PKN ORLEN S.A. and Statoil ASA, company being member of Statoil Group, for supply of crude oil to PKN ORLEN S.A.

  The estimated total value of the contracts executed between PKN ORLEN S.A and PKN ORLEN S.A.'s subsidiaries on one side and companies being members of the Statoil Group within last 12 months amounts to approximately PLN 1 884 million. Contracts between the ORLEN Capital group and Statoil Group were executed on products and crude oil purchase. Regulatory announcement no. 25/2015.

TO THE BENEFIT OF ORLEN LIETUVA GROUP:

- On 7 April 2014 the spot contract was executed between PKN ORLEN and Glencore Energy UK Ltd for supply of crude oil to AB ORLEN Lietuva. The estimated net value of the contract amounts to approximately USD 77 million (approximately PLN 234 million at the average NBP exchange for USD/PLN as at 7 April 2014).

  The estimated total value of the contracts executed between PKN ORLEN and Glencore Energy UK Ltd from 1 November 2013 until 7 April 2014 amounts to approximately USD 763 million (approximately PLN 2 336 million at the average NBP exchange for USD/PLN as at the execution dates of individual contracts). Regulatory announcement no. 116/2014.
- On the 17 June 2014 the spot contract was executed between PKN ORLEN and Eni Trading and Shipping SPA for supply of crude oil to AB ORLEN Lietuva. The estimated net value of the contract amounts to approximately USD 77 million (approximately PLN 236 million at the average NBP exchange for USD/PLN as at 17 June 2014).

  The estimated total value of the contracts executed between PKN ORLEN S.A. and companies being members of Eni Group within last 12 months amounts to approximately PLN 2 306 million.

  The estimated total value of the contracts executed between PKN ORLEN S.A.'s subsidiaries and companies being members of a Eni Group within last 12 months amounts to approximately PLN 1 174 million. Regulatory announcement no. 210/2014.
- On the 13 October 2014 the spot contract was executed between PKN ORLEN S.A. and Glencore Energy UK Ltd. for supply of crude oil to AB ORLEN Lietuva.

  The estimated total value of the contracts executed between PKN ORLEN S.A. and Glencore Energy UK Ltd. from 8 April 2014 until 13 October 2014 amounts to approximately USD 636 million (approximately PLN 1 990 million at the average NBP exchange for USD/PLN as the execution dates of individual contracts). Regulatory announcement no. 263/2014.
- On the 22 October 2014 the spot contract was executed between PKN ORLEN S.A. and Total Oil Trading S.A. for supply of crude oil to AB ORLEN Lietuva.

  The estimated total value of the contracts executed between PKN ORLEN S.A. and PKN ORLEN S.A.'s subsidiaries on one side and companies being members of Total Group within last 12 months amounts to approximately PLN 1 850 million. Contracts between ORLEN Group and companies being members of Total Group were executed on purchase and sales of products and purchase of crude oil. Regulatory announcement no. 269/2014.
- On the 23 December 2014 the spot contract was executed between PKN ORLEN S.A. and Vitol S.A. for supply of crude oil to AB ORLEN Lietuva.

  The estimated total value of the contracts executed between PKN ORLEN S.A. and Vitol from 3 October 2014 until 23 December 2014 amounts to approximately USD 556 million (approximately PLN 1 870 million at the average NBP exchange for USD/PLN as at the execution dates of individual contracts). Regulatory announcement no. 296/2014.
- On the 2 March 2015 the spot contract was executed between PKN ORLEN S.A. and Vitol S.A. for supply of crude oil to AB ORLEN Lietuva.

  The estimated total value of the contracts executed between PKN ORLEN S.A and PKN ORLEN S.A.'s subsidiaries on one side and companies being members of Vitol Group from 23 December 2014 until 3 March 2015 amounts to approximately PLN 1 665 million. Contracts between ORLEN Group and Vitol Group were executed on purchase and sales of products and purchase of crude oil. Regulatory announcement no. 32/2015.

TO THE BENEFIT OF UNIPETROL GROUP:

- On the 28 March 2014 an annex was signed to the contract from 21 June 2013 between PKN ORLEN and Rosneft Oil Company for supply to Unipetrol RPA, s.r.o. crude oil, type REBCO. The annex provides an increase in monthly volume of raw material supplies to Unipetrol RPA, s.r.o. about 50 thousand tonnes of crude oil, type REBCO. The annex is valid from 1 April 2014 until 30 June 2016.

  On the day of an annex, the estimated value of raw material supplies, specified in the annex, until 30 June 2016 amounts to approximately USD 1 050 million (approximately PLN 3 200 million at the average NBP exchange for USD/PLN as at 28 March 2014). Regulatory announcement no. 101/2014.

- On the 24 July 2014 the spot contract was executed between PKN ORLEN S.A. and Vitol S.A. for supply of crude oil to Unipetrol RPA, s.r.o.

  The estimated total value of the contracts executed between PKN ORLEN S.A. and Vitol from 29 January 2014 until 24 July 2014 amounts to approximately USD 728 million (approximately PLN 2 217 million at the average NBP exchange for USD/PLN as the execution dates of individual contracts). Regulatory announcement no. 235/2014.

- On the 1 September 2014 the spot contract was executed between PKN ORLEN S.A. and Socar Trading S.A. for supply of crude oil to Unipetrol RPA, s.r.o.

  The estimated total value of the contracts executed between PKN ORLEN S.A and PKN ORLEN S.A.'s subsidiaries on one side and companies being members of Socar Group within last 12 months amounts to approximately PLN 2 450 million. Contracts between PKN ORLEN S.A. and companies being members of Socar Group were executed on purchase crude oil and sale of fuel. Regulatory announcement no. 247/2014.

CONTRACTS FOR GOODS SUPPLY

TO THE BENEFIT OF ORLEN DEUTSCHLAND:

- On the 6 August 2014 the contract was executed between ORLEN Deutschland GmbH and Shell Deutschland Oil GmbH for supply by Shell Deutschland fuels for ORLEN Deutschland GmbH fuel stations in Germany from 1 January 2014 until 31 December 2014. The estimated value of the contract amounts to approximately EUR 232 million (approximately PLN 973 million at the average NBP exchange for EUR/PLN as at 6 August 2014).

  The estimated total value of the contracts executed between PKN ORLEN and PKN ORLEN S.A.'s subsidiaries on one side and companies being members of Shell Group from 1 February 2014 until 6 August 2014 amounts to approximately PLN 2 752 million. Regulatory announcement no. 240/2014.

- On the 6 November 2014 the annual contract was executed between ORLEN Deutschland GmbH and BP Europe SE for fuel supply to the ORLEN Deutschland GmbH fuel station in Germany until 31 December 2014. The estimated value of the contract amounts to approximately EUR 642 million (approximately PLN 2 712 million at the average NBP exchange for EUR/PLN as at 6 November 2014).

  The estimated total value of the contracts executed between PKN ORLEN and PKN ORLEN S.A.'s subsidiaries on one side and companies being members of BP Group from 11 January 2014 until 6 November 2014 amounts to approximately PLN 4 492 million. Contracts between ORLEN Group and companies being members of BP Group were executed on purchase and sales of products and purchase of crude oil. Regulatory announcement no. 276/2014.

- On the 10 February 2015 the contract was executed between ORLEN Deutschland GmbH and Lekkerland Deutschland GmbH & Co. KG for the supply of non-fuel to fuel station run by ORLEN Deutschland GmbH from 1 February 2015 until 31 January 2018. Regulatory announcement no. 20/2015.

CONTRACTS FOR THE SALE OF PRODUCTS

EXECUTED BY PKN ORLEN:

- On the 10 January 2014 the annual contract was executed between PKN ORLEN and BP Europa SE concerning sale by PKN ORLEN of gasoline and diesel oil in the period 1 January 2014 until 31 December 2014. The estimated net value of the contract amounts to approximately PLN 6 500 million.

  The estimated total value of the contracts executed between PKN ORLEN S.A. and PKN ORLEN S.A.'s subsidiaries on one side and companies being members of BP Group from 5 June 2013 until 10 January 2014 amounts to approximately PLN 8 660 million. Regulatory announcement no. 9/2014.

- On the 10 January 2014 the annual contract was executed between PKN ORLEN and Lukoil Polska Sp. z o.o. concerning sale by PKN ORLEN of gasoline and diesel in the period from 1 January 2014 until 31 December 201. The estimated net value of the contract amounts to approximately PLN 1 550 million.

  The estimated total value of the contracts executed between PKN ORLEN S.A. and PKN ORLEN S.A.'s subsidiaries on one side and companies being members of Lukoil Group from 27 December 2013 until 10 January 2014 amounts to approximately PLN 2 370 million. Regulatory announcement no. 10/2014.

- On the 17 January 2014 the contract was executed between PKN ORLEN and OW Supply & Trading A/S concerning sale by PKN ORLEN of heavy fuel oil in the period from 1 January 2014 until 31 December 201. The estimated net value of the contract executed amounts to approximately USD 906 million (approximately PLN 2 771 million at the average NBP exchange for USD/PLN as at 17 January 2014).

  The estimated total value of the contracts executed between PKN ORLEN and PKN ORLEN S.A.'s subsidiaries on one side and companies being members of Wrist Group from 24 May 2013 until 20 January 2014 amounts to approximately PLN 3 941 million. Regulatory announcement no. 20/2014.

- On the 12 January 2015 the annual contract was executed between PKN ORLEN S.A. and BP Europa SE concerning sale by PKN ORLEN of gasoline and diesel in the period from 1 January 2015 until 31 December 2015. The estimated net value of the contract amounts to approximately PLN 5 400 million.

  The estimated total value of the contracts executed between PKN ORLEN S.A and PKN ORLEN S.A.'s subsidiaries on one side and companies being members of BP Group from 7 November 2014 until 12 January 2015 amounts to approximately PLN 5 560 million. Regulatory announcement no. 3/2015.

- On the 12 January 2015 the annual contract was executed between PKN ORLEN S.A. and Lukoil Polska Sp. z o.o. concerning sale by PKN ORLEN of gasoline and diesel in the period from 1 January 2015 until 31 December 2015. The estimated net value of the contract amounts to approximately PLN 1 280 million.

  The estimated total value of the contracts executed between PKN ORLEN S.A. and PKN ORLEN S.A.'s subsidiaries on one side and companies being members of Lukoil Group from 11 January 2014 until 12 January 2015 amounts to approximately PLN 2 400 million. Regulatory announcement no. 4/2015.

- On the 12 January 2015 the annual contract was executed between PKN ORLEN S.A. and Shell Polska Sp. z o.o. concerning sale by PKN ORLEN of gasoline and diesel in the period from 1 January 2015 until 31 December 2015. The estimated net value of the contract amounts to approximately PLN 1 820 million.

  The estimated total value of the contracts executed between PKN ORLEN S.A. and PKN ORLEN S.A.'s subsidiaries on one side and companies being members of Shell Polska Sp. z o.o. Group from 7 August 2014 until 12 January 2015 amounts to approximately PLN 3 430 million. Regulatory announcement no. 5/2015.

EXECUTED BY ORLEN LIETUVA GROUP:

- On the 17 January 2014 the annual contract was executed between AB ORLEN Lietuva and Gunvor SA concerning sale by AB ORLEN Lietuva of diesel in the period from 1 January 2014 until 31 December 2014. The estimated net value of the contract executed amounts to approximately USD 1 024 million (approximately PLN 3 133 million at the average NBP exchange for USD/PLN as at 17 January 2014).

  The estimated total value of the contracts executed between PKN ORLEN and PKN ORLEN S.A.'s subsidiaries on one side and companies being members of Gunvor Group from 28 August 2013 until 17 January 2014 amounts to approximately PLN 3 389 million. Regulatory announcement no. 18/2014.

- On the 28 January 2014 the contract was executed between AB ORLEN Lietuva and VITOL S.A concerning sale by ORLEN Lietuva of heavy fuel oil (HSFO) in the period from 1 January 2014 until 31 December 2014. The estimated net value of the contract executed amounts to approximately USD 954 million (approximately PLN 2 922 million at the average NBP exchange for USD/PLN as at 28 Junuary 2014).

  The estimated total value of the contracts executed between PKN ORLEN and PKN ORLEN S.A.'s subsidiaries on one side and companies being members of Vitol Holding Group from 13 December 2013 until 28 January 2014 amounts to approximately PLN 4 783 million. Regulatory announcement no. 33/2014.

EXECUTED BY UNIPETROL GROUP:

- On the 31 January 2014 two contracts were executed between Unipetrol RPA s.r.o and Shell Czech Republic.

  The first contract relates to the delivery by Unipetrol RPA to Shell Company in Czech Republic fuel in the period from 31 January 2014 until 31 December 2018. The estimated net value of the contract amounts to approximately CZK 44 000 million (approximately PLN 6 776 million at the average NBP exchange for CZK/PLN as at 31 January 2014).

  On the basis of second contract Unipetrol RPA will acquire from Shell Czech Republic stock of crude oil and petroleum products. The estimated net value of the contract executed amounts to approximately CZK 1 575 million (approximately PLN 243 million at the average NBP exchange for CZK/PLN as at 31 January 2014).

  The estimated total value of the contracts executed between PKN ORLEN S.A. and PKN ORLEN S.A.'s subsidiaries on one side and companies being members of Shell Group from 27 July 2013 until 31 January 2014 amounts to approximately PLN 9 107 million. Regulatory announcement no. 40/2014.

OTHER CONTRACTS

- On the 30 January 2014 the indefinite contract was executed between PKN ORLEN and Kolporter Sp. z o.o. S.K.A. („Kolporter") concerning supplies of non-fuel commodities by Kolporter on fuel stations run by PKN ORLEN. The estimated net value of the contract within the first five years amounts to approximately PLN 3 300 million. Regulatory announcement no. 36/2014.

- On the 25 April 2014 as part of refinancing its main line of credit, the credit agreement was signed by PKN ORLEN S.A. with a consortium of 17 banks. The maximum value of the debt within the signed agreement amounts to EUR 2 000 million (approximately PLN 8 406 million at the average NBP exchange for EUR/PLN as at 25 April 2014). The agreement will replace the credit agreement from 28 April 2011, with a maximum value of debt of EUR 2 625 million, signed with a consortium of fourteen banks. Regulatory announcement no. 144/2014.

- On the 5 June 2014 TriOil Resources Ltd. has acquired 100% of the shares of Birchill Exploration Limited Partnership. Birchill Exploration Limited Partnership with a headquarter in Calgary, is a company engaged in the exploration and extraction of crude oil and natural gas. Eksploited by mentined company oil and gas reserves are located in the province of Alberta in Canada, in areas Ferrier/Strachan. Birchill Exploration Limited Partnership has resources (2P) of approximately 26.6 million barrels of oil equivalents (boe). Average production Birchill Exploration Limited Partnership in first quarter 2014 amounts to approximately 3 400 boe per day.

  The price, which TriOil was paid was CAD 255.6 million (approximately PLN 707.5 million), of which a part was held in detention for a period of one year in the escrow account to secure potential claims. The transaction was finalized by a TriOil capital increase (made by ORLEN Upstream International B.V.) and the use of available TriOil credit line.

  Closing the transaction was made after obtaining the consent of the Canadian Commisioner of Competition. Amount in PLN was converted at the average NBP exchange for PLN/CAD as at 5 June 2014. Regulatory announcement no. 195/2014.

- On 26 June 2014, PKN ORLEN concluded with Cranbell crude oil sales contract and a contract job concerning maintenance of mandatory reserves of crude oil. On the basis of the contract of sale PKN ORLEN sold oil worth about USD 736 million (about PLN 2 236 million, based on the average Polish National Bank for USD/PLN of 26 June 2014). Crude oil price was determined based on market quotations. Based on the agreement and keeping Cranbell will provide a service to maintain compulsory stocks of oil on account of PKN ORLEN and PKN ORLEN will guarantee the ability to store inventory at the current location. The agreement was concluded to maintain stocks for the period to 28 January 2016 with the possibility of renewal for a further period. These agreements were concluded by PKN ORLEN Material Reserves Agency approval for the transaction. Cranbell is a special purpose company owned 19% is RBS Investments Netherlands BV and 81% Dutch company Cranbell BV In terms of the statutory activity occurs Cranbell trade in crude oil. Regulatory announcement no. 219/2014.

3.7 Information on significant court, arbitration and administrative proceedings

3.7.1 Proceedings, in which the ORLEN Group entities act as a defendant

Proceedings with the total value exceeding 10% of the Issuer's equity

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

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

ORLEN of UNIPETROL a.s. shares. On 21 October 2010 the Court of Arbitration in Prague overruled the entire claim of Agrofert Holding a.s. against PKN ORLEN regarding the payment of PLN 2,992 million translated using exchange rate as at 31 December 2014 (representing CZK 19,464 million) with interest and obliged Agrofert Holding a.s. to cover the cost of proceedings born by PKN ORLEN. On 3 October 2011 PKN ORLEN received from the common court in Prague (Czech Republic) claim which overruled the sentence of the Arbitration Court attached to the Economic Chamber of the Czech Republic and Agricultural Chamber of the Czech Republic in Prague issued on 21 October 2010. After the court proceedings the complaint was dismissed by the court in Prague with the ruling of 24 January 2014. On 7 April 2014 Agrofert filed an appeal against that judgment. PKN ORLEN believes that the settlement contained in the judgment of the Court of Arbitration of 21 October 2010 and in the judgment of the general court in Prague on 24 January 2014 are legitimate. PKN ORLEN will take all necessary legal measures to keep them in power. On 24 March 2015, the hearing of the court of appeals was held in which the date of the next hearing was set as at 7 April 2015.

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

- **Tax proceedings in ORLEN Południe S.A. (previously Rafineria Trzebinia S.A.)**

On 14 May 2014 and 20 May 2014, the Company received a decision of the Director of the Customs Office in Krakow determining the excise tax liability for the period May, June, July and August 2004 in the amount of PLN 132 million. The Company filed an appeal against the decision to the Director of the Customs Chamber in Krakow. The appeals were dismissed. On 5 June 2014 Trzebinia Refinery paid the entire obligation with accrued interest. At the same time provisions which were created for this purpose in previous years, were used. Trzebinia Refinery SA filed a complaint to the Regional Administrative Court in Krakow on decisions determining the tax liability for the period May - August 2004.

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

PKN ORLEN participates in one court proceeding concerning the settlement of system fee with ENERGA OPERATOR S.A. for the period from 5 July 2001 to 30 June 2002. ENERGA - OPERATOR SA PKN ORLEN is vindicating payment of the amount of PLN 46 million plus statutory interest. During the retrial has been made legal expert opinion in terms of the variant damage calculation. The District Court in Warsaw (as the court of first instance), judgment of 27 October 2014, ordered the PKN ORLEN to ENERGA - OPERATOR SA the amount of PLN 46 million plus statutory interest from 30 June 2004 to the date of payment. The judgment is not final. PKN ORLEN appealed against this judgment.

- **I.P.-95 s.r.o. compensation claim against UNIPETROL RPA s.r.o.**

On 23 May 2012, UNIPETROL RPA s.r.o. received from the Regional Court in Ostrava a claim brought by I.P.-95 s.r.o. for compensation related to the filing by UNIPETROL RPA s.r.o. motion for bankruptcy of I.P.-95 s.r.o. in November 2009. Total amount of the compensation is approximately PLN 271 million, translated using the exchange rate from 31 December 2013 (representing CZK 1 789 million). UNIPETROL RPA s.r.o. is one of the eight defendants against which the claim was brought. According to the UNIPETROL RPA s.r.o the claim is unjustified and groundless. Proceedings concerning the determination of the jurisdiction of the court which will continue the proceedings are in progress.

- **OBR S.A. claims for compensation**

On 5 September 2014, the company OBR S.A. filed an action against PKN ORLEN to the District Court in Lodz with the claim for payment in respect of the alleged breach by PKN ORLEN of patent rights: "The technique of the separation of hydrodesulfurization products of heavy residue after extractive distillation of crude oil." The amount of the claim in the lawsuit has been estimated by the OBR S.A. of approximately PLN 83 million. The claim covers the adjudge sum of money from PKN ORLEN for the OBR S.A. in the amount corresponding to the market value of the license fee for the use of the solution under the above patent and adjudge the obligation to repay the benefits derived from the use of this solution. On 16 October 2014, PKN ORLEN responded for the lawsuit. The value of the dispute was referred to by the plaintiff in the procedural document from 11 December 2014 in the amount of PLN 247 million. In the opinion of PKN ORLEN the claim of patent infringement illegitimate.

3.7.2 Court proceedings in which entities of the Group act as plaintiff

- **Compensations due to damages suffered by Rafineria Trzebinia S.A. (currently ORLEN Południe S.A)**

ORLEN Południe S.A. acts as an auxiliary prosecutor in the proceedings from 2010 concerning abuses associated with the realization of investment in installation for the estherification of biodiesel oil, on which Rafineria Trzebinia S.A. (currently: ORLEN Południe S.A.) claims to incur a loss of approximately PLN 79 million. The Company issued a motion to the court requesting to oblige the defendant to repair the incurred damages. The case is pending before the District Court in Chrzanów. In the case the expert evidence will be admitted to confirm the circumstances associated with the estimate of the damage suffered. By order of 26 August 2014, the proceedings were partially redeemed for certain acts covered by the indictment. In the course is criminal proceedings concerning the alleged acting to the detriment of the company. It is expected that the hearing date.

- **Proceeding of ORLEN Lietuva for compensation in respect of accident at w Terminal in Butingė**

AB Orlen Lietuva is a plaintiff in the court proceeding against RESORT MARITIME SA, The London Steamship Owners‟ Mutual Insurance Association Limited, Sigma Tankers Inc., Cardiff Maritime Inc., Heidenreich Marine, Heidenreich Maritime Inc. and Heidmar Inc. regarding compensation payment for damage caused by the hit of tanker ship into terminal buoy in Butinge Terminal on 29 December 2005. The total compensation claim amounts to approximately PLN 74 million at exchange rate as at 31 December 2014 (representing approximately LTL 60 million). The parties agreed to transfer the case to the jurisdiction of the English courts.

– **Tax proceedings in UNIPETROL RPA s.r.o.**

Unipetrol RPA s.r.o. as the successor to CHEMOPETROL a.s. demanding a refund of income tax paid by CHEMOPETROL a.s. in 2006 for the year 2005 due to the lack of recognition of the possibility of the use of investment relief. The value of the dispute amounts to PLN 50 million converted with exchange rate of 31 December 2014 (equivalent to approximately CZK 325 million). On 11 December 2013, the Court in Usti nad Labem (Czech Republic) issued a judgment in which it reversed the decision of the tax authorities for the income tax liability Unipetrol RPA s.r.o. in the amount of approximately CZK 325 million.
Unipetrol RPA s.r.o. filed a cassation appeal against the judgment of the Court in Usti nad Labem seeking annulment of the decision of the tax authorities and stating that they are invalid, which would improve the company's position against the tax authorities in the case. By judgment of 19 March 2014, the Czech Supreme Administrative Court overruled the annulment of Unipetrol RPA, s.r.o. and also set aside the judgment of the Court in Usti nad Labem referring the case to that court for reconsideration. Unipetrol RPA s.r.o. applied to the Czech Constitutional Court to declare that the judgment of the Administrative Court violated the Czech right to a fair trial. Consequently, the Court in Usti nad Labem stayed the proceedings on the complaint Unipetrol RPA to set aside the decision of the tax authorities.

– **The arbitration proceedings against Basell Europe Holding B.V.**

On 20 December 2012 PKN ORLEN sent to Basell Europe Holdings BV summons initiating arbitration proceedings before the Court of Arbitration ad hoc in London for compensation in connection with the Joint Venture Agreement signed in 2002 between PKN ORLEN and Basell Europe Holdings BV. Claims arising from the use by Basell Sales & Marketing Company so called Cash Discounts effectively impairing on product prices payable to the Basell Orlen Polyolefins Sp. z o.o. On 27 February 2014 PKN ORLEN submitted its position on the case, which proposes, among others, to adjudicate the Basell Europe Holdings BV in favor of Basell Orlen Polyolefins Sp. z o.o the amount of approximately PLN 128 million converted with exchange rate of 31 December 2014 (equivalent to approximately EUR 30 million) plus interest, or alternatively, to adjudicate the Basell Europe Holdings BV PKN ORLEN with the amount of approximately PLN 57 million, provided that the amount can be updated in the course of the arbitration proceedings. On 10 April 2014 PKN ORLEN made an application for a suspension of proceedings until 1 November 2014. Basell Europe Holdings BV acceded to this request. On 23 April 2014, the parties received the decision of the Court to suspend the proceedings until 1 November 2014. On 1 November 2014, the arbitration proceedings were resumed. On 24 March 2015, the seating of the Tribunal which was planned on 24-27 March 2015 began.

– **Proceedings against Aon UK Limited**

In 2012, AB Orlen Lietuva acted as a plaintiff in the proceeding against Aon UK Limited, in which requests a compensation for damages incurred due to improper performance of brokerage services as a consequence of which Orlen Lietuva did not receive full compensation for the loss resulting from the refinery fire in 2006. On 27 October 2014, the parties entered into a settlement agreement under which Aon agreed to pay AB ORLEN Lietuva PLN 18 million converted with exchange rate of 31 December 2014 (equivalent to USD 5 million) in compensation. Therefore, the proceedings have been completed.

– **The dispute between ORLEN Lietuva and Lietuvos Geležinkeliai**

On 31 December 2014, ORLEN Lietuva filed in a court of arbitration in Vilnius a request for arbitration against the Lithuanian Railways Company ("LG"). In these proceedings the ORLEN Lietuva will claim compensation in the amount of about PLN 68 million converted with exchange rate of 31 December 2014 (equivalent to EUR 15.9 million) due to improper performance of LG agreements on transport by rail through the use of excessive rates. The procedure is the initial stage.
At the same time they are held two court proceedings in which LG calls ORLEN Lietuva payment of about PLN 36 million converted with exchange rate of 31 December 2014 (equivalent to approximately LTL 29 million) from fees for rail transport.

3.8 Significant transactions in ORLEN Group concluded on the other than arms-length terms

There were no significant transactions in the ORLEN Group concluded with related parties on other than arm’s length terms in 2014.

3.9 Employment, policy and personel programmes implemented within the ORLEN Group

In 2014, the the restructuring processes have been continued. As a result of above mentioned activity employment decreased by 721 people to 20,305 at the end of 2014. The restructuring mainly concerned ORLEN Lietuva Group, Unipetrol Group, Rafineria Nafty Jedlicze Group and ORLEN OIL Group. In 2014 the sale of subsidiary, ORLEN Medica Sp. z o.o. was completed.

DIAGRAM 14. Employment structure in the ORLEN Group in professional groups in 2014.

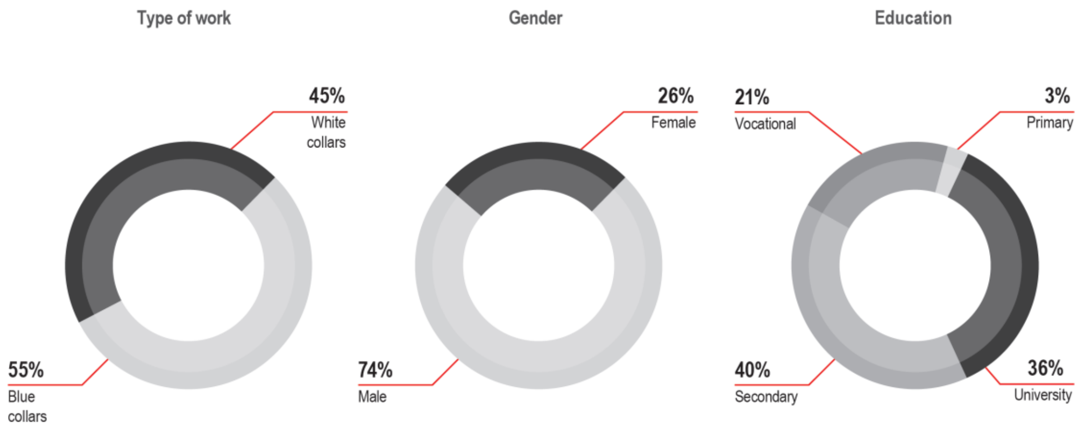


DIAGRAM 15. Woman and man employment structure in Management and Supervisory Boards of ORLEN Group's companies in 2014.

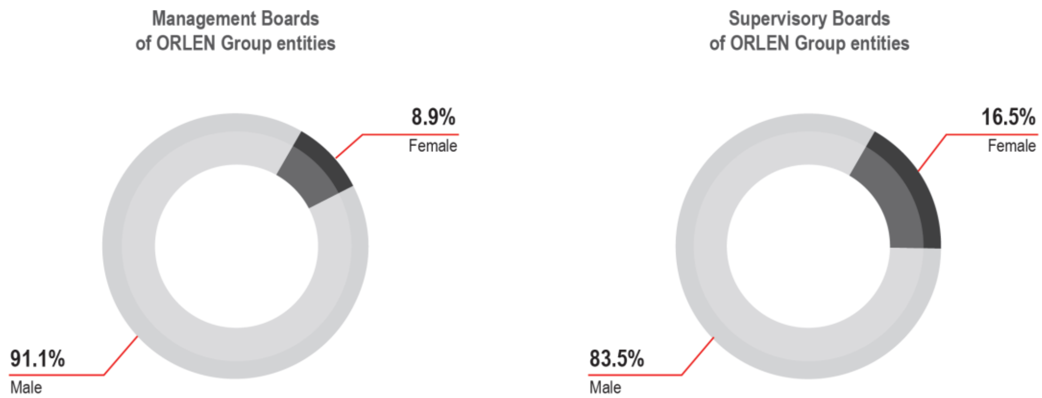
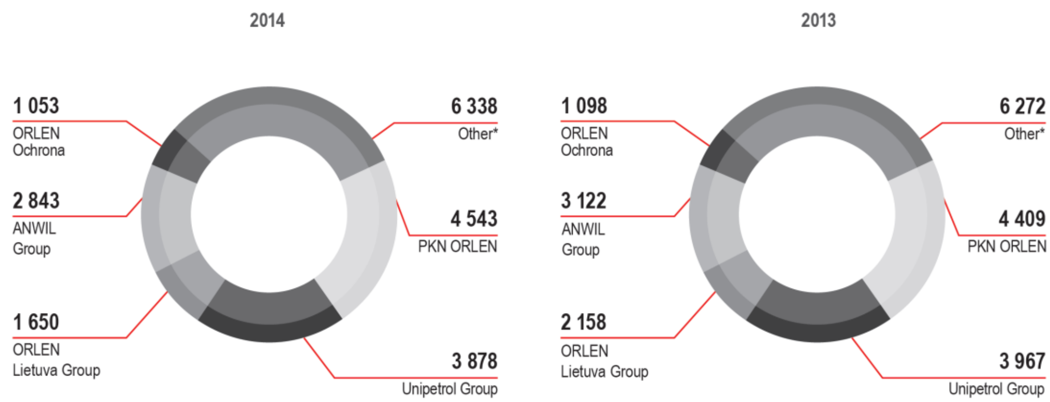


DIAGRAM 16. Employment as at the end of 2014 and 2013 in ORLEN Group companies.



* including:
624 persons - ORLEN OIL Group
607 persons - ORLEN Laboratorium
539 persons - ORLEN Transport

* including:
710 persons - ORLEN OIL Group
541 persons - ORLEN Transport
519 persons - Rafineria Trzebinia Group

Realized personnel programs

Personnel policy (”HR”)

In 2014, the activities in the HR area focused on the development based on common objectives for the entire ORLEN Group, but tailored remuneration regulations for the individual companies, and the preparation of a competency model for the process of research engagement. The above action is another step towards harmonization of staffing solutions in the ORLEN Group. In 2014 engagement survey was conducted in 4 ORLEN Group companies.

Recruitment policy

In 2014, the recruitment policy of the ORLEN Group was continued and focused on acquiring high-class specialists whose knowledge and competences together with experience and professionalism of the current employees will ensure continuity and the highest level of business processes implemented by the ORLEN Group and enable the transformation of PKN ORLEN into an integrated fuel and power company. The main focus was to gain key competence in the upstream and power segments.

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

The so called Adaptation Programme was continued, thanks to which newly hired employees become familiar with the Company‟s activities and organisational culture. Apart from the inaugural meeting and participation in workshops together with experts and specialists, employees, based on the Adoptation Programme, implement the e-learning trainings- one covering the history and current organizational and labour issues. The other is directed at the values and principles of conduct.

Development and training

The development and training activities focused, on strengthening the employees' abilities in the area of securing the achievement of business goals and shaping of the desired organisational culture.

As part of the central development projects has been implemented multi leadership development program in the form of workshops shaping managerial skills in the area of team management to build its capacity as well as in the area of feedback and coaching in the manager's work. In 2014, a formula inspired thematic lectures for all employees has also been implemented. They focused on areas such as: ethics and values in daily work, building a partnership-based communication, diversity management, building commitment. Key development projects were also continued, including a project for talented individuals and staff development workshops in the area of production and logistics (Champions League, a developmental program for operators) which formed business orientation and communication.

In 2014, the employees of PKN ORLEN participated in specjalist training, enabling the acquisiton or update knowledge, participates in conferences organized in the country and abroad. Employees also raised their education by choosing from univeristy's offer directions consistent with the strategic objectives and business of the Company.

Employees language skills, particularly in the English language were developed, among others, within the Language Academy of PKN ORLEN. The project aims to improve English language skills while building commitment and motivation to learn through independent and reliable system to measure progress.

With a view to ensuring the safety of the work, beside development training, mandatory training were also implemented (i.e. OSH and fire protection, preparation or obtain the appropriate permissions needed to perform the job). Employees developed their skills by participating in training not only traditional, but also using the training available on e-learning platform.

In 2014, PKN ORLEN has trained over 4 thousand employees, most of whom participated in several training. In 2014 there have been more than 10,000 training. In 2014, the average hours of training per employee was 35.

Students and internship programmes

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

For years PKN ORLEN organizes internships in cooperation with schools and universities, employment offices across the country and through participation in national and international competitions. In 2014, PKN ORLEN organized:

- paid internships as part the national competition „Win an internship” organized by PwC Poland.
- paid internships as a part of the national competition „Carieer Programme” organized by Polish Business Council,
- paid internships as a part of the project "Leopolis for future" focused on international cooperation and enable the Ukrainian laureates of competition to explore the best European practice knowledge in the individual fields of business and economics
- paid internships under the educational project conducted at universities and secondary technical schools (Warsaw University of Technology, a subsidiary in Płock, School Education Center, University of Science and Technology in Krakow) for the most active and best participants in the project,
- internships across the country carried out in cooperation with employment offices, in which trainees realized several months of paid internships in different areas of the company,
- group and diploma practices conducted in cooperation with high schools and universities.

In 2014, more than 300 people took part in internships and placements in PKN ORLEN.

Apart from traineeship or internship programmes, the following educational and informative activities were targeted at pupils and students in 2014:

- ‘‘Knowledge Day with ORLEN” – a series of meetings in higher education institutions aimed to provide information on activities and innovativeness of PKN ORLEN. In the 2014 edition of the project was supplemented with modules taught by ORLEN Group,
- open day in the Recruitment Team “Question about recruiting” aimed to create the culture of openness and access to

information, support the local job market and support in respect of education,
- representation of PKN ORLEN on job fair: Engineering Job Fairs in Warsaw, Job Fairs in Płock, Academic Job Fairs in Lodz, Job Fairs of AGH University of Science and Technology,
- participation in Case Week project – during which representatives of the areas of Retail Operations Standards and Logistics prepared and conducted case study for students of Warsaw University of Technology.

HR functions development

By 2014, personnel and payroll processes centralisation project focused on aligning HR and payroll systems. Three companies continued to implement a consistent with PKN ORLEN IT system, and in 12 companies Self Service application. In addition, as a result of the consolidation processes taking place within the ORLEN Group carried out a series of changes in the information systems which allow services of combined or restructured companies within the ORLEN Group.

HR Business Partner at PKN ORLEN supported the development and implementation of initiatives arising from the commitment, which results were communicated for the first time in 2014. In cooperation in the ORLEN Group HR Business Partners supported the processes related to the updating of personnel documents, especially in companies which carry out changes in the Collective Labour Agreement or remuneration regulations during the year.

Social dialogue and benefits

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

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

Medical care

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

Family Friendly Employer

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

Awards and certificates

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

- "Top Employers Poland 2014" certificate – awarded through multistage certification process by the independent external organization, Top Employers Institute. PKN ORLEN has been awarded this prestigious certificate awarded by the personnel policy implemented for the third time,
- certificate "Universum Top 100 Ideal Employer" certificate-awarded based on the results of the largest survey of students in Poland; survey covered over 20 thousand students,
- fourth place of the plebiscite "Employer for Engineer" granted by the students of technical universities.

3.10 Renumeration of management and supervisory bodies

Wynagrodzenie Remuneration for Members of the Board is determined by the Supervisory Board taking into account the recommendations of the Nomination and Remuneration Committee. The components of the Management Board Members remuneration system include:

- monthly fixed base pay,
- annual bonus dependent on the accomplishment level of quantitative and qualitative targets,
- severance pay for dismissal from the Management Board Member function,
- compensation for non-competition.

TABLE 11. Renumeration paid to the Company's Management Board Members fulfilling their function in 2014 and in previous years (in PLN thousand).

ITEM	2014	2013
Remuneration of Members of the Company's Management Board:		
- remuneration and other benefits	**6 826**	**6 388**
Dariusz Krawiec	1 674	1 524
Sławomir Jędrzejczyk	1 517	1 405
Piotr Chełmiński	1 275	1 250
Krystian Pater	1 180	1 105
Marek Podstawa	1 180	1 104
- bonuses for prior year	**4 949**	**5 499**
Dariusz Krawiec	1 240	1 440
Sławomir Jędrzejczyk	1 137	1 320
Piotr Chełmiński	889	918
Krystian Pater	796	1 020
Marek Podstawa	887	801
Total:	**11 775**	**11 887**

TABLE 12. Remuneration of Members of the Company's Manegement Board holding functions in prior years (PLN thousand).

ITEM	2014	2013
- remuneration paid		
Grażyna Piotrowska-Oliwa	-	219
Marek Serafin [1)]	1 351	-
- remuneration payable		
Marek Serafin	-	1 351

1) Relates to remuneration paid due to severance pay and payable bonus for 2011.

As at 31 December 2013 the remuneration due to severance pay of the former Management Board Member Mr Marek Serafin of PLN 570 thousand remained unpaid. Accordingly, the remuneration was paid in 2014 and was listed in table above.

TABLE 13. Bonuses potentially due to the Company's Management Board Members for a given year to be paid in the next year (PLN thousand).

ITEM	2014	2013
Dariusz Krawiec	1 591	1 240
Sławomir Jędrzejczyk	1 434	1 137
Piotr Chełmiński	1 216	889
Krystian Pater	1 096	796
Marek Podstawa	1 096	887
Total:	**6 433**	**4 949**

The amount of bonuses for 2014 was estimated on a basis of forecasted accomplishment of the goals by the Management Board Members, whereas for 2013 was based on goals accomplishement forecasts.

General terms and conditions for granting annual bonuses

Members of the Management Board are entitled to annual bonus on the principles established in the contract, which is part of the Bonus System Regulations for the Management Board. The level of annual bonus is determined by the performance of individual activities (qualitative and quantitative), established by the Supervisory Board for the particular members of Management

Board. The Supervisory Board appoints each year four to seven individual bonus activities. The assessment of individual bonus activities' implementation (quantitative and qualitative) of particular Member of Management Board is made yearly by Supervisory Board on the basis of the President of the Management Board's recommendation, which includes assessment of individual bonus activities' implementation of all Members of Management Board, report on performance of bonus activities by particular Member of Management Board, ORLEN Group's financial statements and other documents, which the purpose of examination will be assessed by the Supervisory Board. The performance of individual bonus activities is expressed as the weighted sum of percentage points allocated by the Supervisory Board for each bonus activity. The Supervisory Board shall adopt a resolution to grant Member of Management Board the annual bonus for the year and its value or not to grant an annual bonus till 30 April of the following year. The resolution is the basis for the payment of the annual bonus, if ORLEN Group consolidated financial statements for the year will be approved by the General Meeting.

For 2014 Supervisory Board set for all Members of Management Board following quantitative targets:

- EBIT reported Concern,
- EBITDA LIFO of Concern,
- Maintained CAPEX of Concern + overhead and personnel costs of Concern,
- Development CAPEX of Concern,
- Exchange rate: TSR PKN relative to the market,
- Accident rate: TRR Concern,

and atributed to them the relevant bonuses thresholds. The Supervisory Board for each of the members of the Management Board also established quality objectives related to their areas of supervised activities.

TABLE 14. Remuneration of other key executive personnel of the ORLEN Group (PLN thousand).

ITEM	2014	2013
Remuneration and other benefits of members of key executive personnel:		
- other key executive personnel of the Company	34 950	33 720
- key executive personnel of the subsidiaries of the ORLEN Group	139 902	138 999
Total:	**174 852**	**172 719**

Rules for awarding bonuses to the key executive personnel (including members of the Management Board)

W 2014 key executive personnel bonuses system was updated in order to relate it with new PKN ORLEN Values system as well as ensure higher flexibility and incentive character of bonuses.

The regulations applicable to PKN ORLEN Management Board and directors reporting directly to the Management Board of PKN ORLEN and other key positions have certain common features. The persons subject to the above mentioned systems are remunerated for the accomplishment of individual goals set at the beginning of the bonus period by the Supervisory Board for the Management Board Members and, by the Management Boards for the key executive personnel members. Bonuses systems are consistent with the Company's Values, promote the cooperation between individual employeesand motivate to achieve the best possible results for the ORLEN Group.

The goals set are qualitative or quantitative and are accounted for following the end of the year for which they were set. Moreover, bonus regulation gives the possibility to distinguish employees, who significantly contribute to results generated by the ORLEN Group.

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

Members of PKN ORLEN Management Board who in 2014 and 2013 held functions on Management and Supervisory Boards of the subsidiaries, companies under joint control and associated companies belonging to the ORLEN Group did not collect any remuneration in this respect, except for Unipetrol a.s., where the remuneration due for holding the function were transferred to the ORLEN's Foundation Dar Serca (Gift of the Heart).

TABLE 15. Remuneration of the Members of the Supervisiory Board of PKN ORLEN (PLN thousand).

	2014	2013
Remuneration of the Company's Supervisiory Board members, including:		
Angelina Sarota 1)	202	180
Adam Ambrozik 2)	100	-
Maciej Bałtowski 3)	100	-
Cezary Banasiński	159	153
Paweł Białek 4)	-	76

Grzegorz Borowiec	159	153
Artur Gabor	159	154
Michał Gołębiowski 5)	48	158
Radosław Kwaśnicki 6)	100	-
Maciej Mataczyński 7)	-	97
Cezary Możeński 8)	159	78
Leszek Pawłowicz	161	156
Total:	**1 347**	**1 205**

1) from 27 June 2013 Chairman of the Supervisory Board
2) for the period of performing the function from 15 May 2014
3) for the period of performing the function from 15 May 2014
4) for the period of performing the function until 26 June 2013
5) for the period of performing the function until 26 June 2013
6) for the period of performing the function from 15 May 2014
7) for the period of performing the function until 26 June 2013
8) for the period of performing the function from 27 June 2013

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

In accordance with applicable agreements, members of the Management Board of PKN ORLEN SA are required for a period of 6 or 12 months from the date of termination or expiry of the contract, to refrain from competitive activities. During this period, the Board members are entitled to receive compensation in the amount of six or twelve monthly basic salary, paid in equal monthly installments. The Company may dismiss the President, Vice President and Members of the Board of the non-competition clause applicable after the termination or expiration of the contract or reduce the duration of the ban. In the case of an exemption from the prohibition of competition, the Company does not pay compensation. In case of shortening the duration of the non-compliance clause, the payment of the compensation shall be in proportion to the duration of the non-compliance. In addition, the agreements predict for the payment of compensation in case of termination due to dismissal from the position. In this case the salary amounts to six or twelve months of remuneration. The Supervisory Board may authorize the use of these provisions also in case of resignation from the position of Member of the Management Board.

Management Board Members from other ORLEN Group companies are required from the date of termination or expiry of the agreement to refrain from competitive activity for a period of six-months. During this period they receive remuneration in the amount of 50% of six-month basic salary, payable in six equal monthly installments. In contrast, the severance allowance of appeal from the position is typically three or six monthly remuneration.

4. ORLEN GROUP ACTIVITES

4.1 Introduction

ORLEN Group manages the complex of six refineries and the largest fuel station network in Central Europe. Moreover, ORLEN Group is a leading manufacturer of petrochemicals as well as consistently expanding the exploration and extraction of hydrocarbons segment – ORLEN Group owns upstream assets in Canada and in Poland exploration works has been conducted.

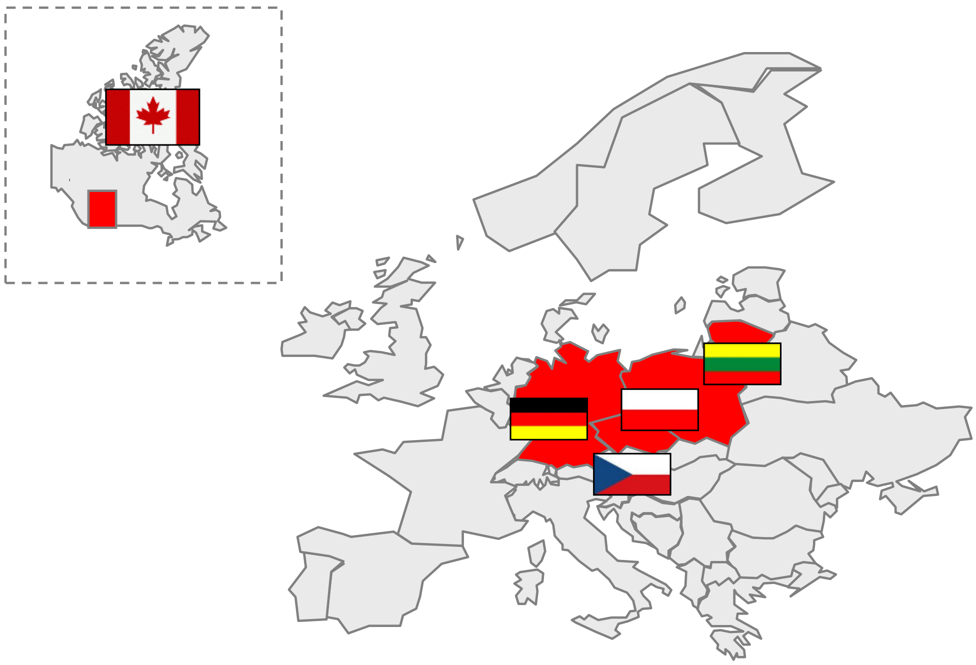
In **Downstream segment** ORLEN Group manages production assets located in Poland, Lithuania and the Czech Republic, being the leader in production of fuels in these countries. Production processes in the ORLEN Group are based mainly on the type of Ural crude oil, which share in 2014 was about 87% of the total volume of processed crude oil. This is an additional advantage of the ORLEN Group due to the discount in quotations of the Ural crude oil compared with Brent crude oil. ORLEN Group is also a leading producer of petrochemical products and production processes in this area are carried out at selected installations of PKN ORLEN, Unipetrol Group, ANWIL Group and Basell Orlen Polyolefins ("BOP"). Full integration of refinery and petrochemical installations in PKN ORLEN and Unipetrol Group and infrastructure of pipe lines connecting PKN ORLEN with ANWIL Group and BOP is an important element of competitive advantage. The main commercial products of ORLEN Group in the area of the refinery are: gasoline, diesel, light fuel oil, Jet A-1, LPG and heavy fuel oil while in the field of petrochemical and chemical products: ethylene, propylene, polyethylene, polypropylene, terephthalic acid, benzene , butadiene, acetone, phenol, glycols, toluene, orthoxylene, PVC, PVC granules, ammonium sulphate, caustic soda and soda lye.

Effective logistics infrastructure consisting of ground and underground storage facilities and pipeline networks is ORLEN Group's key competitive advantage in the fuel market.
ORLEN Group is also a producer of heat and electricity - major energy assets in downstream segment are: PKN ORLEN Power Plant ("EC") in Płock, the largest manufacturing unit in Poland used to supply production units in the media and the power units in Unipetrol Group and ORLEN Lietuva. PKN is also engaged in the construction of two new gas-steam units in Włocławek and Płock.

In **retail segment** ORLEN Group is a distinct leader in the fuel market in Central Europe with the network of 2,692 fuel stations operating in premium and economic segment in the Polish, German, Czech and Lithuanian market.

In **upstream segment** ORLEN Group conducts exploration and prospecting projects on conventional and unconventional deposits in Poland and extraction projects in Canada. As a result of consistent growth in the Canadian market total 2P resources (proved and probable) of the Company at the end of 2014 amounted to approximately 49.5 million boe of oil and gas. Project portfolio is concentrated in the areas of Alberta province: Pouce Coupe (Montney gas formation), Kaybob (Dunvegan Formation oil), Lochend (Cardium oil formation) and Ferrier/Strachan (Cardium formation).

SCHEME 3. ORLEN Group's operating markets.



4.2 Research and technical development

Piotr Chełmiński, Member of the Management Board, Business Development/ Power and Heat Generation Officer:
"In PKN ORLEN we have understood long time ago that competitiveness means innovation – do not always have to mean spectular discoveries as grapheme, but we also dream about it. The most frequently occuring projects are these which allow to make improvements or new solutions breaking down the existing technological barriers, which have not been in the pages of the media, but bring tangible benefits to business and science."

In 2014, ORLEN Group realized projects of research and development related to the implementation of new products and technologies, as well as resulting from the existing laws on environmental protection and the production and sale of chemicals.

The most important works realized by **PKN ORLEN** in 2014, was the review of the hydrogen economy and hydrogen gases. A number of initiatives/projects aimed at reducing the loss of hydrogen, increasing hydrocarbon recovery, increase yields on Hydrocracking installation by increasing the circulating gas quality and longer catalyst life on Isomerisation installation by reducing the oxygen atoms in the hydrogen gas, were developed.

PKN ORLEN also continued work connected with the specification of the technical capabilities of DRW atmospheric and vacuum columns to maximize the yield of products with higher margins and improve energy efficiency.

After the incorporation of production assets of ORLEN OIL to PKN ORLEN structures work connected with the production of base oils in groups II and III, as well as projects for the modernization of propylene and oil columns to increase the load of the Olefin II. Solomon's comparative studies concerning the main indicators of competitiveness and efficiency for the area of Olefins, Power Plant and Aromatics Complex, were also done.

The building of gas-steam power plant was continued. The main advantages of this type of block is greater efficiency and flexibility of work compared with conventional electric power production systems based on fuel carbon. Technologies used in blocks CCGT (Combined Cycle Gas Turbine) also significantly reduce emissions of harmful substances such as NOx, SO_2 and greenhouse gases. In the Power Plant of PKN ORLEN, environmental investment program involving the construction of modern installation of catalytic denitrification and dedusting and desulphurization designed to meet the rigorous standards of industrial emissions that will apply from 1 January 2016, was implemented.

Additionally, the PKN ORLEN in 2014 has worked closely with the following centers and institutions conducting research and development activities:

- ORLEN Laboratorium in Płock in conducting the start tests on production installations and analytical services,

- Ośrodek Badawczo-Rozwojowym Przemysłu Rafineryjnego S.A in Płock, conducting continuously monitoring of installations' corrosion processes of: DRW no. II, III, V, VI, Fluid Catalytic Cracking, Hydrocracking and Olefin II,

- Instytut Przemysłu Organicznego in Warsaw, developing Material Safety Data Sheet, instructions for drivers, issue classification certificates for products, on the basis of necessary research, and updating existing technical documents,

- Mia-Che Chemical Consulting in Skawina, in terms of technical advice and updates, translation and verification of safety data sheets of hazardous substances,

- University of Warmia and Mazury, as well as University of Szczecin, developing production technology of biocomponets from oil algae, using CO2 and post-production water

- Polskie Towarzystwo Biomasy POLBION, analyzes the possibility of obtaining biomass for next generation biofuel production

PKN ORLEN has also worked with the National Centre for Research and Development in preparation and launching of a dedicated R&D program for the chemical sector, carried out by the Polish Chamber of Chemical Industry

In 2014, **ORLEN Lietuva Group** continued the research and development related to improving the efficiency of production processes. In the beginning of 2014, thanks to putting into use of the installation of technologically advanced Visbreaker Vacuum Flasher, the processing of crude oil was broadened which increased recoveries of fuels. A project to increase the production of high-octane gasoline while limiting purchases of high-octane fuel was implemented thanks to improved management of existing streams of semi-products in the current production lines. Numbers of projects, aiming at, among others, balancing the octane level on installation of aromas reforming, starting the composing of highly sulphureted heating oil with paraffin, production of diesel oil for ships and optimization of asphalts production have been implemented.

Research & Development activities of **Unipetrol Group** in 2014 was carried out in collaboration with the company VUAnCh and Polymer Institute Brno s.r.o. The main activities focused on the optimization of the production processes of fuel oils with maintaining their quality standards, analysis of possible ways to improve the quality of diesel fuels and the use of residues from Visbreaking installation to production of road asphalt. Tests to improve the quality of bitumen additives were also carried out. In addition, projects for the evaluation of pyrolysis by-products and their wider use and implementation of new raw materials for the installation POX (Partial Oxidation), were carried out. Also development projects aimed at optimizing the use of catalysts were completed. In the area of polyolefin, the testing of catalyst systems were conducted, which allowed for the introduction in block copolymers production a new catalytic system that meets the requirements of the REACH of 2015. Project for the possibility of using carbon black as filler in polymer materials was implemented.

In 2014 **ANWIL Group** continued research and development with the AkzoNobel company related to the implementation of continuous dosing initiators (CID) technology in the polymerization of polyvinyl chloride. The implementation of this technology will allow for smooth speed control of the polymerization process. The project has passed the technological tests and proceeds to the economic analysis stage. ANWIL Group also conducted with the Lodz University of Technology and the Central Mining Institute work on developing a blend of PVC with increased resistance to fire and intended for cable insulation. Feasibility studies were also carried out for the project to increase production capacity and range of fertilizers and improved energy efficiency of ammonia and nitric acid installation in the area of fertilizer and the installation of vinyl chloride and PVC in the plastic.

Research and implementation works carried out in 2014 by **ORLEN Oil** were designed to increase the diversity of the market offer and the continued development of new technology products including motor oils in the class 5W-30 motor oils in the modern class 5W-30 and 10W-30, hydraulic oils (biodegradable, arctic, synthetic), gas oils for industrial engines as well as specialized oils used in machining processes and preservative-cleansing oils. In addition, research connected with optimizing the operating temperature of installation of vacuum distillates refining designed to reduce its energy intensity, were started. Also the project to reduce energy costs of hydrotreated base oils for installation HROS (Lubricating Oils hydrorefinement), was continued.

Rafineria Trzebinia Group continued a process connected with DRW installation optimization to improve yields and reduce the energy intensity. An analysis of distilling fraction A-4 in terms of its development to produce base oils with high viscosity indexes and slack waxes. Works on new recipes specifics of paraffin used in the tyre gum were continued, candle and agricultural industries.
In 2014, activities connected with and marine fuel were started. Moreover, studies under the guidance of PKN ORLEN associated with the biofuels generation were continued. As a part of cooperation with Rafineria Nafty Jedlicze the technological and economic analyzes were made and the technological trial of curing palm oil and hydrodesulfurization of slack wax, using Oil Hydrorefining installationin Jedlicze, were conducted.

In **Rafineria Nafty Jedlicze S.A.** the technical and design documentation for the production of aviation gasoline AVGAS 100 LL was prepared and the development work on the side gas streams processes designed to optimize energy and cost of production processes, were continued. The works related to the project „Metal Working Fluids" including a comprehensive research of the technology of producing metalworking fluids, oil bases from waste oils were also conducted. As a result of this activity, 15 products were chosen and taken to the potential customers for testing.

In **ORLEN Asfalt Sp. z o.o** a new project concerning advanced methods for checking the suitability of asphalt base to modify polymers were started. The work on the implementation of a new group of asphalt marked ORBITON Hima (Highly Modified Asphalts) with a high content of a special polymer were also on advanced stage.

ORLEN Group implements the requirements under **REACH** (Regulation (EC) No 1907/2006 of the European Parliament and of the Council of the European Union), whose main objective is to ensure a high level of protection of human health and the environment, while enhancing competitiveness, innovation and promote the development of alternative methods for assessing the risks of the substances. As part of the tasks of the Regulation, manufacturers and importers of substances are required to register them in the European Chemicals Agency (ECHA). As at 31 December 2014, 244 registration dossiers were submitted in the ECHA database by the ORLEN Group.

4.3 ORLEN Group's activities in downstream segment

Refinery	ORLEN Group	Poland	Czech Republic	Lithuania
Maximum throughput of crude oil [million tones]	**32,4**	16,3	5,9	10,2
Utilisation of crude oil capacity [%]	**84%**	88%	89%	74%
Utilization of Olefin installation capacity [%]	**83%**	74%	96%	-
Utilization of PTA installation capacity [%]	**86%**	86%	-	-

Sales	ORLEN Group	Poland	Czech Republic	Lithuania
Total [PLN thounsand]	**27 706**	**14 660**	**5 571**	**7 475**
Rafinery, including:	**22 257**	**11 397**	**3 385**	**7 475**
fuels	14 715	6 061	2 865	5 789
other rafinery products.	7 542	5 336	520	1 686
Petrochemicals, including:	**5 449**	**3 263**	**2 186**	**-**
olefins	837	689	148	-
polyolefins	592	-	592	-
benzene	414	186	228	-
plastics	418	295	123	-
fertilisers	1 143	962	181	-
PTA	571	571	-	-

Logistics	ORLEN Group	Poland	Czech Republic	Lithuania
Length of used pipeline network [kilometers]	**2 136**	949	1 100	87

Power industry	EC Płock	EC Litvinov	EC Mazeiku
Heating power installed [MWt]	2 149	768	694
Electric power installed [MWe]	345	112	160
Kettles' efficiency [%]	93.1%	90.8%	91.8%
Kettles' availability [%]	78.8%	79.9%	100.0%

1) Data of 2014

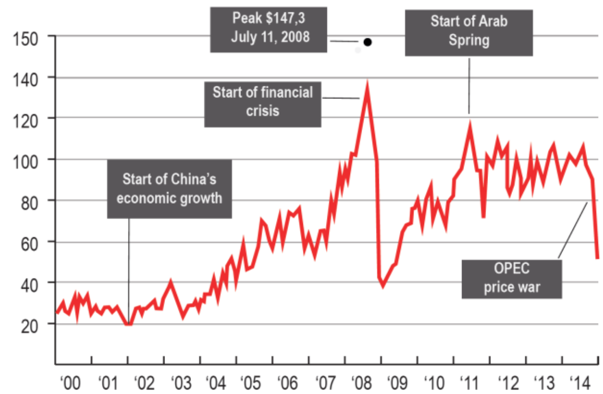
4.3.1 Market trends in downstream segment

Adam Czyżewski, Chief Economist:
"Low oil prices are a fact and are likely to remain with us in 2015 and 2016. So much time is needed to absorb the excess oil on the market and to reduce the potential for exploitation outside OPEC. The cartel has already decided it would not (at least for some time) and adapt process flexible moved to the US market. Their progress will not be smooth and will take time, because in contrast to OPEC, it refers to future potential. The upward trend in oil prices will not appear until 2017, depending on the scale of the adjustments that we know today. We will face high volatility of oil prices and refining margins, which will remain under pressure of excess capacity".

MACROECONOMIC ENVIRONMENT

Downstream market in 2014 was characterized by high volatility - difficult macroeconomic conditions in the first half of the year and a sharp decline in oil prices and higher model margins in the second half of the 2014. Trends in the market of refinery and petrochemical products were primarily a consequence of developments in the oil market, which in turn, was the result of long-term demand trend and short-term supply fluctuations. In recent preiod, oil prices have fallen significantly and at the end of the 2014 were more than 55 USD/bbl lower compared to the prices at the end of the first half of 2014. Lower prices result from oversupply of oil on the market and excess upstream potential, which arose in an environment of high prices, supported by OPEC, and are not a temporary phenomenon. High and flexible potential of oil shale extraction in the USA temporarily deprived OPEC influencing oil prices with its decisions about the scale of production and its monopoly position. In addition, the worsening outlook for economic growth in the euro zone and China and the emerging markets led to a reduction in demand for crude oil and liquid fuels.

DIAGRAM 17. Change in the price of crude oil [USD/bbl].



Source: Bloomberg

Potential trends in crude oil prices

– The balance of the oil market (exploration and potential) depends on the supply side and it will take a few to several quarters, which is necessary to absorb the surplus currently on the market and reduce the potential for exploitation of mining (CAPEX adaptation to lower prices).
– The consequence of the appearance of a second supplier of crude oil who is flexibly responsive to prices and refrain OPEC from intervening, is the search for oil prices which will balance the market below the level from the past three years, shaped by the policies of OPEC. Searching for balancing market prices after the loss of an anchor, provided by OPEC, increase susceptibility of oil price to change.
– This situation is reflected in the survey conducted by Reuters on oil prices among investment banks (dated 30 January 2015). Banks expect low oil prices (less than 60 USD/ bbl) in 2015 and an increase of 10 USD/bbl and 5 USD/bbl in 2016 and 2017. As the horizon gap grows, price forecasts are more inconsistent: some predictions assume low prices until 2017, the other their increase to 100 USD/bbl in 2016 already.
– In further scenarios, which materialization depends on CAPEX reduction and potential exploration, oil price until 2020 may either remain relatively low (aproximately 70 USD/bbl) or rise to over 100 USD/bbl, if CAPEX reduction will be excessive in relation to the expected growth in global oil demand, estimated for 2017-2020 to approximately 5.5 mbbl/d.

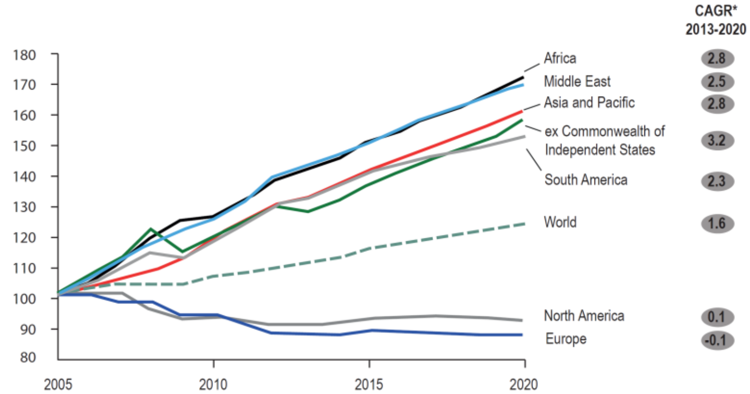
Forecasted changes in refining margins

– Currently the European refining industry is under structural pressure of low demand. In addition, competition of refineries in the Middle and Far East and US refineries, affects the margins in Europe. As a result, in the market the refining margins achieve lower levels compared to those in the USA and East. The release of oil exports in the USA, expected in 2016, will lead to a differential narrowing of Brent/WTI and will improve the competitive position of European refineries compared with the USA, although the improvement will not be significant.
– European refineries operate at partial use of the productive potential, which further increases costs and reduces profitability. Unexpected, rapid decline in oil prices led to the recovery in refining margins, but did not resolve the problem of overcapacity and the pressure of demand and competition from outside Europe. In addition, the downward trend in oil prices probably already been stopped and the potential of improvement in margins for this reason is exhausted.
– Absorption of excess oil supply is associated with the processing of refinery products, which currently takes place at a high rate due to favorable margins. Since the increase in margins and processing is not due to an increase in demand, the market will increase in inventories of refinery products, which will create pressure on their prices. As a result, refining margins will decline.
– In the baseline scenario, PKN ORLEN expects that trend of high margins will remain for one, two quarters, and then decreases, but will not return to such low levels that occurred at the turn of the years 2013 and 2014. In the years 2017 to 2020, we expect margins refinery of approx. 4 USD/bbl. Margins on diesel will be more favorable than on gasoline.
– In the alternative scenarios, varying due to the situation on the supply side, the margins in the years 2017-2020 will be different. In the scenario of limited CAPEX reduction due to expectations of a quick return of high oil prices, there will be enough crude oil on the market to stop the rise in prices at approx. 70 USD/bbl. The effect of cheaper oil than in the baseline scenario will be faster growth in demand for fuel and oil products, which will be conducive to maintaining the higher margins compared to the baseline scenario in the range of 4-5 USD/bbl. If CAPEX reduction will be significantly deeper than the baseline scenario, it will lead to a shortage of supply, which in the face of growing demand will lead to a rapid increase in oil prices 2017-2020. Because in such a scenario, the increase in oil prices will be the result of excess demand, will be accompanied by an increase in refining margins above the levels expected in the baseline scenario and low oil prices (5-6 USD/bbl).
– Global recession caused by geopolitical factors, could lead to collapse of demand of fuels, and therefore to strong reduction of margins, however above scenario is less probable than supplies scenarios (basis, low prices of crude oil, high prices of crude oil).

DOWNSTREAM - SALES

The biggest challenge for the downstream sector in Europe in the area of the refinery is the falling demand, which resulted in reduction of European refineries processing or shut them down. According to the IHS Cera fuel demand in Europe is falling constantly since 2008 and in 2014 was 13% lower than six years earlier and at a comparable level with the year 2013. Global consumption of diesel and gasoline in total will grow at a relatively high rate of 1,6% per year. The increase in consumption is very polarized - markets in Europe and North America remained stable, while growth will be listed on the emerging markets.

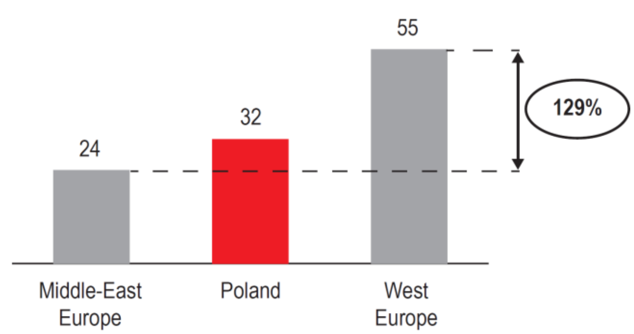
DIAGRAM 18. The change in consumption of diesel oil and gasoline [2000=100%].



*) CAGR – Compound Annual Growth Rate.
Source: IHS CERA

In the downstream segment, the petrochemical sales area, the importance for improving the situation of European producers has the development of specialized product portfolio with higher margins. Start of production of more advanced products requires not only the changes in terms of regimes of production facilities but also a strong R & D competence, investment and reorganization of sales channels and establishing long-term relationships with customers.
The persistent gap between the rates of consumption of polyolefins for Western Europe and Poland and Central and Eastern Europe indicates further potential growth of the ORLEN Group in this area.

DIAGRAM 19. Consumption of polyolefins per capita [kg/year].

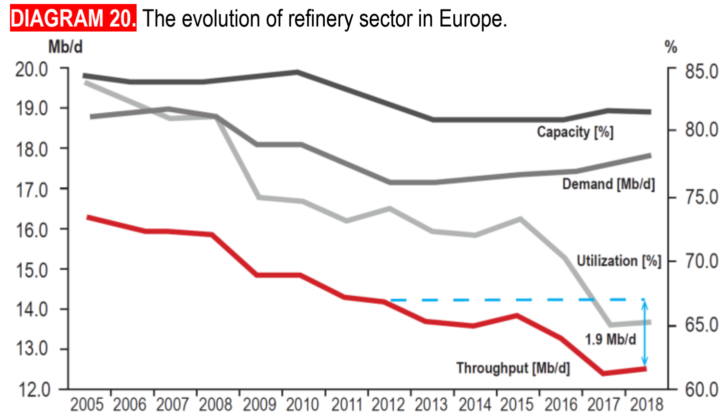


Source: Own calculation

DOWNSTREAM - PRODUCTION

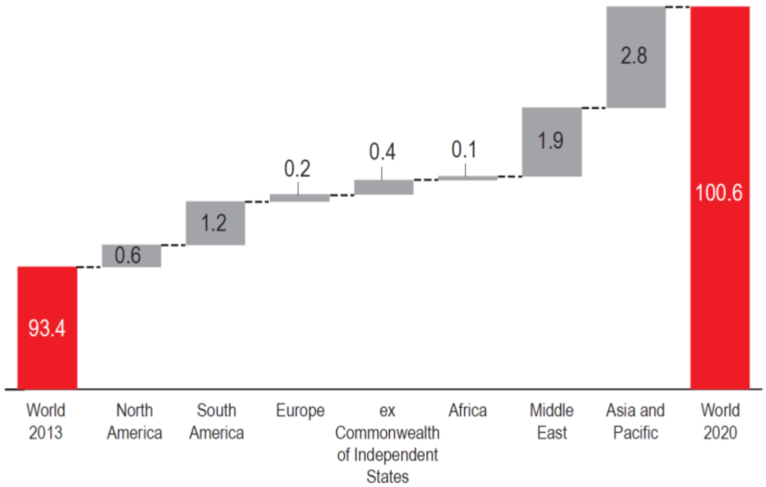
An important factor exerting pressure on the European dowstream sector is also oversupply of refining capacity in Europe, which in relation to fuel demand is estimated at over 10%. The excess refining capacity could lead to a significant reduction in utilization. The level of capacity utilization in Europe in 2014 remained at a low level and its further reduction is expected in the next years. In 2010-2014, 21 refineries were closed with a total processing capacity of about 2 million bbl/day. Despite the improvement in the macroeconomic environment in the second half of 2014, structural changes in the fuel market opportunities associated with the loss of surplus gasoline exports to the US market, and increasing competition of fuel producers from Russia and the Middle East may cause further closure of rafineries processing Brent oil and focused on the production of gasoline, non-integrated with petrochemical or retail businesses and having no-logistic advantages.

DIAGRAM 20. The evolution of refinery sector in Europe.



Source: Wood Mackenzie

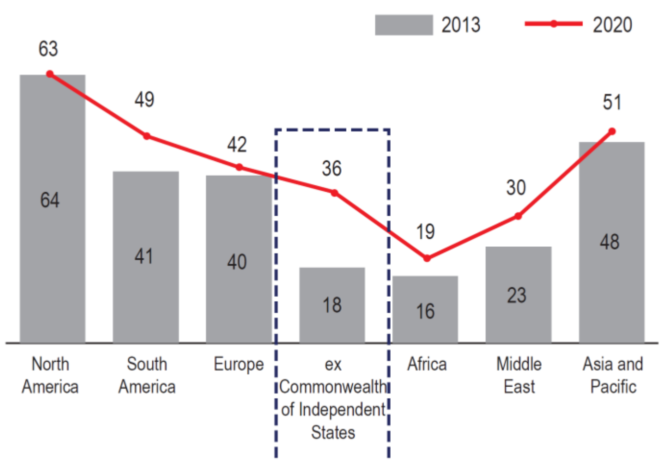
DIAGRAM 21. Change in available processing capacity by region in the period 2013-2020 [mlilion bbl/day]



Source: IHS CERA, Wood Mackenzie

The level of capacity utilization in Europe is affected by competition from refineries in the Middle East, producing for export and refineries in the USA, which strengthened their position due to shale gas revolution.

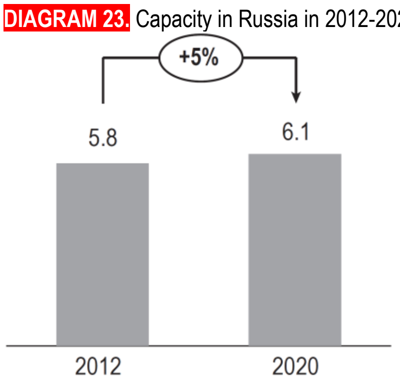
DIAGRAM 22. The compexity of refinery processing– the equivalent of the FCC[1)] in the period 2013-2020 [% refining capacity].



1) Equivalent FCC – the total capacity of all conversion units
Source: IHS CERA, Wood Mackenzie

Increasingly visible is the policy of oil producers, including Russia, aiming to produce more products processed in the place of sale of raw material.

DIAGRAM 23. Capacity in Russia in 2012-2020 [million bbl/d].

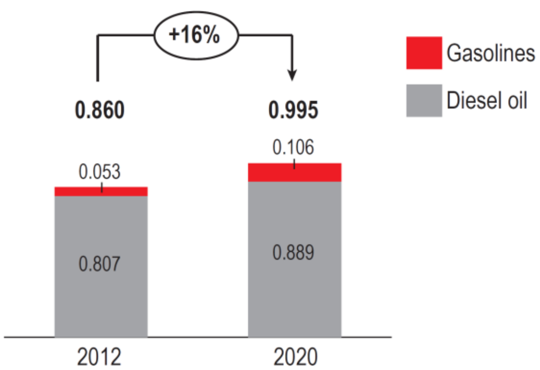


Source: Own calculation based on data from IEA, JBC Energy, IHS CERA

Due to the increase in processing capacity in Russia, the export of Russian fuels is growing. It is estimated that the capacity of refineries in Russia until 2020 will increase by approx. 15 million tonnes per year relative to 2012, and also a large part of the power will be modernized. Two stages of modernization of the Russian refineries concerning expansion of the power desulphurization construction and building new power conversion. In 2013, in Russia 5 new desulphurisation installation with a capacity of 140 thousand bbl/d were finished. In 2014, there was further increase of 100 thousand bbl/d of conversion capacity of which 70 thousand bbl/d are facilities used for the production of diesel oil.

As a result, the Russian net exports of gasoline and diesel until 2020 will increase by 16%, which means an increase in exports of diesel by about 7 million tonnes per year and gasoline by about 4 million tonnes per year.

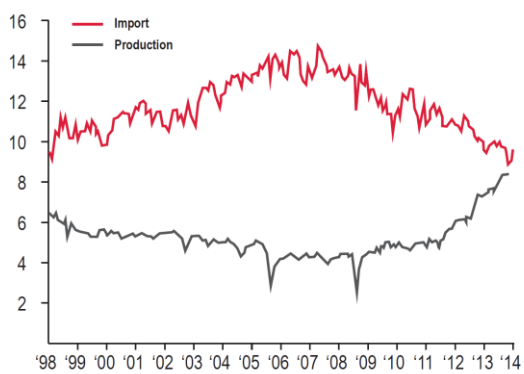
DIAGRAM 24. Fuel export from Russia in 2012-2020 [million bbl/d].



Source: own calculation based on data from the IEA, JBC Energy, IHS CERA

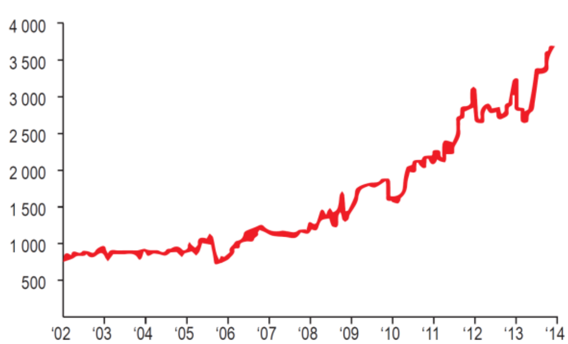
In addition, due to increased production of hydrocarbons from uncoventional deposits in the USA Europe practically lost the ability to export the surplus of gasoline to the US market.

DIAGRAM 25. Production and import crude oil in USA in the years 1998-2014 mln [bbl/d].



Source:own calculation based on data from the IEA Natixis

DIAGRAM 26. Fuel export from USA in the years 2002-2014 [thousand bbl/d]].

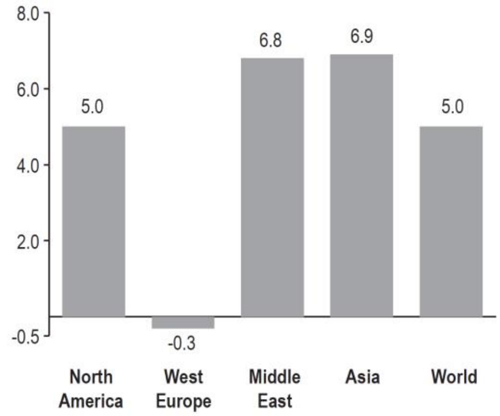


Source: Own calculation based on data form the Natixis

Increased production and export of fuel from the USA caused refining margins in Europe to erode. Overproduction of gasoline in Europe becomes more severe due to lower market opportunities in traditional export markets, and with increasing surpluses in North America and Russia, as well as reducing the deficit of the Middle East.

Changes in the area of petrochemical production are global. In Europe the biggest challenge for downstream sector is development of new production capacity in the USA, in Middle East and Asia. As a result of record-breaking low natural gas prices due to gas revolution in North America, costs of petrochemicals production decreased almost to the level of Middle East countries. Moreover, rapid economic growth causes the biggest petrochemical markets are Asian markets and there is expected the largest growth of production capacity in these regions during following years.

DIAGRAM 27. The average annual increase in production capacity by the region in the years 2012-2017 [%].



Source: own calculation based on data from the IEA Roland Berger

Low gas prices in North America for the recent eight years enabled the increase in the supply of ethylene with a lower production cost than in Europe, where production is based on crude oil. The last installation of olefins was built in the mid 90's and the average size of European plant is much smaller compared to the newly built facilities in the Middle East. More than 30% of the installation from the existing 43 in the near future will become unprofitable. In addition, deepening restrictions on Co_2 emissions and environmental protection affect European producers in the cost area.

The difficult situation of European petrochemical producers contributed to the deterioration of their financial performance compared to producers in other regions. The potential of achieving economic benefit is wide differential among European producers - the main factors have been: the scale of operations, integration with the refinery, access to cheaper raw materials, location, technology and the age of installation. Companies with plants based on gas inputs are switching to part of the production on lighter LPG mixture. This will lead to an increase in the proportion of propane and ethane in the input for ethylene production despite the expected decline in the overall ethylene production in Europe. The main levers of improving the situation of producers in Europe is to maximize the value of assets and restructuring plants. Programs to reduce costs, inventory and margin improvement may provide potential benefits from 60-150 USD/t. The integration of Upstream and Downstream is also important. It offers great potential to improve operational efficiency by integrating production streams and increase production flexibility, which can provide potential benefits at the level of 20-40 USD/t. Among the activities of optimization is also possible to improve pricing and product portfolio management to optimization of sales channels and strategies for different customer groups and sales regions.

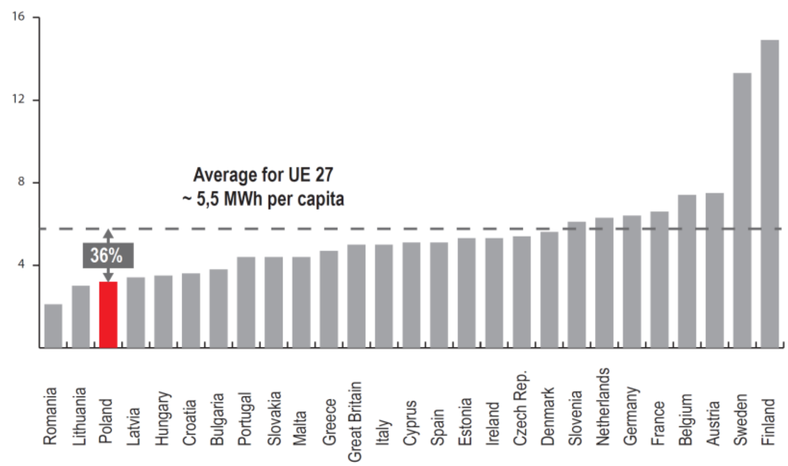
Additionally, EU requirements for the production of biofuels or reduce carbon dioxide emissions have an influence on the activities of companies in the oil sector. Adjustment of production processes into European law in the field of of bio-components share and other renewable fuels in the total amount of fuels used in transport, heavy penalties for failure to achieve the defined levels or the abolition of tax benefits related to the use of bio-components and biofuels in the fuel production significantly affect the operating costs of oil companies in Europe. Rigorous provisions for environmental protection and greenhouse gas emissions affect the deterioration of the competitiveness of European refineries in relation to companies from China, India and the USA.

DOWNSTRAM - POWER INDUSTRY

Global energy consumption from 2010-2030 will grow at a rate of 1.8-1.9% per year. According to the medium-term forecasts in the next decade Asia and the Middle East continue to remain the regions with the most dynamic growth in demand for electricity. Over 80% of the energy consumed in the world currently comes from fossil fuels: crude oil, coal and natural gas. In today's conditions the cheapest energy source is coal. However, in the horizon of 2050 coal as an energy source will be replaced with natural gas. It is expected that in the next decade gas energy will play a key role in the development of the European energy market.

Less expensive crude oil will have undoubtedly impact on the reduction of gas prices. Shale gas, whose price in the United States and Canada is low, will be able to compete for primacy with coal – in particular by offering a significant reduction in CO_2 emissions.

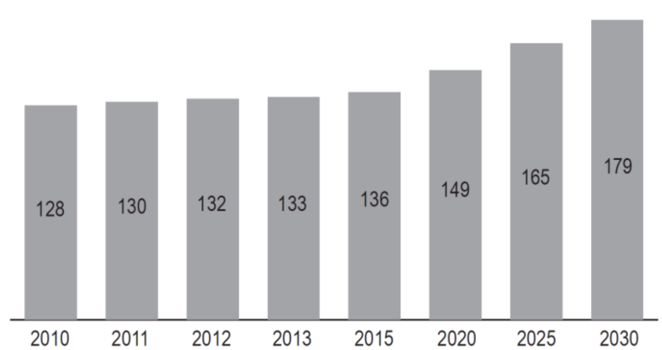
DIAGRAM 28. Electricity consumption in he European Union in 2012 [MWh/person]. 1)



In Poland the energy consumption per capita is well below the European Union average.

1) From the UE countreis Luxembourg was removed due to lack of representative data.
Source:Own analysis based on data from Eurostat and other publicly available information

DIAGRAM 29. Domestic demand on electricity in Poland in the years 2010-2030 [TWh]. 1)



The increase in demand for electricity in Poland in the years 2015-2030 is forecasted. It will be mainly related to the economic development of the country.

1) Final demand for electricity, ie. without taking into account losses in transmission and own needs of power plants
Source: Own analysis based on data CERA, ARE

In the years 2010-2013 the demand for energy increased at an average rate of 1.4% per year. In the years 2013-2020 a slight acceleration of growth in energy demand (by CERA CAGR will be around 1.6%) is expected. A significant part of the existing capacity needs to be upgraded and/or replaced due to age and high emissivity. It is estimated that by 2020 about 5 GW of generating capacity should be withdrawn from the market.

Until 2011 the wholesale electricity prices showed stable growth. In 2012-2013, there was a decline in prices from around 180 PLN/MWh at the end of 2011 to around 140 PLN/MWh at the end of 2013. Since the beginning of 2014 a progressive increase in prices in the wholesale market is noticeable.

In the power area of downstream segment of the ORLEN Group Company's core market is Poland - provides favorable growth prospects due to lower energy consumption compared to most European countries.

The Czech Republic has attractive energy market, but with significant barriers to entry for the ORLEN Group. Dominant position in the production of electricity has CEZ (České Energetické Závody). In 2010-2012, energy demand was stable. In the following years 2013-2020 by CERA, demand is expected to increase to about 1.7%. Changes in electricity prices in the Czech market are highly correlated with changes in the German market.

The installed capacity of domestic power in Lithuania is 4.0 GW, and more than twice the internal demand. In view of the above, development of the ORLEN Group in the area of energy in the Lithuanian market is not expected. Energy consumption by end users in Lithuania in 2010-2013 was relatively stable. In the years 2013-2020 by CERA is expected rapid increase in demand at an average rate of about 3.5%

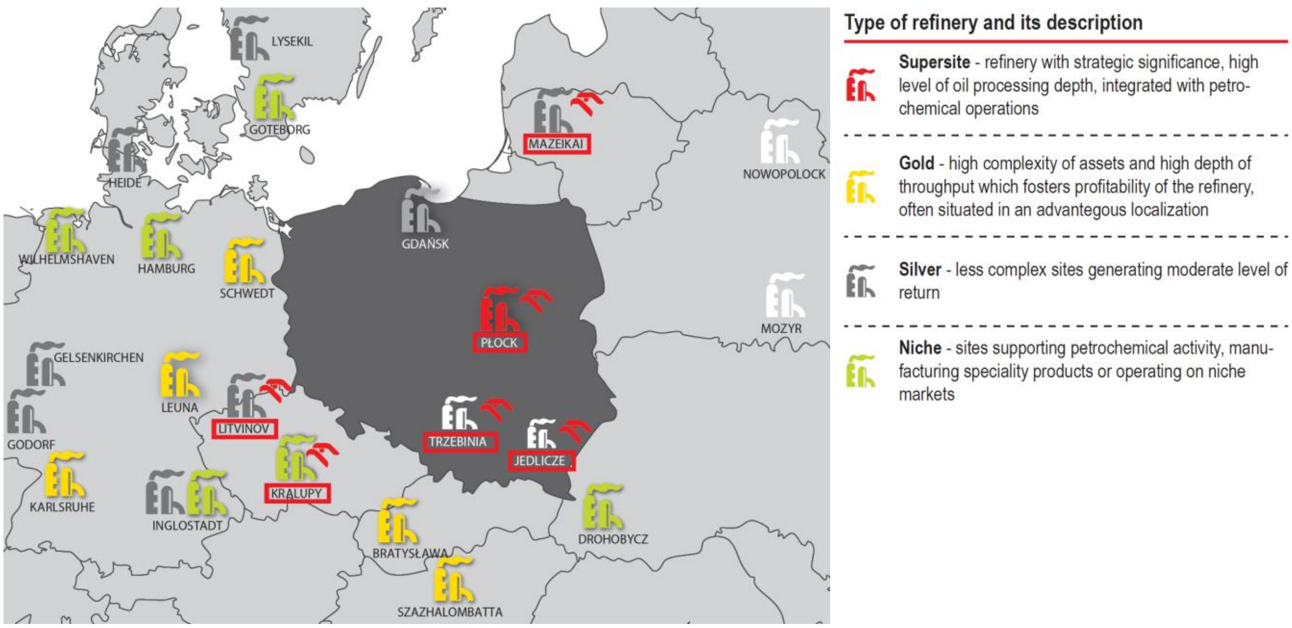
In the future, dynamic development of renewable energy sources (RES) in the world is also expected. It will be supported by regulations aimed at reducing CO_2 emissions and preferential treatment of RES. In 2014, the EU agreed targets for reducing CO_2 emissions and the share of renewables in energy consumption for 2030 years. Target for CO_2 reduction is 40% (compared to 1990), and the target for the share of renewable energy is 27%. An important step towards a global agreement was also an agreement between the US and China, which are the world's biggest CO_2 emitters to reduce greenhouse gas emissions.
In Poland, over 80% of electricity is generated from coal, but the share of renewable energy sources is gradually increasing. In 2005, the share of renewables in energy production amounted to 2.4%, while in 2013 already 10.3%

4.3.2 ORLEN Group's position and competitive environment

Krystian Pater, Member of Management Board of PKN ORLEN, Production:
"2014 was not easy for our industry and required consistent work on improvement of efficiency of refinery segment. It has also shown how unpredictable the environment is in which long-term planning is difficult. In second half of the year we used the favorable macroeconomic conditions but we cannot clearly predict the events and their effects on direction of our industry. Therefore the future requires us to work consistently on energy efficiency, increase of operational availability, reducing standstills and improving safety and simultaneously increase yields."

DOWNSTREAM - PRODUCTION

SCHEME 4. Types of European refineries.



Source: Own calculation based on Wood Mackenzie

Total capacity of ORLEN Group amounts to 32.4 million tonnes. Production plant **PKN ORLEN in** Płock is one of the modest integrated production facilities in Central and Eastern Europe with annual capacity of conversion at 16.3 million tonnes per year. According to Wood Mackenzie's ranking, the complex has been classified as a so-called Super-Site, which means refinery of strategic importance characterized by large depth of oil processing, integrated petrochemical activity and generating high margins. Within petrochemical production area the key installation Olefin has maximum capacity about 700 thousand tonnes of ethylene and about 380 thousand tonnes of propylene. Produced monomers are input used to production of polymers in BOP and PVC installation in ANWIL Group. PKN has albo modern complex PX/PTA, whose capacity amounts to 400 thousand tonnes of paraxylene which produces 600 thousand tonnes of terephthalic acid.
Other Polish PKN ORLEN is refineries located in the southern Poland (Trzebinia and Jedlicze) specialize mainly in services related to the storage and distribution of fuels, production of bio-components, base oils, fuel oils and regeneration of spent oils. At the beginning of 2014 they were merged and currently they are operating as ORLEN Południe.

Taking into account size of capacity, the second largest oil production plant in the ORLEN Group and also the only one on the market of the Baltic countries (Lithuania, Latvia and Estonia) is a refinery belonging to **ORLEN Lietuva.** Lithuanian capacity of refinery amounts to 10.2 million tonnes per year exceeds the demand tonnes of the local market, which forces directing part of the products to the European markets, and exports by sea. Currently operating programs of improving the efficiency in the ORLEN Lietuva Group are focused on improving the processing of crude oil, reaching higher yields and reducing the energy intensity of production processes.

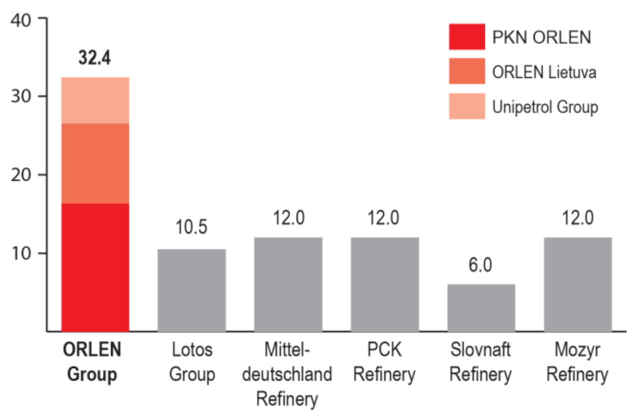
Crude oil processing in **Unipetrol Group** is realized by refineries in Kralupy and in Litvinov. Increase of shares in company Ceska Rafinerska a.s., under agreement concluded with Shell in 2013, enabled increase of capacity of refinery in Unipetrol Group to the level of 5,9 million tonnes per year from I quarter of 2014. Unipetrol Group owns petrochemical assets of capacity at the level of approx. 600 thousand tonnes per year (including 320 thousand tonnes of polyethylene and approx. 280 thousand tonnes of polypropylene. Continuing the consolidation process of refining assets in 2014 Unipetrol concluded an agreement Italian Eni for the purchase of

32.4% of shares in Ceska Rafinerska. The acquisition of the assets is waiting for approval anti-monopoly office.

Grupa ANWIL is one of the largest chemical companies in Central Europe, the only producer of polyvinyl chloride (PVC) in Poland and the Czech Republic, as well as one of the major producers of sodium hydroxide and fertilizers in Poland. ANWIL Group's production capacity is at the level of 1 160 thousand tonnes per year of nitrogen fertilizer, approx. 560 thousand tonnes per year of PVC and granules, approx. 360 thousand tonnes per year of sodium hydroxide and about 50 thousand tonnes per year of caprolactam.

Basell Orlen Polyolefins Gruop has facilities with total capacities at the level of 820 thousand tonnes, including 320 thousand tonnes of high density polyethylene („HDPE") and 100 thousand tonnes of low density polyethylene ("LDPE") and 400 thousand tonnes of polypropylene. BOP products are distributed both in domestic and foreign markets.

DIAGRAM 30. Capacity of main competitors in Central and Eastern Europe [million tonnes per year].



Źródło: Own calculation

The biggest competitors of ORLEN Group in Central and Eastern Europe are:

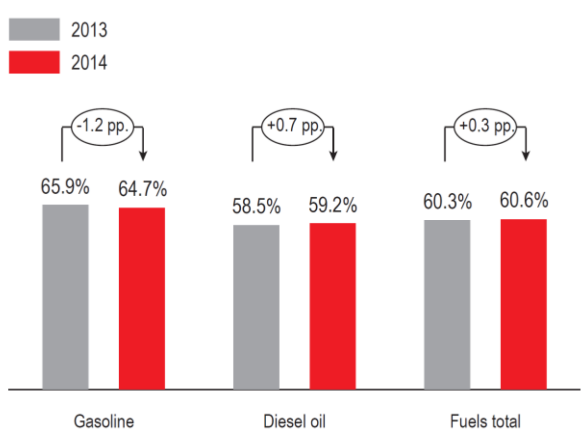
- Lotos Group with headqurter in Gdańsk – second largest refinery in Poland.
- Mitteldeutschland Refinery in Leuna/Spergau of Total Group, located in the south-eastern Germany, about 150 km from the Polish-German border, the most modern of German refineries.
- PCK Refinery in Schwedt located northeast of Berlin, about 20 km from the Polish-German border. The owners of the refineries are international oil companies Shell, BP, Eni, Total and Rosneft.
- Slovnaft Refinery - integrated refining and petrochemical group with a dominant position in the Slovak Republic, located near Bratislava, about 350 km from the Polish border.
- Mozyr Refinery - leading Belarusian refinery.

DOWNSTREAM - SALES

Wholesale of refining products

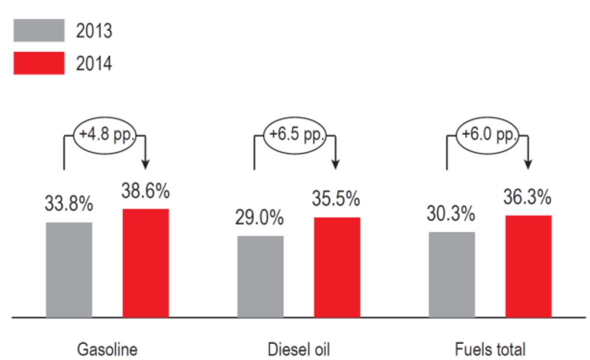
In 2014, ORLEN Group conducted wholesale of refinery products in Poland, Czech Republic, Germany, Slovakia, Hungary, Lithuania, Latvia, Estonia, Finland and Ukraine and by sea to Western Europe transshipment terminals. ORLEN Group's home markets include: Polish, Lithuanian and Czech markets. ORLEN Group has an extensive portfolio of refinery products, among others, gasoline, diesel, jet fuel, light and heavy heating oil, and a wide range of non-fuel products and semi-products.

DIAGRAM 31. Participation in the wholesale fuel market in Poland.



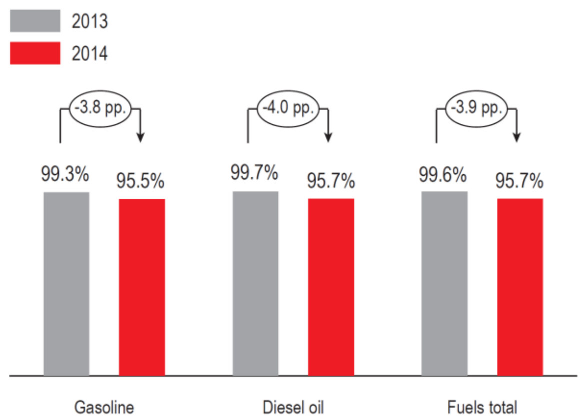
Source: Own calculation

DIAGRAM 32. Participation in the wholesale fuel market in the Czech Republic



Source: Own calculation

DIAGRAM 33. Participation in the wholesale fuel market in Lithuania.



Source: Own calculation

The total share of PKN ORLEN in the domestic fuel market in 2014 increased by 0.3 percentage points (y/y) and reach 60.6%.

ORLEN Lietuva Group maintained its leadership position in fuel sales in the Lithuanian market and its share in 2014 was about 95.7%

Very good sales results resulted in significant increases in the total shares of ORLEN Group in the Czech fuel market of 36.3%.

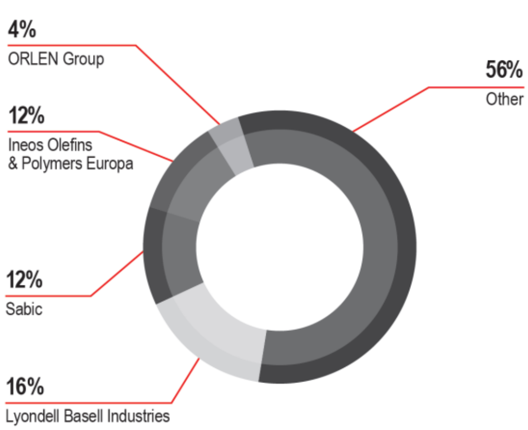
Wholesale of petrochemical products

ORLEN Group is one of the largest petrochemical companies Central and Eastern Europe and the only producer of monomers and polymers on the Polish market and most petrochemical products on the Czech market. Competiton in the European market is determined by the type of manufactured and offered petrochemicals products.

Polyolefins

The production capacity of high and low density polyethylene in Europe are at a level of about 14 000 thousand tonnes/year. The largest producer of polyethylene is a company Lyondell Basell Industries, which has a production capacity of about 2,170 thousand tonnes/year (including a 50% stake in BOP). The company has assets located in Germany, France and Poland. The second largest producer is Sabic with a production capacity of around 1,590 thousand tonnes/year and assets located in Germany, the Netherlands and the UK. The third largest producer is Ineos Olefins \ & Polymers Europa with a production capacity of about 1,580 thousand tonnes/year and assets located in Belgium, France, Germany, Italy and Norway. Other major producers are Total Petrochemicals, Borealis and ExxonMobil.

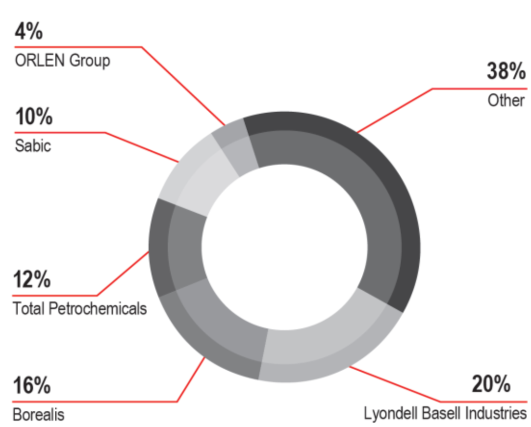
DIAGRAM 34. Polyolefins producers in Europe.



Source: Own calculations based on ICIS

Polypropylene production capacity in Europe is at the level of about 11,500 thousand tonnes/year. The largest producer of polypropylene is a company Lyondell Basell Industries, which has a production capacity of about 2,330 thousand tonnes/year (including a 50% stake in BOP). The company has assets located in Germany, France, Italy, Spain, the UK and Poland. The second largest producer is Borealis- a company with a production capacity of around 1,845 thousand tonnes/year and assets located in Belgium, Germany, Austria and Finland. The next major producers are Total Petrochemicals with a production capacity of about 1,430 thousand tonnes/year and assets located in Belgium and France, and Sabic having production capacity of 1,110 thousand tonnes/year and assets located in the Netherlands and Germany.
The total share of BOP and the Unipetrol Group in the European polyethylene production capacity is approx. 4% and about 4% in case of polypropylene.

DIAGRAM 35. Polypropylene producers in Europe.

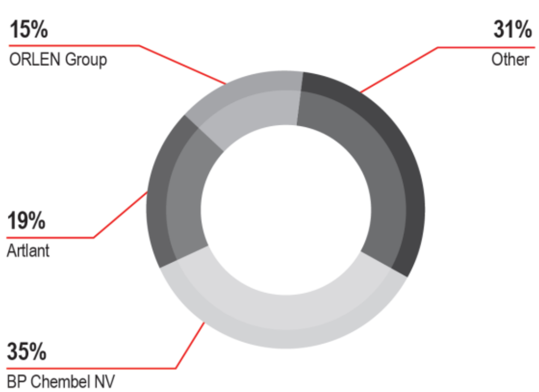


Source: Own calculations based on ICIS

PTA

Produkcj PTA production in the European market in 2014 amounted to about 2,551 thousand tonnes/year, with nominal production capacity of approximately 4,106 thousand tonnes/year. PTA in Europe is mainly used for the production of PET granulate intended for food bottles (about 87% of European production) and the production of polyester fibers (about 5% of European production). On the European market 7 PTA producers. In 2014, a decision was made to close the production unit Lotte Chemical UK with nominal production capacity of 525 thousand tonnes/year. The largest producers of PTA in Europe are: BP Chembel NV located in Belgium with nominal capacity of 1,400 thousand tonnes/year, the company Artlant in Portugal with nominal production capacity of 700 thousand tonnes/year and PKN ORLEN with production capacity of 600 thousand tonnes/year. In total, these three producers represent over 69% of European nominal production capacity in the PTA segment. The actual size of the Artlant's production in 2014 vs nominal size was significantly reduced due to the long exclusion of the Portuguese manufacturer. Restart of production is planned for the third quarter of 2015. ORLEN Group in 2014 had a 15% share in the nominal European production of PTA and was the only one in Europe holding PTA manufacturing systems fully integrated with the production of paraxylene. Planned investment in the future of the PTA in Europe, in addition to the turn of 2015/2016 planned revamping of installation Indorama Rotterdam (250 thousand tonnes/year), are concentrated in Russia: OJSC TANECO (210 thousand tonnes/year - 2017), Etana (750 thousand tonnes/year - 2018) and GPT/UPC JV (600 thousand tonnes/year - 2018). In 2014 new PET investments have started in Europe: JBF Belgium (390 thousand tonnes/year) and Lotte UK (385 thousand tonnes/year).

DIAGRAM 36. PTA producers in Europe.



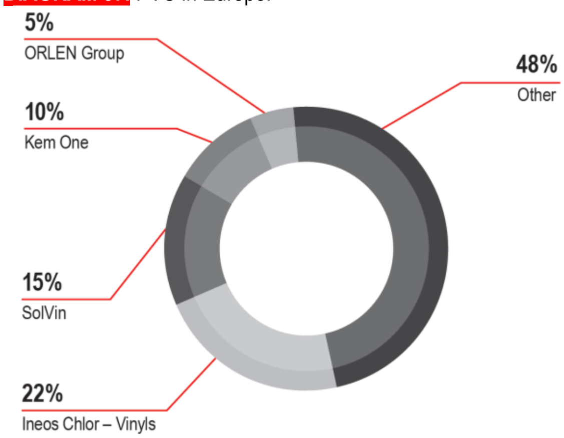
Source: Own calculations based on ICIS

Plastics

PVC nominal production capacity in Europe is 8,045 thousand tonnes/year. Leading manufacturers of PVC in Europe are Ineos Chlor companies - Vinyls, SolVin and Kem One. The share of these companies in the nominal production capacity is estimated to be 22%, 15% and 10% respectively. Estimated share of the ANWIL Group with the production capacity is 475 thousand tonnes/year in the European production capacity is approx. 5%.

ANWIL Group's main competitors in the PVC domestic market are BorsodChem, Ineos, Solvin while in Turkish and Ukrainian market ANWIL Group competes with cheap PVC originating in the USA and manufactured on the basis of shale gas.

DIAGRAM 37. PVC in Europe.

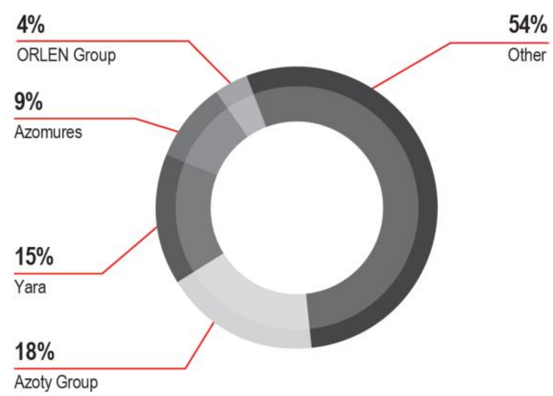


Source: Own calculations based on ICIS

Fertilizers

Ammonium nitrate production capacity in Europe is about 12,649 thousand tonnes/year. The product is used mainly in agriculture as a fertilizer. The largest producer of ammonium nitrate by Fertilizers Europe is Azoty Group with 18% share of the European market. The next big manufacturers are Yara and Azomures with 15% and 9% market share respectively. ANWIL Group the production capacitz of ammonium nitrate is 485 thousand tonnes/year and it takes 9th place with a 4% market share in terms of production capacity.

DIAGRAM 38. Ammonium nitrate producers in Europe.



Source: Own calculations based on ICIS

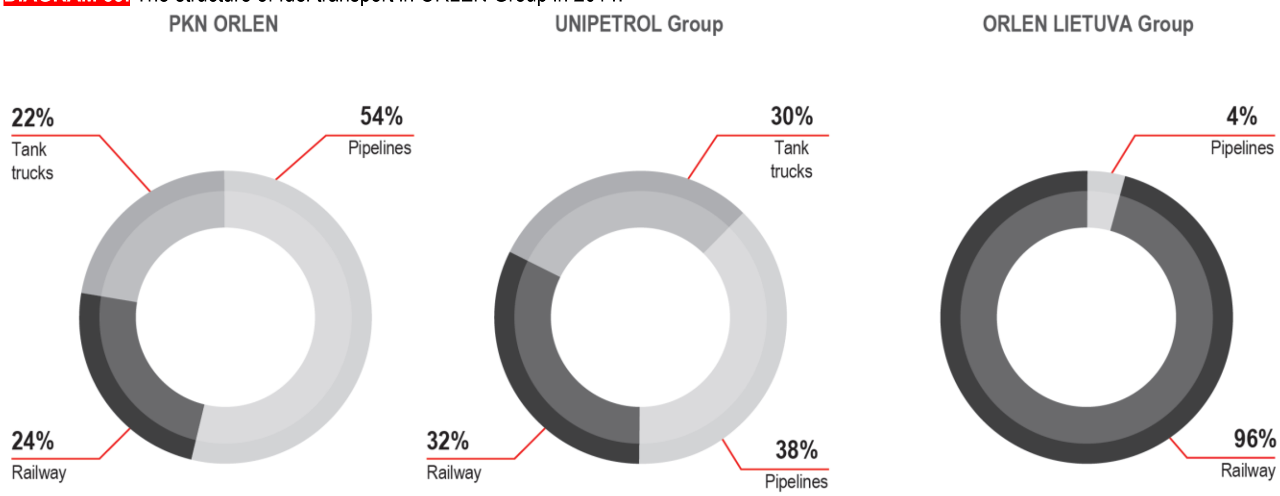
Core products, goods and services of the ORLEN Group is described in point 4.3.4.

4.3.3 Logistics assets of ORLEN Group

The strategic location of the ORLEN Group companies guarantees access to raw material and product pipelines and terminals onshore and offshore in Gdansk and Butinge. Using a network of complementary logistics infrastructure, ie. fuel terminals, land and sea reloading centres, pipeline networks and railway and road transport, ORLEN Group constantly aims to maximize the efficiency and liquidity of the transmission and storage of raw materials and products. Logistics companies operating in Poland ORLEN KolTrans Sp. z o.o and ORLEN Transport S.A., in the Czech Republic Unipetrol Doprava s.r.o and Petrotrans s.r.o.
The strategy for the years 2014-2017 assumes further optimization of logistics, among others, through alliances and using the synergy effect in cooperation with strategic partners (PERN, PPL, CEPRO) as well as the modernization of the assets, the use of new pipelines built by logistics operators and increasing reloading capacity of the terminal in Swinoujscie to facilitate rotation of fuel oil in this location.

In 2014 pipeline transport was the primary transport form of raw materials and products. The total length of used pipeline networks, including its own and leased in Poland, in Czech Republic and Lithuania, was more than 2.1 thousand kilometers. In addition, the ORLEN Group also used rail and road transport.

DIAGRAM 39. The structure of fuel transport in ORLEN Group in 2014.



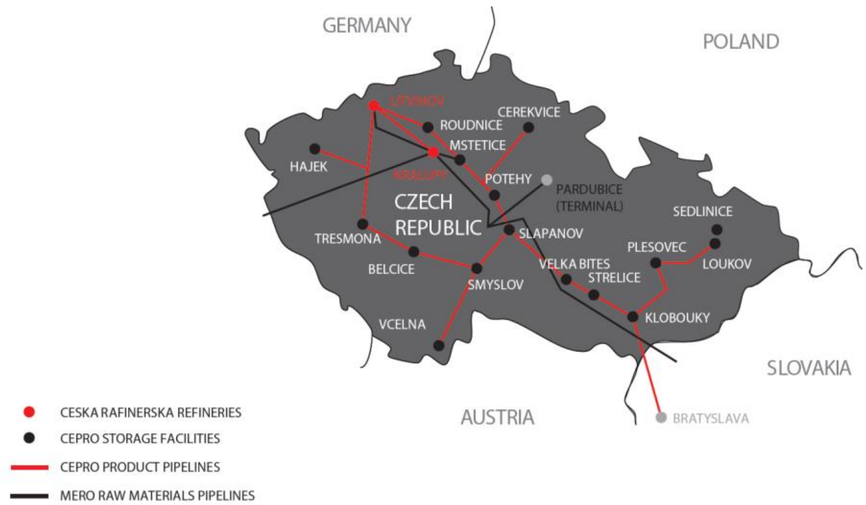
On the Polish market PKN ORLEN uses 570 kilometers of pipelines owned by Przedsiębiorstwo Eksploatacji Rurociągów Naftowych "Przyjaźń" and its own transportation infrastructure Płock - Ostrów Wielkopolski - Wrocław with a length of 379 km.

For operational purposes of receipt, dispatch and loading of fuel in 2014, ORLEN Group used in aggregate 25 facilities (own fuel terminals, terminals owned by entities from the ORLEN Group and third parties' centres). The total storage capacity within own infrastructure and based on agreements concluded at the end of 2014 amounted to 7 million m^3.

SCHEME 5. Logistics infrastructure used by ORLEN Group in Poland.

In 2014 on the Czech market ORLEN Group used 1,100 km of pipelines and 12 storage and distribution stations belonging to the state-owned operator CEPRO and 2 storage facilities leased from third parties.

SCHEME 6. Logistics infrastructure used by ORLEN Group in the Czech Republic.



SCHEME 7. Logistics infrastructure used by ORLEN Group in Lithuania.

DOWNSTREAM – POWER INDUSTRY

ORLEN Group is a major producer of electricity and heat, which is used in large part for their own production needs. It is also one of the largest consumers of gas in Poland and an active participant in the process of liberalization of the gas market. Consistently realizes strategic objectives contained in the ORLEN Group Strategy for the years 2014-2017, which assume modernization of existing assets and the construction of new power based on high efficiency cogeneration[1)].

ORLEN Group currently owns energy blocks in the three countries. In Poland, are located in Płock, Włocławek, Jedlicze and Trzebinia. In the Czech Republic in Litvinov, Spolana, Kolin and Pardubice and Lithuania in Mazeikiai.

POLAND

PKN ORLEN Power Plant in Płock ("PP") is the largest in terms of installed capacity industrial power plant in Poland and one of the largest in Europe, producing heat and electricity in the high-efficiency cogeneration. The total installed capacity is 345 MW electric and thermal installed capacity is 2,149 MWt. HP provides heat in hand and water heating and electricity - the media used for the production installations and for external customers. Different types of fuel may be used for the production of electricity and heat: heavy fuel oil as the primary fuel, natural gas and gas after refining. In 2014, the HP in Płock, the construction of an installation of Catalytic Denitrification and Dedusting, was continued and it will be completed in 2016. In parallel with development of Catalytic

[1] The concept of cogeneration is explained in the„Glossary of selected branch and financial definitions".

Denitrification and Dedusting on individual boilers installation, flue gas desuulphurization is being built based on the wet-limestone technology used to desulphurization of all boilers, which will be planned to launch in 2015.

Heat and power plant in ANWIL is an industrial power plant generating heat and electricity in a cogeneration process. The total installed capacity of electric three is 91,5 MWe turbine generators, a total installed capacity of 400 MW thermal. HPP provides heat in hand and water heating and electricity - the media is used for the production installations and for external customers. As fuel in boilers uses natural gas and heating oil.

Heat and Power Plant ORLEN Południe Group located in Trzebinia ensures full heating needs in hand and water, and partly the need of electricity. Currently in the Heat and Power Plant there are 3 installed steam boilers and 2 backpressure turbine sets to produce electricity for a total capacity of 8 MW of electricity, and the total thermal power of 90 MW. The basic fuel in Heat and Power Plant in South Trzebinia is fine coal, moreover, there is a possibility of burning heavy fuel oil. Future plans consist of modernization of energy assets in the direction of increasing the efficiency of production, to meet future environmental standards and to fully protect fully the needs of electricity for the refinery Trzebinia. In 2014 also launched an auction for the modernization of the plant in Trzebinia. Target electric power and thermal power plant will be about 14 MWe and about 96 MWt. Planned date of commencement of the project will take place in the second half of 2015, and the completion at the end of 2017.

Heat and power plant in Jedlicze is the primary source of heat in steam production technology, while the production of electrical energy sufficient to meet the needs of approximately 10%. The heat and power plant consists of 2 oil and gas boilers, 2 oil boilers and 2 coal boilers with a total capacity of 61 MWt.

CZECH REPUBLIC

Electric and heat power in **heat and power plant in Litvinov in Unipetrol** Group, based on brown coal, amounts to 112 MWe and 768 MWt. According to the current strategy in the plant in Litvinov energy assets are in the process of modernization. At the same time, in order to improve efficiency, the analysis of steam generation technology for petrochemical plant in Litvinov is carried out through the use of high-efficiency cogeneration.

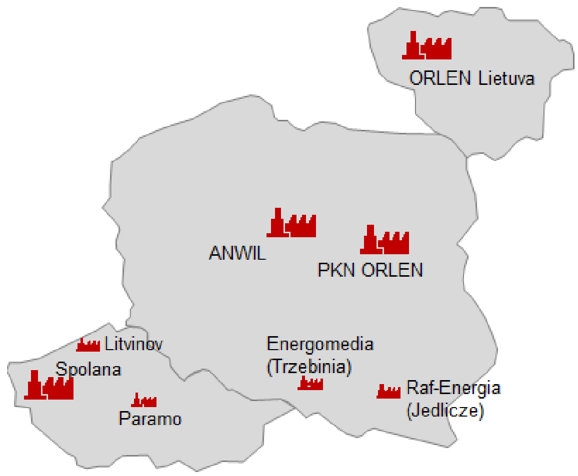
Heat and Power Plant in Spolana with an installed capacity of 70 MW and 280 MW, based on brown coal. At the end of 2014 the process of analyzing and implementing initiatives to improve the energy efficiency of power plants have begun. Works will be continued in 2015.

The Paramo Heat and Power Plant includes two production plants: Kolin and Pardubice, in which the source of producing steam based on the combustion of natural gas are located. In 2014, Pardubice took the tender procedure for the selection of a contractor for variant analysis modification for the plant in order to adapt it to the decreased demand for steam. This modification will allow an increase in the energy efficiency of power plants.

LITHUANIA

Heat and power plant in ORLEN Lietuva Group is a source of steam technology for production processes and a mix of heavy fuel oil and refining gases. The heat of electric power plant is 160 MWe and 694 MWt heat. In 2014, the tests were carried out concerning changes in the share of each fuel in the fuel mixture to optimize manufacturing costs and to meet emissions standards for the environment. In 2015, it is also anticipated the possibility of burning natural gas in power plants. In addition, work is expected to carry out a study to optimize the production of electricity from cogeneration and analysis on the existing power system.

SCHEME 8. Energy assets in ORLEN Group.



In line with the Energy Strategy of the ORLEN Group for the years 2014-2017, which assume an increase in energy production projects are the modernization of existing generation sources and new investments in the form of gas-steam blocks.

Projects in Włocławek and Płock are investments in industrial energy, adapted to the needs of the ORLEN Group. Both units are characterized by extremely high efficiency of electricity generation, low environmental impact and high utilization during the year. Electricity produced by the two blocks in combined heat and high efficiency cogeneration will be used for internal purposes of ORLEN Group and sold on the domestic market.

Construction of **gas and steam power plant in Włocławek: power of 463 MWe**, closely technologically linked with the ANWIL Department of Production was implemented according to schedule. In 2014 the implementation of most of the construction work was completed and the delivery of all key components of the plant was also completed. In the 2nd quarter of 2015 the first run of devices are planned. Start of operation of the power plant is planned for the 4th quarter of 2015. Afer running the power plant, it will be the main source of supply of technological heat and electricity to the complex ANWIL. The excess of electricity produced by the PSE will be invested in the domestic market.

In the 4th quarter of 2014, contract was signed for investments of CCGT Unit in Płock with the power of 596 MWe with a consortium of Siemens. At the same time the actions with the preparation of the necessary infrastructure to connect the new unit, was started, as well as preparing the land for investment. In 2014 a connection agreement with the transmission system operator PSE was signed and work on the signing of an annex to the existing agreement for connection to the transmission network Gas Transmission Operator the GAZ-SYSTEM, begun. The annex aims is to extend the scope of the connection, due to the increasing demand for natural gas after starting CCGT Płock. Completion of the project is scheduled on the 4th quarter 2017.

Electricity trading
In connection with the planned entry of PKN ORLEN SA on electricity trading market, in 2014 a General Distribution Agreement (GDA) was signed to provide access to the distribution network of each Distribution System Operators (DSOs) on the balancing of customers. Central Trading System (CSO) has also been implemented for the business in the wholesale market. A contract was signed with PSE to provide electricity transmission services so that PKN ORLEN has become a direct participant in the Balancing Market and gained its own trading companies scheduling unit. Currently, the Faculty of Commerce Energy is responsible for the entire ORLEN Group trading and operates in markets in Poland, the Czech Republic and Lithuania.
Protection of domestic demand for electricity requires the active participation of major players in the market, which are the Polish Energy Group (PGE), Tauron Polish Energy (Tauron), Energa and Enea. Part of the planned production capacity will be based on gas fuel due to the lower emission of CO2 and the flexibility to increase production capacity.
Power capacity of power plants in Poland at the end of 2014 was about 38 GW. Currently, under construction are sources (excluding renewable energy projects) with a total capacity of 6 GW. These units will partly replace the blocks out of use. Among its investments over 1.7 GW refers cogeneration projects, including two blocks built by PKN ORLEN (Płock and Włocławek), gas and steam unit in Stalowa Wola power of approx. 450 MW, which is a joint project of the PGNiG and Tauron and gas power plant in Gorzow with a capacity of 138 MW (PGE). Further investments in cogeneration based on gas fuel are planned by PGNiG (420-490 MW block in Zeran) and Tauron (Łagisza block 400-500 MW).

ORLEN Group's principal competitors in the energy trading are other large energy entities: PGE, Tauron, ENEA and Energa and other trading companies (ALPIQ, PKP ENERGETYKA, DUON, etc.).
In Poland, renewable energy is also developing, especially wind power. In 2014 the works on the draft law on renewable energy sources, which will enable further sustainable development of RES. After the end of the legislative process ORLEN Group will make decisions on the merits of the projects within the renewable energy sector.

4.3.4 Core products, goods and services

Marek Podstawa, Member of the Management Board, Sales:
"Observation of oil markets and European refining industry in the past year, shows how ORLEN Group has functioned in a very complex market environment. Poland's economic recovery is encouraging, although the fullness of happinessis not reached due to lack of effectiveness in the fight against the grey area in the fuel market. The negative pressure of the market environment did not prevent the increase of the ORLEN Group in share market. The company actively adopts its organizational structure to changes in the industry. Centralization of segment management on the ORLEN Group level or the continuation of construction of a dedicated Office of International Trade aimed to further improve operating efficiency and focus on one area of competence of maritime trade and charter service center of ships within the ORLEN Group".

Downstream segment volume sales in 2014 amounted to 27,706 thousand tonnes and was lower by (-) 2.4% (y/y). The reduction in volume in the markets of the Baltic states and in Poland due to the continuing adverse market conditions were mostly offset by increased sales in the Czech market because of higher plant availability and increased production capacity after the acquisition of 16.3% stake of Czech Rafinerska.

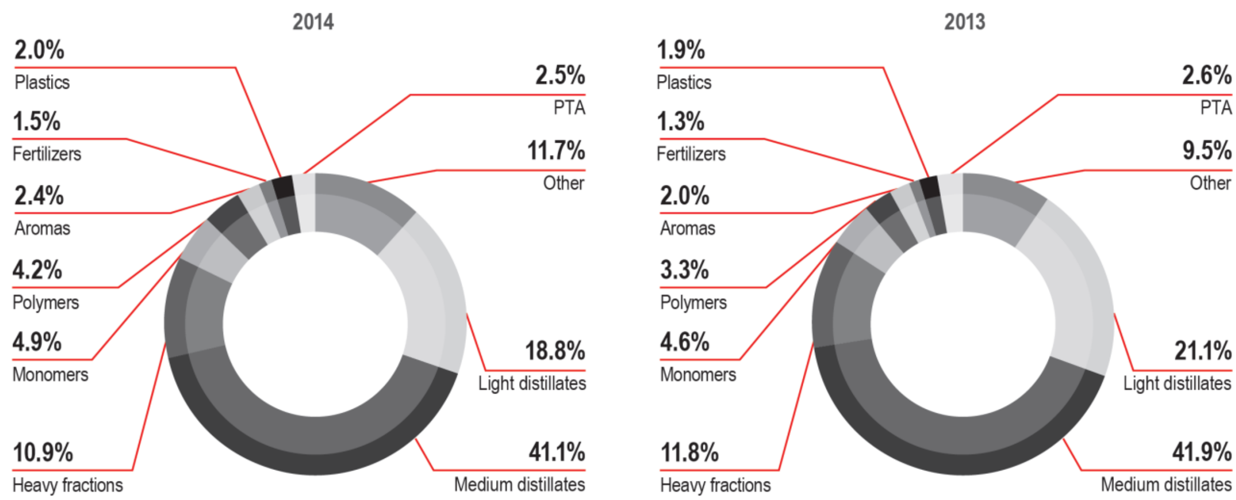
TABLE 16 ORLEN Group sales in the downstream segment (PLN million/thousand tonnes).

Sales	2014		2013		2012		CHANGE %	
	VALUE	VOLUME	VALUE	VOLUME	VALUE	VOLUME		
1	2	3	4	5	6	7	8=(2-4)/4	9=(3-5)/5
Downstream Segment								
Light destillates 1)	13 270	4 623	16 236	5 230	17 239	5 124	(18.3%)	(11.6%)
Midlle distillates2)	28 976	10 092	32 270	10 240	33 781	9 957	(10.2%)	(1.4%)
Heavy fractions3)	7 701	4 527	9 130	4 813	9 602	4 555	(15.7%)	(5.9%)
Monomers 4)	3 447	837	3 513	832	3 549	819	(1.9%)	0.6%
Polymers 5)	2 953	592	2 541	510	2 670	525	16.2%	16.1%
Aromas 6)	1 662	413	1 528	381	1 461	372	8.8%	8.4%
Fertilizers 7)	1 065	1 143	1 004	1 034	1 356	1 317	6.1%	10.5%
Plastics 8)	1 424	418	1 464	423	1 284	369	(2.7%)	(1.2%)
PTA	1 767	571	2 048	556	1 875	484	(13.7%)	2.7%
Others9)	8 284	4 490	7 313	4 357	8 805	4 299	13.3%	3.1%
Total	**70 549**	**27 706**	**77 047**	**28 376**	**81 622**	**27 821**	**(8.4%)**	**(2.4%)**

1) Gasoline, LPG.
2) Diesel fuel, light heating oil, jet fuel.
3) Heavy fuel oil, bitumen, oil.
4) Ethylene, propylene.
5) Polyiethylene, polypropylene.
6) Benzene, toluene, paraxylene, ortoxylene.
7) Canwil, ammonium sulphate, ammonium nitrate, other fertilizers.
8) PVC, PVC granulate.
9) Other value - includes the sale of other products, goods and materials of segment, also includes revenues from the sale of mandatory reserves for the total amount of PLN 2,236 million in 2014, PLN 1,045 million in 2013 and PLN 2,434 million in 2012 and revenues from services segment. Other volume - consists mainly of brine, salt base, vacuum distillates, acetone, ammonia, butadiene, phenol, technical gases, glycols, caprolactam, caustic soda and sulfur.

In 2014, 2013 and 2012, the ORLEN Group did not have a customer, whose share in total sales exceeded 10%.

DIAGRAM 40. Structure of revenues from the sale of the ORLEN Group downstream segment.



4.3.5 Markets

Basic home markets and ORLEN Group companies in the downstream segment:

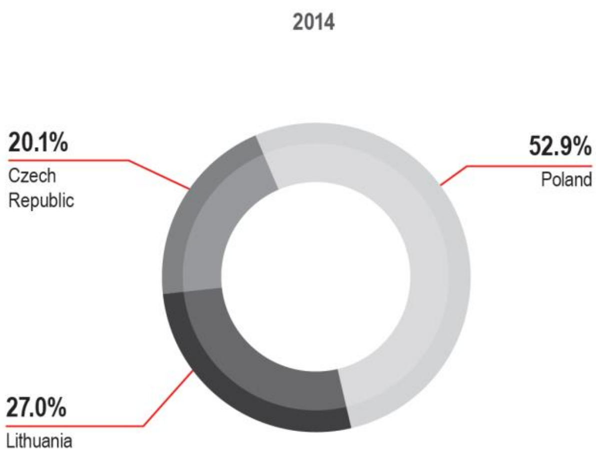
- **Polish market**: PKN ORLEN, ORLEN Asfalt Group, Rafineria Nafty Jedlicze Group, Rafineria Trzebinia Group, ORLEN Oil Group, IKS SOLINO S.A., ORLEN Paliwa sp. z o.o., ORLEN PetroTank Sp. z o.o., Petrolot Sp. z o.o., ORLEN Gaz Sp. z o.o., Ship-Service S.A.
- **Czech Republic market:** Unipetrol Rafinerie s.r.o., Paramo a.s., Paramo Oil s.r.o., Unipetrol Slovensko s.r.o., Mogul Slovakia s.r.o.
- **Baltic countries market:** AB ORLEN Lietuva, UAB Mazeikiu naftos prekybos namai (Lithuania), SIA ORLEN Latvija (Latvia), OU ORLEN Eesti (Estonia).

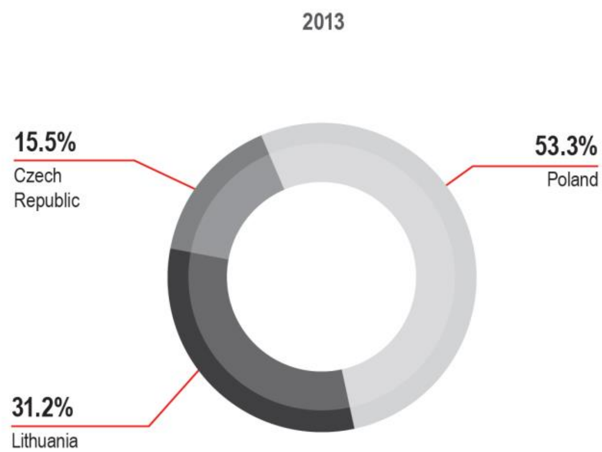
TABLE 17. Sales volume of the ORLEN Group in the downstream segment on domestic markets (in thousands of tonnes)[1].

SALES	2014	2013	2012	CHANGE	CHANGE %
1	2	3	4	5=(2-3)	6=(2-3)/3
Markets					
Poland	14 660	15 127	14 588	-467	(3.1%)
Lithuania	7 475	8 862	8 402	(1 387)	(15.7%)
Czech Republic	5 571	4 387	4 831	1 184	27.0%
Total	**27 706**	**28 376**	**27 821**	**(670)**	**(2.4%)**

1) By country of headquarter of company carrying out the sales

DIAGRAM 41. Structure of sales volume of the ORLEN Group in the downstream segment on home markets.





Polish market

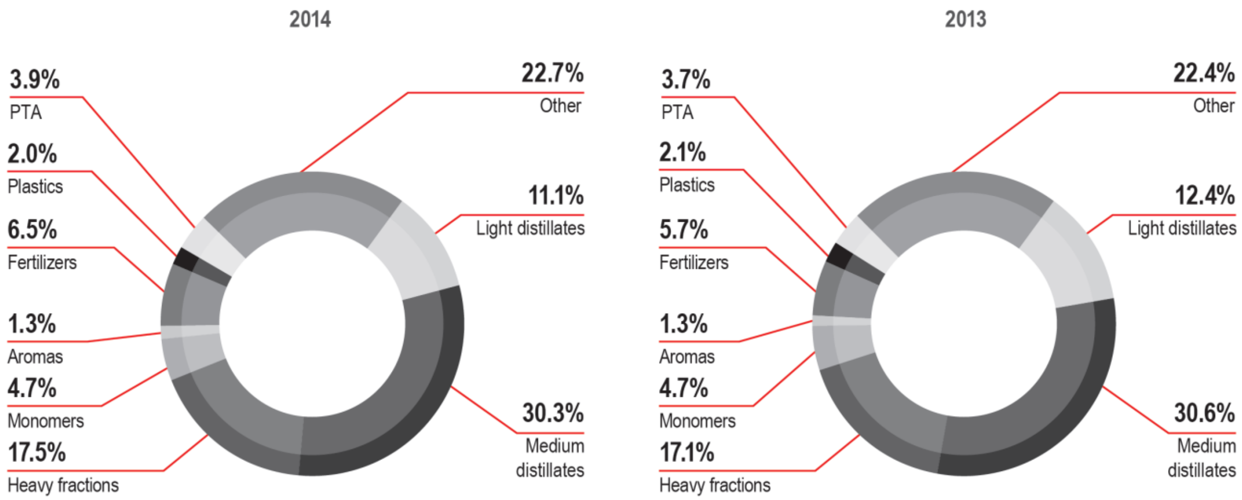
Year 2014 brought a clear acceleration of economic growth. According to preliminary estimates of the Central Statistical Office, GDP growth in 2014 was 3.3% (y/y) and was more than double compared to 2013. Positive trends were also evident in terms of the unemployment rate, which fell to 11.5%.

The improvement of the economic situation did not affect directly the level of fuel consumption. Energy Market Agency data show a decrease in domestic consumption of both gasoline and diesel, respectively by (-) 1.8% (y/y) and by (-) 1.3% (y/y). The impact of the “shadow economy” is noticeable on the fuel market, which in the case of diesel, based on the Polish Organisation of Oil Industry and Trade (POPiHN), may be more than 20% of its domestic consumption. In 2015, the projected decline will cease in the use of gasoline and a return to the upward trend in the consumption of diesel fuel as a result of subsequent changes in the regulatory environment and assuming continuation of economic growth.

TABLE 18. Sales volume of the ORLEN Group in the downstream segment on the Polish market (in thousands of tonnes).

SALES	2014	2013	2012	CHANGE	CHANGE %
1	2	3	4	5=(2-3)	6=(2-3)/3
Polish Market					
Light distillates	1 624	1 878	1 717	(254)	(13.5%)
Medium distillates	4 437	4 636	4 474	(199)	(4.3%)
Heavy fractions	2 563	2 592	2 520	(29)	(1.1%)
Monomers	689	707	670	(18)	(2.5%)
Aromas	186	192	167	(6)	(3.1%)
Fertilizers	962	855	933	107	12.5%
Plastics	295	324	276	(29)	(9.0%)
PTA	571	556	484	15	2.7%
Other	3 333	3 387	3 347	(54)	(1.6%)
Total	**14 660**	**15 127**	**14 588**	**(467)**	**(3.1%)**

DIAGRAM 42. Structure of sales volume of the ORLEN Group in the downstream segment on the Polish market.



The market situation and the impact of maintenance standstill of key production facilities as well as the limited sales to eastern markets (the conflict in Ukraine) have resulted in lower sales of light and middle distillates of ORLEN Group on the Polish market by a total of 453 thousand tonnes (y/y). As part of the sale of middle distillates, higher volume of Jet A-1 were achieved by rapidly growing market of passenger transport in Poland and also as a result of actions taken to centralize the sale of this fuel in PKN ORLEN.

The downstream petrochemical segment of ORLEN Group reported volume growth of mainly fertilizers, whose sales increased by 12.5% (y/y) and resulted from the higher availability of production facilities in ANWIL Group. Thanks to strong sales in the European market and the market for non-pet (polyester fibres and foils, powder coatings and resins, plasticisers) PTA sales volume increased by 2.7% (y /y).

The reduced sales of monomers by (-) 2.5% (y/y) are due to the effects of cyclic maintenance standstill of the Olefin from 3 quarter of 2014. The standstill of this installation along with the standstill of PVC in ANWIL Group contributed to the reduction in sales of plastics by (-) 9.0% (y/y).

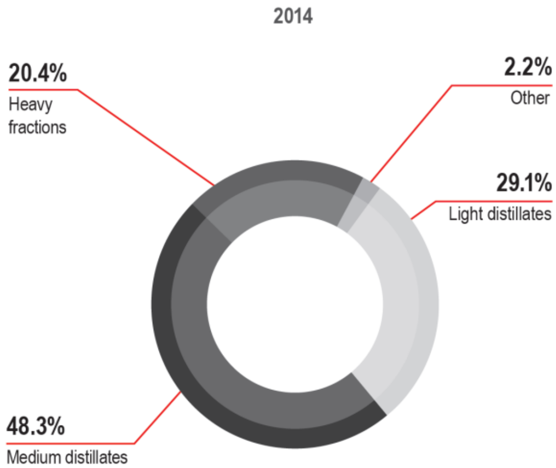
Markets in the Baltic States

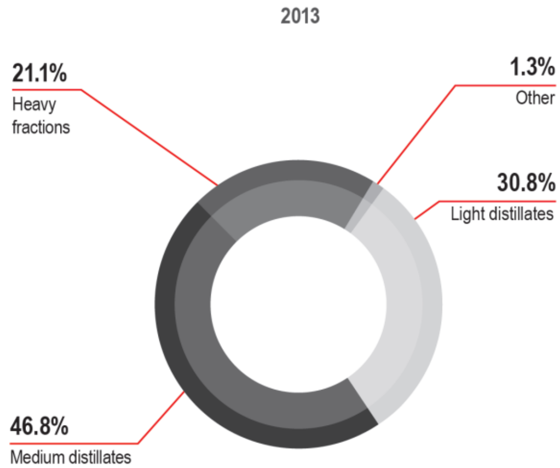
The economic downturn in the markets of the Baltic States appear to have reduce the GDP growth in these countries which had a negative impact on the fuel industry. In addition, the impact of unfavorable macroeconomic environment of the first half of 2014 and intensified competition from Scandinavian and Belarusian suppliers on the Latvian and Estonian markets and a decline in exports by sea resulted in a decrease of the total sales of the ORLEN Lietuva Group by (-) 15.7% (y/y) to the of level 7,475 thousand tonnes.

TABLE 19. ORLEN Group volume sales in the downstream segment markets serviced by the ORLEN Lietuva Group (thousand tonnes).

SALES	2014	2013	2012	CHANGE	CHANGE %
1	2	3	4	5=(2-3)	6=(2-3)/3
ORLEN Lietuva's Markets					
Light distillates	2 178	2 734	2 669	(556)	(20.3%)
Medium distillates	3 611	4 150	3 891	(539)	(13.0%)
Heavy fractions	1 524	1 866	1 727	(342)	(18.3%)
Other	162	112	115	50	44.6%
Total	**7 475**	**8 862**	**8 402**	**(1 387)**	**(15.7%)**

DIAGRAM 43. Structure of sales volume of the ORLEN Group in the downstream segment on the markets serviced by the ORLEN Lietuva Group.





Volume sales in the Lithuanian market, which represents 60% of the total sales of ORLEN Lietuva Group has improved significantly and reached a historic level mainly due to higher sales of middle distillates.

The armed conflict in eastern Ukraine and tense political and economic situation led to a significant increase in the risk of operating on that market and a clear decrease in fuel consumption. Despite the very difficult market conditions ORLEN Lietuva strengthened its position in the market and achieved record sales of gasoline and diesel. This was possible thanks to the strong position of the ORLEN Group in this market, as well as due to the low supply of fuel from refineries in Belarus.

Czech market

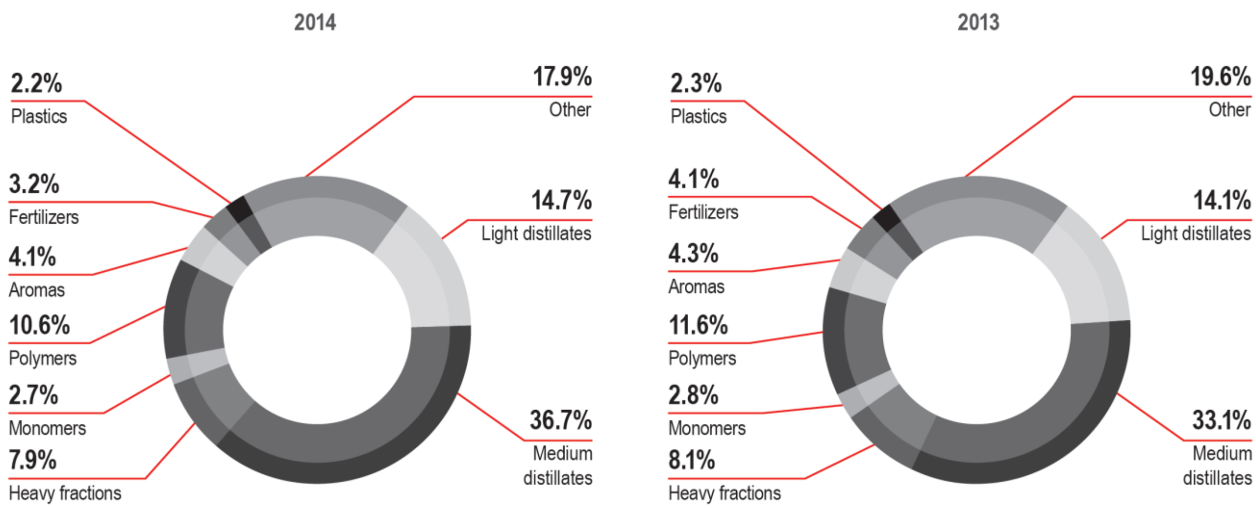
The Czech economy, after two years of recession, returned to a growth path. In 2014 forecast GDP growth increased by 2.3% (y/y). Good macroeconomic fundamentals translated into improved fuel consumption. Gasoline consumption increased by 0.3% (y/y), and diesel fuel by 4.2% (y/y). A positive impact on improving the consumption was also a decrease in "shadow economy" activity due to legal regulations implemented gradually. Also the macroeconomic situation in Slovakia has improved, where GDP growth increased to 2.4% (y/y), while maintaining the level of fuel consumption.
During 2014, there were periodic shortages of diesel, particularly on the Czech market, due to refinery standstill in the region. This situation had an impact on prices and favorable margins on the sale of the fuel. On the other hand, a negative impact was created due to activities of the main competitors - Eni, OMV and Slovnaft, manifested by a high market pressure on gasoline prices in the Czech Republic and a very aggressive pricing policy of OMV in the western part of Slovakia.

In 2014, the Unipetrol Group completed the purchase transactions of 16.3% stake in Ceska Rafinerska as from Shell. As a result of this transaction, the Unipetrol Group increased its processing capacity to 5.9 million tonnes of oil per year. Despite strong competitive pressure, increased production capacity combined with the favorable macroeconomic situation helped to achieve a significant increase in sales volume.

TABLE 20. Sales volume of the ORLEN Group in the downstream segment on the Czech market (in thousands of tonnes).

SALES	2014	2013	2012	CHANGE	CHANGE %
1	2	3	4	5=(2-3)	6=(2-3)/3
Czech market					
Light distillates	821	618	738	203	32.8%
Medium distillates	2 044	1 454	1 592	590	40.6%
Heavy fractions	440	355	308	85	23.9%
Monomers	148	125	149	23	18.4%
Polymers	592	510	525	82	16.1%
Aromas	227	189	205	38	20.1%
Fertilizers	181	179	384	2	1.1%
Plastics	123	99	93	24	24.2%
Others	995	858	837	137	16.0%
Total	**5 571**	**4 387**	**4 831**	**1 184**	**27.0%**

DIAGRAM 44. Structure of sales volume of the ORLEN Group in the downstream segment on the Czech market.



The increase in sales of light and middle distillates, respectively, 32.8% (y/y) and 40.6% depend on the higher installation availability and increased production capacity after the acquisition of shares in Ceska Rafinerska.

By 2014, Unipetrol Group has developed fuel exports to Hungary, Austrian and German, including the STAR network of stations belonging to ORLEN Deutschland GmbH.

In the downstream petrochemical segment reported strong sales of monomers, polymers aromas and plastics mainly due to favorable market conditions, accompanied by stable demand for products and the increased availability of production facilities due to lack of maintenance standstills and the negative impact of floods in the Czech Republic from 2013.

4.3.6 Sources of supply

Crude oil

Crude oil deliveries to PKN ORLEN are realized through "Druzhba" pipeline and by sea using Gdańsk-Płock pipeline. ORLEN Lietuva Group is supplied with raw material by the terminal in Butinge. The main directions of supply of raw material for the production of Unipetrol Group are the southern section of the pipeline "Druzhba" for the refinery in Litvinov and TAL and IKL pipelines to refineries in Kralupy. Litvinov refinery can also be supplied using the TAL and IKL pipeline.

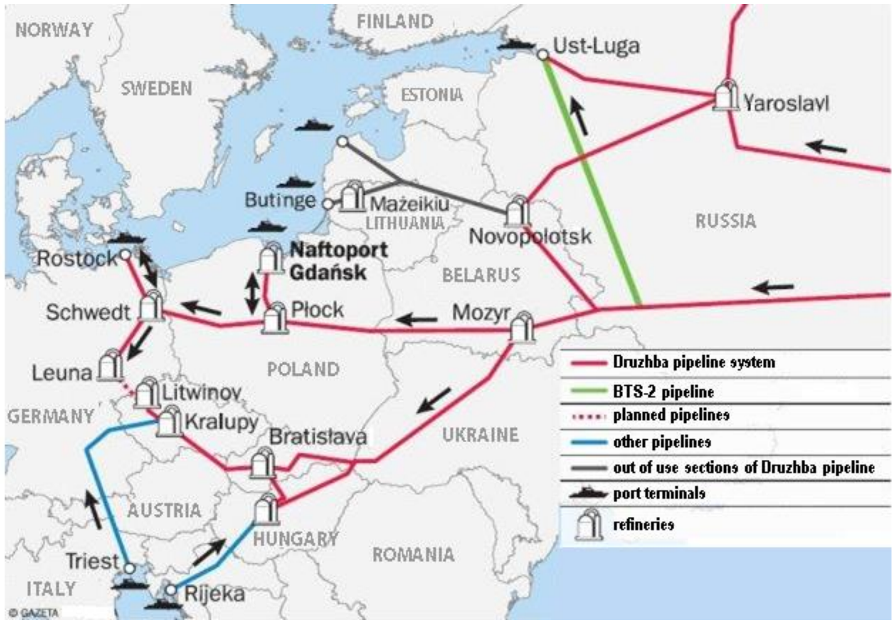
In 2014, there were three long-term contracts for the supply of crude oil by pipeline to a refinery in Płock (executed respectively with companies Mercuria Energy Trading SA, Rosneft Oil Company and Souz Petrolium S.A.). Each contract provides the possibility to re-negotiate prices annually; in case of agreement on this matter, the contract may be terminated. Agreement ensured safety and continuity of supplies to refineries and contained supply guarantee clauses based on financial guarantees. These long-term contracts provide PKN ORLEN with over 80% of oil supplies.

PKN ORLEN provides crude oil to the refinery in Płock and three ORLEN Group refineries located respectively in Litvinov and Kralupy in the Czech Republic and in Mazeikiai in Lithuania. In 2014 the crude oil supplies in all directions proceeded according to plan.

The raw material suppliers to all refineries were both manufacturers and companies operating in the crude oil market, including traders operating in the international crude oil market.
Crude oil delivered to Płock came primarily from Russia, moreover, from Kazakhstan, Norway and the United Kingdom. To refineries in the Czech Republic crude oil were supplied from Russia, Azerbaijan, Kazakhstan, Libya and Tunisia. Since July 2006, the supply of raw material to the Mazeikiu refinery are carried by sea to the port of Butinge and then through the pipeline to Mazeikiu. In 2014 crude oil purchased to the refinery came exclusively from Russia.

In 2014, the share of the company Mercuria Energy Trading SA and Rosneft Oil Company in crude oil supply was 27.8% of the total revenue from the sale of the ORLEN Group.

SCHEME 9. Logistics supply of crude oil in ORLEN Group.



Source: Own calculation based on publication in Wyborcza.biz

Natural gas

Purchases of natural gas are based on a long-term contract between PKN ORLEN and PGNiG and on short-term contracts with alternative suppliers. Gas prices in Poland in 2014 were higher than on the deregulated market of German and Czech. ORLEN Group continues efforts to ensure stable supply and reduce the overall purchase cost of natural gas, mainly through diversification of supply sources. In 2014, more than 30% of natural gas in the ORLEN Group was supplied by alternative suppliers.

ORLEN Group also implements a number of exploration and extraction projects in order to obtain their own sources of gas and crude oil.

4.4 ORLEN Group activities in the retail segment

Marek Podstawa, Member of the Management Board, Sales:
"With great pleasure we obtained a record result of EBITDA in the retail segment in the amount of 1.4 billion PLN. It was achieved through improved fuel margins outside the Lithuanian market and non-fuel margins in all markets. It is also worth noting about the share gains in all markets and an increase in total sales volume by 3,5%."

	The numer of retail stations	Market share, %
ORLEN Group	**2 692**	**14%**
Poland	1 768	37%
Germany	559	6%
Czech Republic	339	15%
Lithuania	26	3,6%

	The amount of stations by segments
ORLEN Group	**2 692**
Premium	1 588
Economical	972
Others	132

	The amount of food services outlets	Poland	Czech Republic	Lithuania
ORLEN Group	**1 371**	**1 250**	**98**	**23**
Stop Cafe	939	843	73	23
Bistro Cafe	432	407	25	-

1) Data for 2014

4.4.1 Market trends

In 2014 the MOL, Hungarian oil company, which manages Slovnaft and Pap Oil stations on the Czech market, took over 44 Lukoil stations in the package of 138 fuel stations in the Czech Republic, Slovakia and Hungary. In May 2014, the MOL concern also announced the acquisition of 125 AGIP stations located in the Czech Republic. As a result of these two acquisitions, MOL will manage 317 stations on the Czech market. Ultimately, they will operate under two brands: MOL and Pap Oil.

On the German and Lithuanian market, there were no major structural changes, previous leaders, which own Aral and Lukoil still maintain a leading position. Significant impact on the level of retail prices and margins in Germany was the introduction of a permanent reporting obligation of fuel prices by retailers. Data on fuel prices are collected in a central database, and then made available in real time to all interested parties. Customers have the ability to check fuel prices at stations which contributed to the reduction in prices and the need for frequent changes in prices on fuel stations.

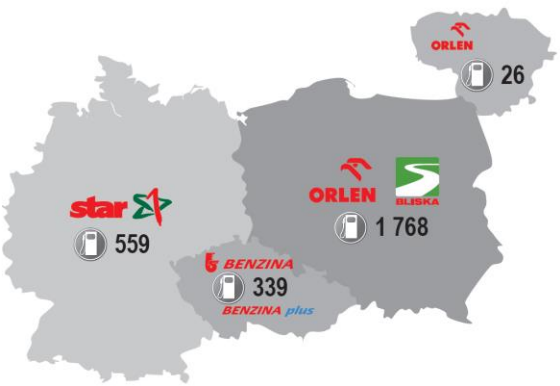
In 2014, there were still ongoing efforts to reduce the problem of "shadow economy" in Poland and the Czech Republic. Network of the fuel stations continued implementation of initiatives that optimize operational costs and projects focused on the dynamic development of catering services.

A significant impact on the number of stations in Poland was the entry into force of the new legislation changing the technical conditions for the fuel tanks. They have contributed to the temporary standstill of certain operating service facilities at the end of 2013 and carried out the required technical modernization or resulted in a decision to shut down and terminate the stations where the required investment activities had no business justification. It is estimated that for this reason about 200 fuel stations were closed belonging mainly to independent operators.
Still the number of independent stations is being reduced, which are establishing cooperation with large international networks or begin to operate under a common associate logo, association of independent stations.
In the other operating markets of ORLEN Group, there were no major changes in the number of operating fuel stations.

4.4.2 ORLEN Group's position and market environment

ORLEN Group is the firm leader in the fuel market in Central Europe with a network of 2 692 fuel stations operating in the premium and economic segment.

SCHEME 10. The number of ORLEN Group stations for the key markets at the end of 2014 year.

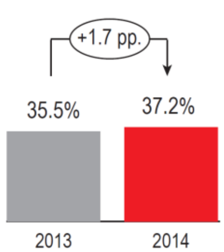


Poland

In Poland, the fuel stations operate under the ORLEN brand in the premium segment and BLISKA in the economy segment, in the Czech Republic respectively under the Benzina and Benzina Plus brands, while in Lithuania under the ORLEN and Ventus brands. In the German market stations operate mainly in the economy segment under the STAR brand.

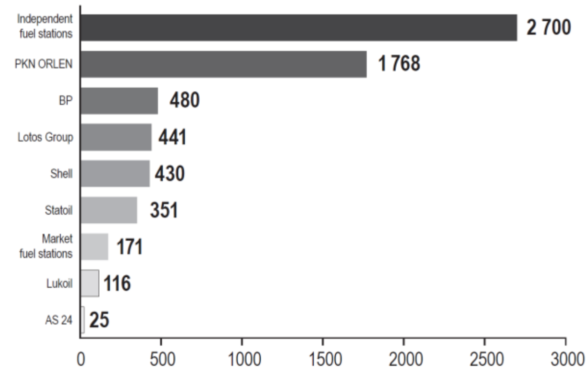
ORLEN Group on the Polish market at the end of 2014 operates a network of 1,768 fuel stations. Ambitious investment program, including the opening of new stations and motorway facilities, modernization of existing facilities, rebranding BLISKA stations to ORLEN stations, further development of food outlets and new store formats and corporate loyalty programs helped to strengthen its leading position in terms of sales volume and a significant increase in share[1)] in the Polish fuel retail market to the level of **37.2%.**.

DIAGRAM 45. Share in the retail fuel market in Poland.



According to the POPIHN data in 2014 more than 6.5 thousand stations functioned on the Polish market. ORLEN Group's share in the total number of fuel stations increased by another 0.9 percentage points and reached 27.3%. The major competitors of PKN ORLEN on the Polish market among foreign companies: Shell, BP, Statoil, Lukoil too belonged 21.6% of the stations and the Lotus Group with 6.8% share. The share of foreign companies and Lotos Group increased by 0.4 percentage points and 0.3 percentage points respectively.

DIAGRAM 46. Fuel station network in Poland on 31.12.2014.

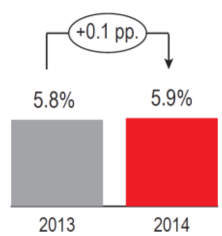


Source: Own calculations based on POPiHN data.

Germany

The retail market in Germany is one of the largest and most developed in Europe. STAR network of 559 fuel stations managed by ORLEN Deutschland GmbH is the largest network of fuel stations operating in the economy segment in Germany. ORLEN Group in 2014 for the first time in history exceeded **5.9%** of the German retail market.

DIAGRAM 47. Market share in the retail fuel market in Germany.

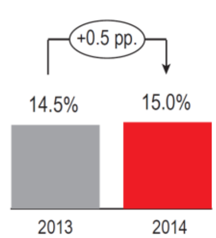


The main competitors of ORLEN Deutschland GmbH managing 559 fuel stations in the German market are international networks such as Aral, Shell, Esso, Total and JET.

Czech Republic

ORLEN Group manages the largest network of 339 fuel stations in the Czech Republic. Effective operational activities of Benzina network contributed to the growth of market share in the Czech Republic retail market to a level of **15.0%**.

DIAGRAM 48. Market share in the retail fuel market in Czech Republic.



Second place in the Czech market in terms of number of fuel stations is Hungarian MOL company to which belongs Slovnaft

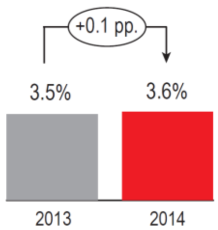
[1] The volume of retail sales of gasoline and diesel oil in relation to the level of retail consumption of gasoline and diesel.

network, Lukoil, Agip and Pap Oil. Important players in the fuel market are also OMV, Shell, Euro Oil.

Lithuania

Grupa ORLEN Group in Lithuania has 26 stations and reached **3.6%** share of the retail market at the end of 2014.

DIAGRAM 49. Market share in the retail fuel market in Lithuania.



ORLEN Group's main competitors in the Lithuanian market in this segment are Lukoil, Statoil and Neste.

Passengers Service Areas

Developing road system creates the possibility to develop a network of Passengers Service Areas on motorways and express roads in Poland. At the end of 2014 62 Passengers Service Areas operated on the Polish market. ORLEN Group has 23 Passengers Service Areas and is a distinct leader with 37% share in the total number of active stations located on motorways and express roads. Three Passengers Service Areas are in the course of implementation, including 2 stations located on the A2 motorway - section Konotopa - Strykow and 1 station off the A1 - section Lodz - Torun. Additionally, PKN ORLEN has 5 Passengers Service Areas locations, awaiting construction. GDDKiA is currently tendering 7 Service Areas location on the A4 motorway between Tarnów - Korczowa and 4 locations on the road S8 section Lodz-Wroclaw.

Source: Own calculations

4.4.3 Core products, goods and services

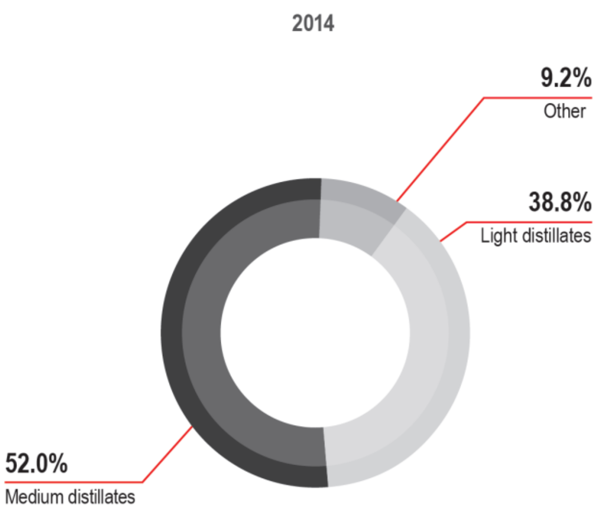
Sales volume of Retail Segment of the ORLEN Group in 2014 increased by 3.5% (y/y) and amounted to 7,776 thousand tonnes as a result of increased sales of light and middle distillates for the Polish, German and Czech markets. On the Lithuanian market reduction in sales of light distillates was fully compensated by a large increase in diesel sales. Detailed information about changes in sales volume in individual markets are presented below.

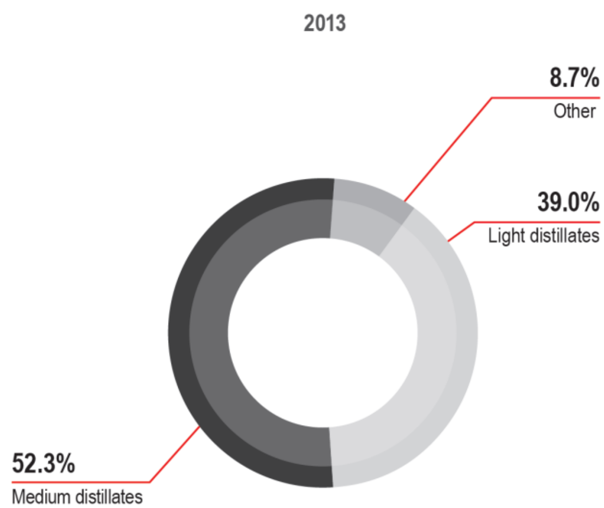
TABLE 21. ORLEN Group sales in retail segment (PLN million /thousand tonnes).

SALES	2014		2013		2012		CHANGE %	
	VALUE	VOLUME	VALUE	VOLUME	VALUE	VOLUME		
1	2	3	4	5	6	7	8=(2-4)/4	9=(3-5)/5
Retail Segment								
Light distillates 1)	13 951	2 916	14 229	2 832	15 289	2 881	(2.0%)	3.0%
Medium distilates 2)	18 659	4 860	19 079	4 684	19 688	4 586	(2.2%)	3.8%
Other3)	3 303	0	3 154	0	3 165	0	4.7%	-
Razem	**35 913**	**7 776**	**36 462**	**7 516**	**38 142**	**7 467**	**(1.5%)**	**3.5%**

1) Gasoline, LPG.
2) Diesel; light fuel oil sold by ORLEN Deutschland.
3) Other value – includes revnues from sales of non-fuel goods and services.

DIAGRAM 50. Structure of sales revenue of the ORLEN Group in retail segment.





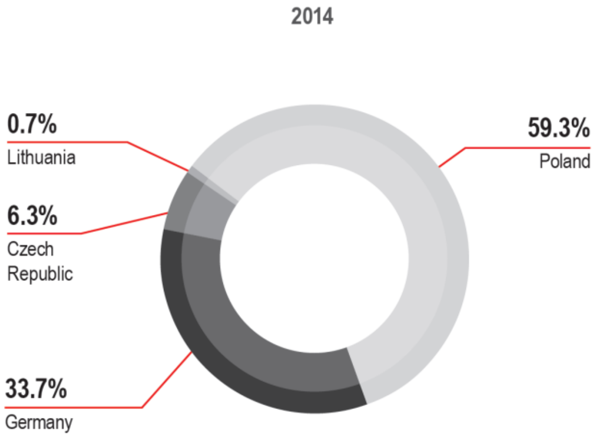
4.4.4 Sales markets

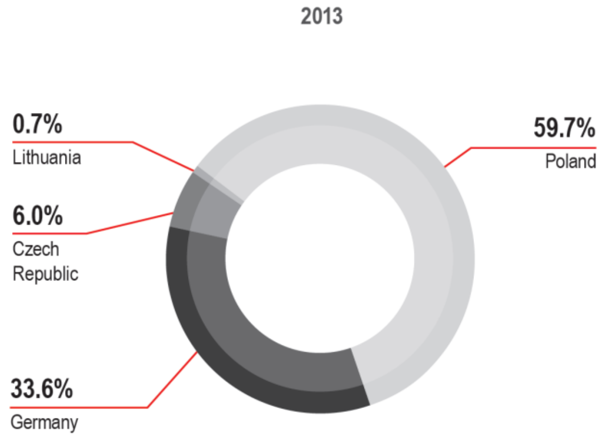
The retail area of ORLEN Group includes companies operating in all domestic markets of ORLEN Group: PKN ORLEN in the Polish market, ORLEN Deutschland GmbH in the German market, Benzina s.r.o. in the Czech market and Ventus Nafta AB in the Lithuania market.

TABLE 22. Sales volume of the ORLEN Group in the retail segment on domestic markets (in thousands of tonnes).

SALES	2014	2013	2012	CHANGE	CHANGE %
1	2	3	4	5=(2-3)	6=(2-3)/3
Markets					
Poland	4 609	4 487	4 501	122	2.7%
Germany	2 621	2 524	2 484	97	3.8%
Czech Republic	488	454	432	34	7.5%
Lithuania	58	51	50	7	13.7%
Total	**7 776**	**7 516**	**7 467**	**260**	**3.5%**

DIAGRAM 51. Structure of sales volume of the ORLEN Group in the retail segment on domestic markets.





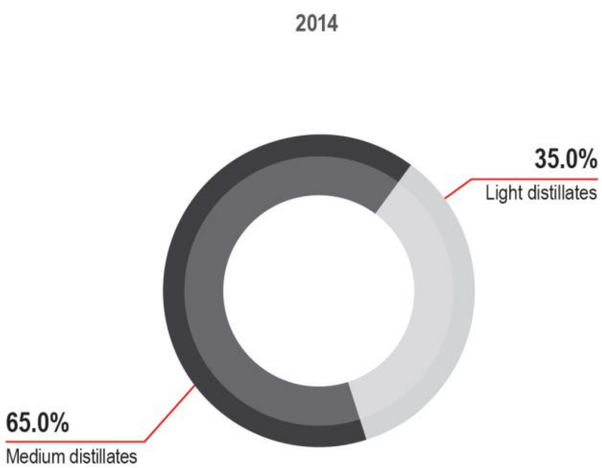
Polish market

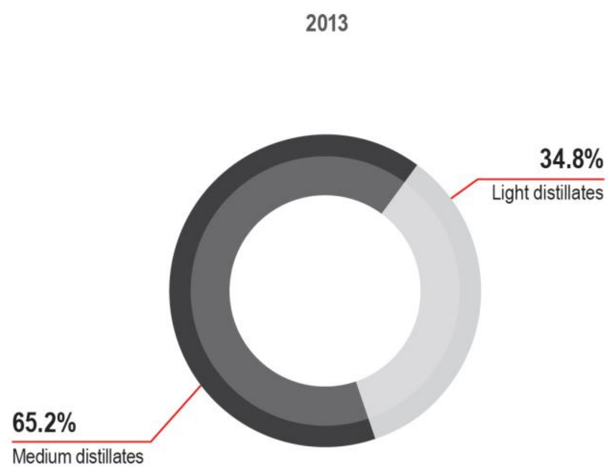
The volume of fuel sales in 2014, despite a reduction in the number of stations in the network and decrease fuel consumption in Poland increased by 2.7% (y/y) and amounted to 4,609 thousand tonnes.

TABLE 23. Sales volume of the ORLEN Group in the retail segment on the Polish market (in thousands of tonnes).

SALES	2014	2013	2012	CHANGE	CHANGE %
1	2	3	4	5=(2-3)	6=(2-3)/3
Polish market					
Light distillates	1 613	1 562	1 591	51	3.3%
Medium distillates	2 996	2 925	2 910	71	2.4%
Total	**4 609**	**4 487**	**4 501**	**122**	**2.7%**

DIAGRAM 52. Structure of sales volume of the ORLEN Group in the retail segment on the Polish market.





Realized investment projects and implemented initiatives of efficiency contributed to the increase in the average sales volume on CODO fuel stations to the level of 4 million liters. This result is higher by 7% (y/y) compared with result realized in 2013. Average annual sales at Premium fuel stations was even higher and amounted to 4.2 million liters.

The year 2014 means further development of fleet sales - an increase in volume compared to the year 2013 by almost 1.6 percentage points to 30% of the total volume. The extent of using fleet cards was extended – fleet cards can be used for payments for highway, new features have been implemented for the fleet program participants which include, among others, service mechanical services or mobiParking. Launched in the last days of 2013 MikroFlota project, offering fuel cards for micro-enterprises in 2014 reached more than 8 million liters of volume sales.

In 2014 sales revenues from the sale non-fuel products and services increased by 3% (y/y). The number of Stop Cafe and Stop Cafe Bistro locations also increased and at the end of 2014 amounted to 1,250 and grew by 203 (y/y).
The implemented program of modernization and development of the automatic car wash has enabled the improvement in the revenues from these services by 19% (y/y). As part of activities aimed at the development of new formats in the shop and food outlets offer launched 18 test partner stores: 8 stores under the brand Delikatesy Centrum in mini-format markets and 10 stores under the brand Tesco Express in different formats.

At the end of 2014 retail network decreased by 10 facilities and amounted to 1,768 stations. In 2014, the number of Premium stations operating under the ORLEN brand name increased by 185 to 1,448. The increase of ORLEN stations a result of new facilities launch in both channels (CODO and DOFO), thorough modernization of the launched in 2013 a rebranding project BLISKA stations to ORLEN. On this basis, customers gained access to a wider range of fuel (fuel VERVA), a wider range of non-fuel and rich gastronomic offer. This change also allowed to an increase in the number of participants in VITAY loyalty program, available under the Premium network. As part of the rebranding project, in 2014 124 BLISKA fuel stations in CODO and DOFO channels changed brand to ORLEN. At the end of 2014. PKN ORLEN had in its network 225 stations operating under the economic brand BLISKA. The remaining 95 stations in the so-called simplified format, will be included in future investment and development activities in the premium segment or excluded from the network.
In 2014, PKN ORLEN launched 23 new franchise stations, increasing the number of stations in the DOFO channel to 447. In the CODO channel in 2014, 17 new stations were launched (including 2 service areas). In previous locations within the project "Break down and Build" built 34 objects from scratch. At the end of 2014, in PKN ORLEN network there were 38 temporarily excluded stations, which will be modernizes in the next two years.
In connection with introduction of new technical conditions for the fuel tanks, PKN ORLEN had to make decisions about the future of adozens of fuel stations. The need to adapt these stations to new technical requirements was connected with considerable expenditure. Decisions for each fuel station of this group have been taken on the basis of their current business performance, future potential to generate revenue, competitive and own stations in the vicinity, and plans of changes in the communication infrastructure. The decision regarding the liquidation of 43 fuel stations was made for fuel stations which financial analysis showed lack of potential and high investment costs in relation to future revenues.

The confirmation of keeping of high customer standards of service at PKN ORLEN fuel stations, good perception of the ORLEN network by customers were awards acquired in 2014. Wieszowa station at Passenger Service Area received 5 awards at XIV Fuel Market Forum "Petro Trend 2014": grand prize - Petrol Station of the year 2014 and the victory in the following categories: Dining on the Fuel Station; Petrol Stations operating in the Service Area; New Facility – put into use in 2013 and the Company's Petrol Stations of Fuel Company in Premium Segment.
Another success of ORLEN fuel stations is the honor from receiving the "Golden Emblem Trusted Brand" and "Emblem of Most Environment Friendly Brand" awards in the European consumer survey called European Trusted Brands 2014.
The fleet sales area was also appreciated - PKN ORLEN has received Fleet Awards distinctions in the category "Fuel Charter for Small and Medium-sized Enterprises for a new MikroFlota card". This card also received a Fleet Derby statuette. In December 2014 the ORLEN brand was honored prestigious title of "Star Service Quality 2015" by consumers in the eighth edition of the Polish Service Quality Programme

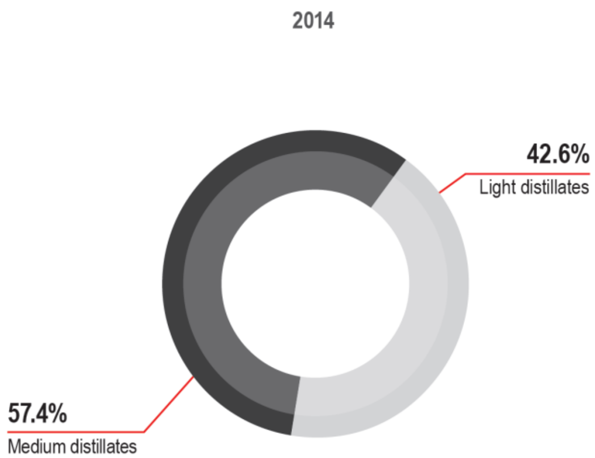
German market

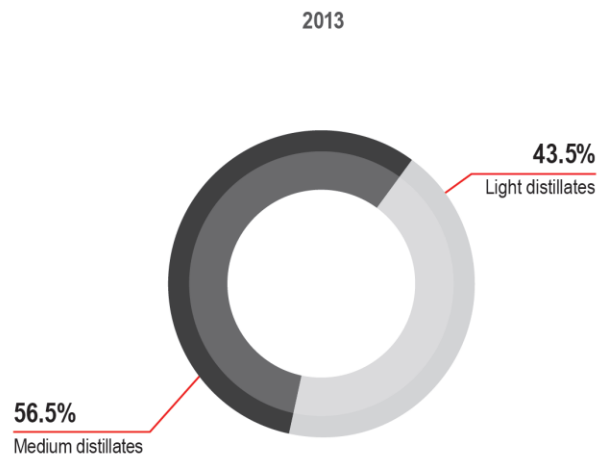
In 2014 was a record year in terms of volume. ORLEN Deutschland GmbH recorded sales growth of 3.8% (y/y) to 2,621 thousand tonnes mainly due to increased sales of diesel.

TABLE 24. Sales volume of the ORLEN Group in the retail segment on the German market (in thousand of tonnes).

SALES	2014	2013	2012	CHANGE	CHANGE %
1	2	3	4	5=(2-3)	6=(2-3)/3
German market					
Light distillates	1 117	1 097	1 121	20	1.8%
Medium distillates	1 504	1 427	1 363	77	5.4%
Total	**2 621**	**2 524**	**2 484**	**97**	**3.8%**

DIAGRAM 53. Structure of sales volume of the ORLEN Group in the retail segment on the German market.





The efficiency of the network has increased - the average annual transfer to the station reached 4.5 million and was higher by 3.8% (y /y).
Development activities in the area of non-fuel and the continuation of the modernization of the car wash project resulted in 6% (y/y) increase in revenues from the sale of commodities and non-fuel services.
At 31 December 2014, ORLEN Deutschland GmbH managed a network of 559 stations, including 540 in the STAR economy segment, 18 stations at the famila stations and 1 station of ORLEN brand, located in Hamburg.

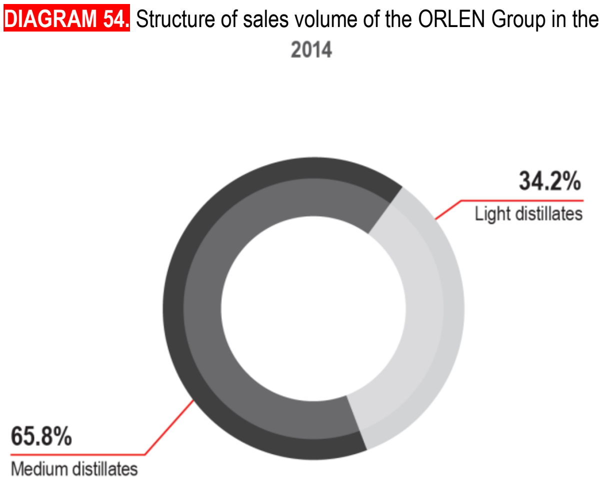
Czech market

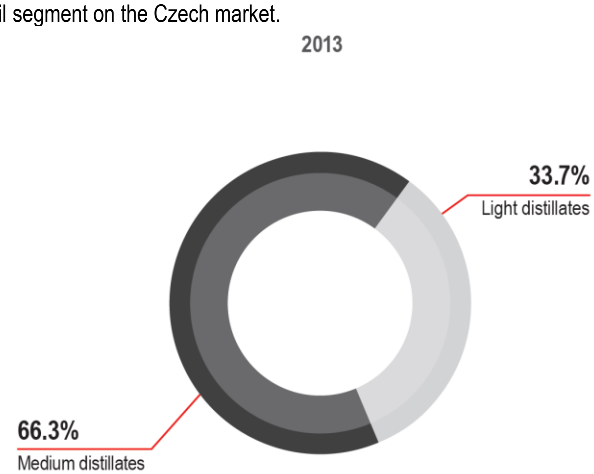
In 2014 Benzina increased the fuel sales by 7.5% (y/y) to obtain a volume at the level of 488 thousand tonnes. The increase in sales volume (y/y) was achieved in both gasoline and diesel.

TABLE 25. Sales volume of the ORLEN Group in the retail segment on the Czech market (in thousand of tonnes).

SALES	2014	2013	2012	CHANGE	CHANGE %
1	2	3	4	5=(2-3)	6=(2-3)/3
Czech market					
Light distillates	167	153	148	14	9.2%
Medium distillates	321	301	284	20	6.6%
Total	**488**	**454**	**432**	**34**	**7.5%**

DIAGRAM 54. Structure of sales volume of the ORLEN Group in the retail segment on the Czech market.





An important project for the company, ended in the 3rd quarter of 2014 was the implementation of a new operating model in the network of stations.
The new operating model has changed the way of settlements with leading stations by significantly increasing the automaticity of calculating commissions and cash flows between the company and the operators. In 2014 Benzina achieved revenue growth of non-fuel products and services by 4% (y/y).

At the end of 2014 Benzina s.r.o. in the Czech Republic managed a network of 339 facilities operating under two main brands: Benzina Plus in the Premium segment (117 stations) and Benzina in the economy segment (203 stations), and 16 stations in the simplified brand. The complement of the network are 3 unmanned test stations (Express 24).
Benzina s.r.o. also had the catering corners: Stop Cafe and Stop Cafe Bistro at 98 stations.

Lithuanian market

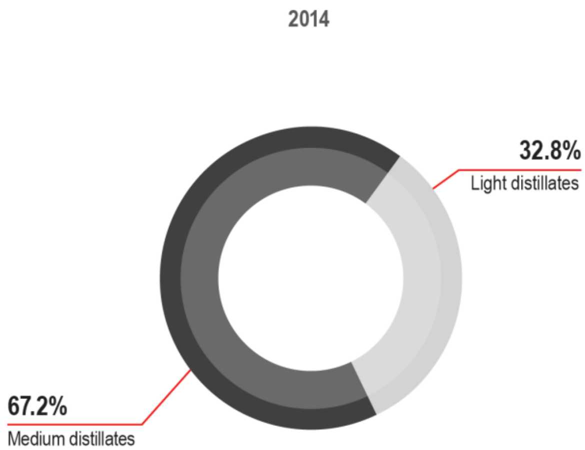
In 2014, the network recorded an increase in sales volume by 13.7% (y/y) to the level of 58 thousand tonnes. This high growth rate is derived from the abrupt increase in diesel sales by 26% (y/y), comparable sales of gasoline and slightly decreased LPG sales.

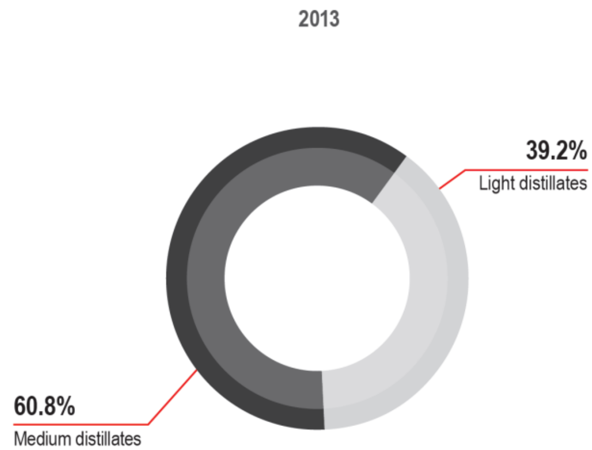
In July 2014, AB Ventus Nafta which was part of the ORLEN Lietuva Group and manages the Lithuanian fuel stations, was included in the sales structure of PKN Orlen.

TABLE 26. Sales volume of the ORLEN Group in the retail segment on the Lithuanian market (in thousand of tonnes).

SALES	2014	2013	2012	CHANGE	CHANGE %
1	2	3	4	5=(2-3)	6=(2-3)/3
Lithuanian market					
Light distillates	19	20	21	(1)	(5.0%)
Medium distillates	39	31	29	8	25.8%
Total	**58**	**51**	**50**	**7**	**13.7%**

DIAGRAM 55. Structure of sales volume of the ORLEN Group in the retail segment on the Lithuanian market.





As at 31 December 2014 the retail chain in Lithuania comprised of 26 own stations in COCO model. Stations managed by AB Ventus Nafta, operate under the ORLEN brand in the premium segment (23 stations) and Ventus in the economic segment (3 stations).

Effective management of a portfolio of non-fuel products resulted in more than 7% (y/y) increase in revenues from the sale of non-fuel products and services.

4.4.5 Sources of supply

The majority of fuels sold on the Polish, Czech and Lithuanian markets comes from production within the downstream segment of the ORLEN Group. Fuels sold by ORLEN Deutschland GmbH are purchased from the leading wholesale sellers operating on the German market, such as: Deutsche BP AG, Holborn European Marketing Company Limited, TOTAL Deutschland GmbH, Raffinerie Heide GmbH Shell Deutschland Oil GmbH and Unipetrol Group.

4.5 ORLEN Group activities in the upstream segment

Wiesław Prugar, CEO of ORLEN Upstream:
"As one of the pioneers of the American petroleum geology Wallace Pratt once said the first place where there is a discovery of oil reserves is in the human mind. The most precious resources of in the ORLEN Group are ***people*** *- hardworking, competent and responsible. It is thanks to them that as an organization we are able to respond to changing macroeconomic environment and make decisions allowing for long-term value creation of the Concern."*

	Concessions	Projects	Drillings
Poland	**9**	**5**	**14**
Unconventional	9	3	11
Conventional	5	2	3

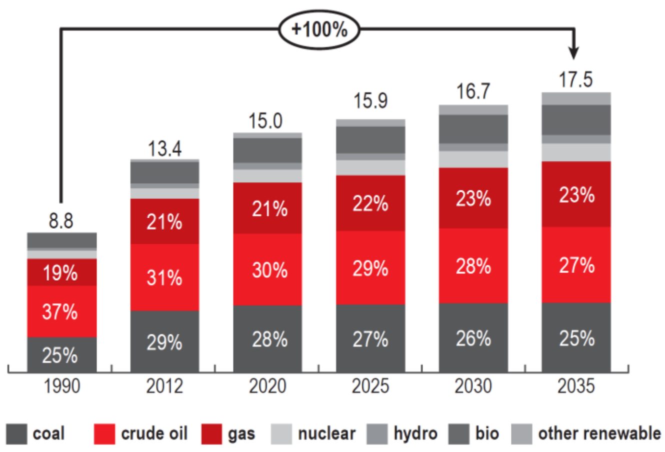
	Resources, million boe	**Upstream,** million boe/year	**Average production,** thousand boe/day	**Extraction division liquid hydrocarbons/gas**
Canada	**49.5**	**2.13**	**5.84**	**50% / 50%**

1) Data for 2014

4.5.1 Market trends, position and competitors

According to the, World Energy Outlook 2014 report prepared by IEA (International Energy Agency) in 2035 global demand for energy will almost double compared to 1990, and the demand for gas and oil will provide more than 50% of total demand.

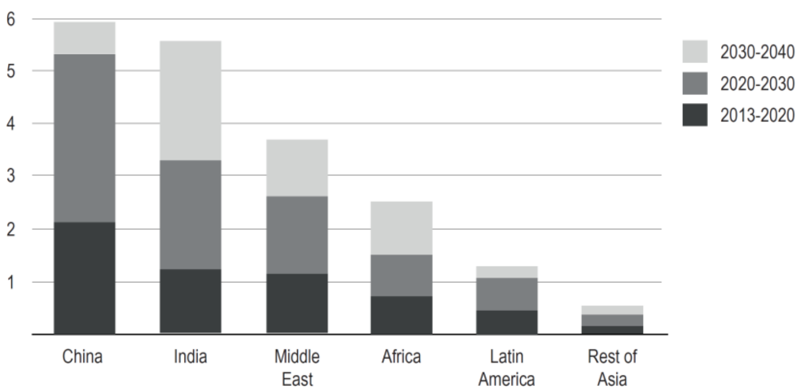
DIAGRAM 56. Global energy demand in the years 1990-2035 [billion toe].[1)]



1) Toe – tonne of oil equivalent – the definition was included in the, Glossary of definitions and abbreviations".
Source: IEA

Currently, crude oil remains the most important source of energy, yet production from renewable sources is growing rapidly. As forecasted by authors of the report "World Energy Outlook 2014" global demand for crude oil, despite a significant increase in the share of natural gas and production from renewable sources will continue to grow and its growth rate in 2030 will reach 0.3% in annual terms. By 2020, the global increase in demand for crude oil could reach up to 6 million barrels per day compared with the end of 2013. The greatest demand for crude oil is and will be generated by the economies of China, India and the Middle East. The main sectors of the economy contributing to the increase in demand for this raw material in the years 2012-2035 will be transportation and petrochemical industry which in 2035 will represent respectively 58.3% and 15.7% of the total demand for crude oil.

DIAGRAM 57. Global demand for crude oil in selected non-OECD countries [billion toe].



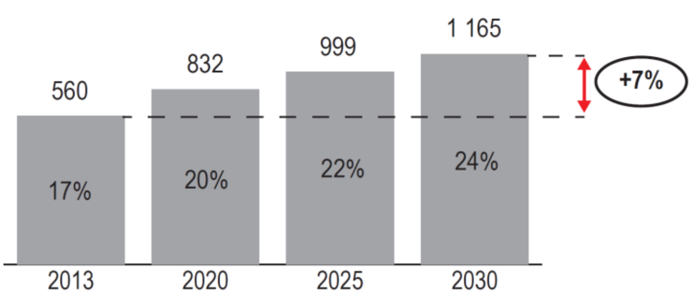
Source: World Energy Outlook 2014

According to the International Energy Agency, natural gas is the raw material whose significance in the world consumption of fuels will be systematically increasing. In the period between 1990 and 2012, the global consumption of natural gas increased by over 70% to 2.8 billion toe.

Natural gas, beside crude oil, is the main fuel used by the European Union countries. According to forecasts of the International Energy Agency, the share of natural gas in the structure of primary power consumption will increase from 21% in 2012 to approximately 23% in 2035 and the annual natural gas consumption in Europe in years 2012-2035 will increase by 88 billion m^3 to 595 billion m^3 in 2035, with an estimated average increase in demand for gas of 0.7% per year.

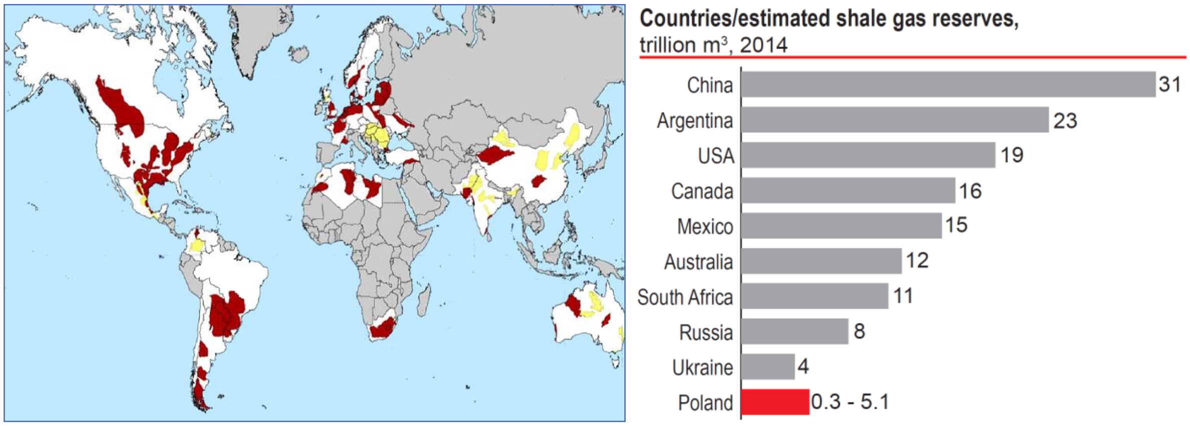
Oil companies perceive the increasing role of gas, which share in the volume of hydrocarbons extracted in the perspective of 2015 may reach 41%. Source of growth can also be acquisitions of smaller subject in the area of unconventional resources. Great importance in the growth of the use of natural gas in the global energy mix was the shale revolution in the United States. The share of natural gas production from unconventional deposits may amount to 24% of world gas extraction in 2030.

DIAGRAM 58. Shale gas production and its share of world extraction [billion m^3,%].



Source: Own calculation based on data IEA, BCG

SCHEME 11. Map of the largest unconventional gas deposits.



Source: Own calculation based on data IEA, BCG

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

The potential deposits of hydrocarbons in Poland as well as the status of exploring and continuous development of new extracting technologies resulted in the need for revision of the "Geology and Mining Law Act" as well as adoption of a new "Act on the special hydrocarbon tax" and amendment of the "Act on tax on extraction of some minerals" and other related acts. Amendement of "Geology and Mining Law Act" provides for a simplification of the process of license assignment – there will by only one license for exploration and prospecting of hydrocarbons as well as extraction from the deposit – the new wording of the provisions is in force from 1 January 2015.

As a part of the above legislative acts from 2020 there will be a special hydrocarbon tax applied from the extracted minerals, including, among others, oil and gas. The investor will be charged with an annuity of raw materials, with a target of around 40%. The new system of taxation of hydrocarbons will be based on the following fiscal instruments:

– Exploitation fee (in real terms) with a fixed amount of PLN 24/1000 m3 of natural gas and 50 PLN/t for crude oil; these rates will apply from 2016,
– Special hydrocarbon tax at a progressive rate from 0-25% of the profit from extractionoperations, levied since 2020,
– Extraction tax calculated of certain minerals, calculated on the value of extracted natural gas (crude oil) as 3% (6%) of extracted raw material, levied since 2020,
– Income tax from legal persons at the current rates.

These regulations were introduced by a "Act on special hydrocarbon tax" dated 25 July 2014. The Act will come into force on 1 January 2016. Legislative changes were described in point 5.4.2.

4.5.2 ORLEN Group position and competitive environment

In 2009-2012, the process of unconventional hydrocarbon exploration in particular shale gas was developing very dynamically in Poland. The intensity of activity occurred in the year 2012 when operating in the market for more than 20 exploration companies, and the number of drillings during the year reached 24 drillings.

The results of exploration work published by operators in recent years differed significantly from the results obtained in the key areas of unconventional hydrocarbon production in North America. In the years 2013-2014 some operators decided to leave the Polish market (ExxonMobil, Marathon Oil, Talisman Energy, ENI, Nexen, Total, Mitsui, RAG, Sorgenia, Dart Energy, 3Legs Resources and Chevron). The main reason for the completion of exploration projects was a change in strategy or focus on other more promising exploration areas in the world.

According to the data of 1 January 2015, the Minister of the Environment upheld 146 concessions for exploration and/or prospecting of natural gas and crude oil deposits in Poland, including:

– 51 for exploration/prospecting of gas/oil in the conventional/unconventional deposits, tight gas/oil and shale gas/oil types,
– 3 exclusively for exploration and prospecting of gas/oil in unconventional deposits,
– 92 relating to exploration and prospecting of conventional oil and gas deposits and methane from coal deposits.

In comparison to 2013, there were 218 concessions.

According to The Ministry of the Environment, until 31 December 2014 the companies exploring and prospecting of natural gas and crude oil deposits in Poland, performed 67 exploration drillings for shale gas, including: ORLEN Upstream (11 drillings, including 4 horizontal), Lane Energy (8 drillings, including 4 horizontal), PGNiG (16 drillings, including 2 horizontal), Marathon Oil (6 drillings), BNK

Petroleum (6 drillings, including 1 horizontal), San Leon Energy (5 drillings), Talisman Energy (3 drillings), Chevron Corp. (4 drillings), ENI (3 drillings), ExxonMobil (2 drillings) and Wisent Oil & Gas/Petrolinvest (3 drillings).

At the same time in other European countries, foreign companies from E&P sector withdrew from the search (Lithuania, Romania, Bulgaria, Hungary, Sweden) or ceased all work (Ukraine). Taking into account the results of previous exploration work and the risk profile of shale projects in conditions of low prices of hydrocarbons, it is expected that the exploration companies will tend to limit the maximum possible exposure to the most expensive exploration projects subject to high risks.

4.5.3 Operating activities` projects

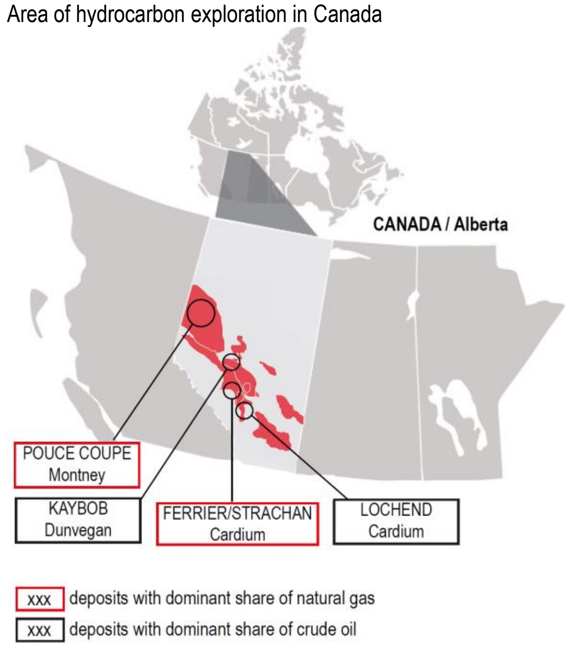
The strategy of the ORLEN Group for years 2014-2017 includes intensification of exploration and extracting activities, in order to guarantee the access to own deposits of oil and natural gas. These operations consequently lead to structuring of a diversified portfolio of prospecting and exploration projects.

Upon purchase of the Canadian company, TriOil Resources in November 2013, the ORLEN Group joined the group of oil and gas producers. In June 2014 the acquisition of Birchill's assets doubled production capacity.

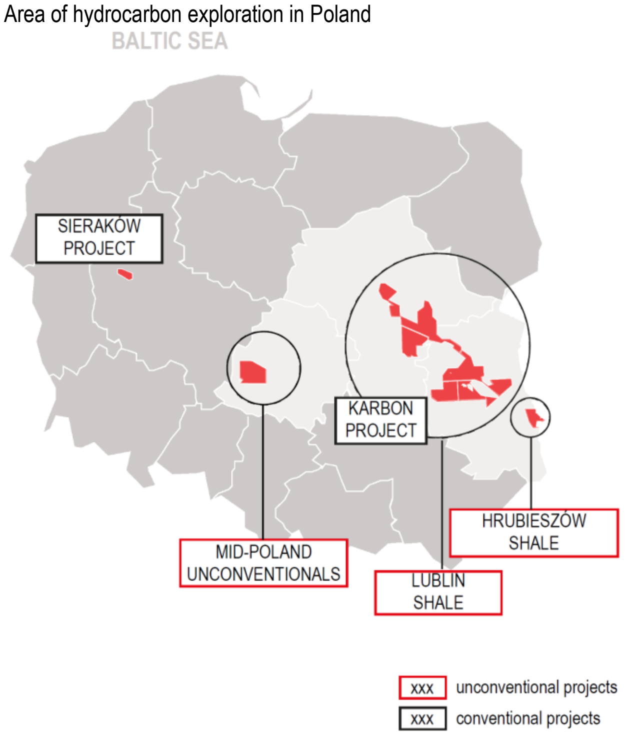
The ORLEN Group remains one of the leaders of unconventional gas deposits exploration in Poland. ORLEN Group holds 9 exploration concessions covering the total area of above 7 thousand km2. The areas covered by exploration represent almost 10% of all areas, where unconventional gas is explored in Poland.

SCHEME 12. Exploration projects of ORLEN Group.

Area of hydrocarbon exploration in Canada



Area of hydrocarbon exploration in Poland



Source: Own calculation

Unconventional projects

As a part of the Lublin Shale project focused on unconventional deposits, the ORLEN Group continued to carry out drilling and research works in 2014. In 2014 two new horizontal drillings were performed under Wodynie-Łuków and Wierzbica concessions. From the drillings performed during the year core samples were collected which were subject to detailed analyses. Two multi-stage hydraulic fracturing treatments were performed together with trials on drilling under Wodynie-Łuków concession. The acquisiton of 2D seismic data under Wołomin concession was also performer.

As a part of Hrubieszow Shale and Mid-Poland Unconventional projects, in 2014 the emphasis was focused on the analysis of obtained, new geological and geophysical data. Due to the negative results of analysis, the realization of exploration work under Łódź and Hrubieszów concessions were stopped.

Under unconventional projects at the end of December 2014, 11 drillings were completed, including 7 vertical drillings and 4 horizontal drillings. In December 2014, the drilling acitivities were started concerning new exploration drilling under Wołomin concession.

Conventional projects

In 2014, as part of the project in Polish Lowlands near Sieraków, analytical works related to the specification of prospectivity of the area and the concept of development drilling Sierakow-1, were carried out jointly with PGNiG S.A.

At the beginning of 2014, ORLEN Upstream Sp. z o.o. conducted 2D seismic data acquisition on the Lublin concession. Data acquired with 2D seismic data in 2013 from Bełżyce concession have been analyzed and interpreted.

In 2014, ORLEN Upstream Sp. z o.o completed the first exploration drilling in Karbon project in Lublin, under required concession.

As of the end of 2014, 2 prospecting drillings under Sieraków project and 1 exploration drilling under Karbon project were realized in Poland.

Activities in Canada

In Canada, through TriOil ORLEN Group performs extraction using horizontal drilling techniques and hydraulic fracturing technologies. In 2014 we started 36 new drillings have started (21.7 net amount of drillings, ie. after adjusting for the interests of other partners) and as a consequence the average production in the 4th quarter of 2014 of more than 8 thousand barrels of oil equivalent per day ("boe/day"), of which 50% were liquid hydrocarbons (oil and condensate).

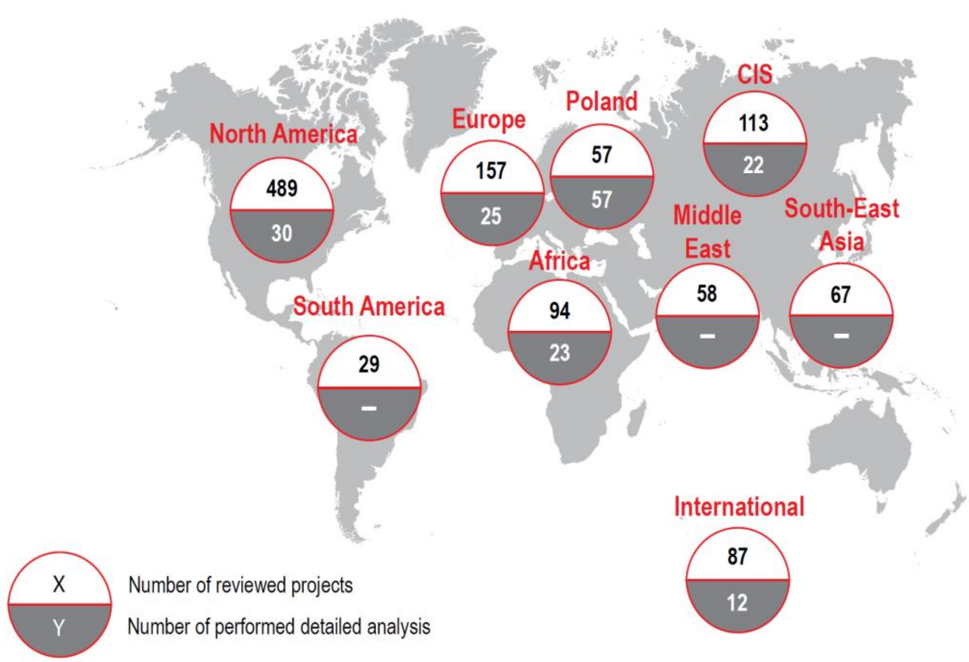
In June 2014, ORLEN Group through its subsidiary TriOil purchased exploration assets belonging to Birchill Exploration located in the Ferrier/Strachan and merged TriOil and Birchill companies, which took place through the transfer of all Birchill assets to TriOil. Purchase of new assets, together with management of licenses resulted in a 2P reserves increase from 22 to 49.5 million boe.

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

Acquisition projects, M&A projects

PKN ORLEN carried out analyses related to potential acquisition of deposits located abroad or acquisition of shares in, and cooperation with, experienced partners. Since 2009 till the end of 2014, 173 comprehensive analyses of potential acquisition projects in numerous locations were carried out. In effect, TriOil company was acquired in November 2013 as well as Birchill Exploration was also acquired in June 2014.

SCHEME 13. Acquisition projects and M&A projects analyzed by ORLEN Group.



Source: Own calculation

4.5.4 Sales of upstream segment

TABLE 27. ORLEN Group volume sales in the upstream segment (thousand tonnes).

SALES	2014		2013		2012		CHANGE %	
	VALUE	VOLUME	VALUE	VOLUME	VALUE	VOLUME		
1	2	3	4	5	6	7	8=(2-4)/4	9=(3-5)/5
Upstream Segment								
Crude oil	188	100	10	8	-	-	1780%	1150%
Natural gas	84	133	3	6	-	-	2700%	2117%
Others	26	25	4	3	1	-	550%	733%
Total	**298**	**258**	**17**	**17**	**1**	**-**	**1653%**	**1418%**

Extraction and sale of hydrocarbons is carried out in Canada through TriOil company. In 2014, total extraction reached 258 thousand tonnes of crude oil, natural gas and NGL (natural gas liquids). A significant impact on the level of production of hydrocarbons were weather conditions, terrain conditions, which limited the ability to conduct operational activities in the region of Alberta in the second quarter of 2014 and periodic repair of the gas processing plant providing the production of hydrocarbons for sale in the region.

4.6 Environmental protection

Piotr Chełmiński, Member of the Manegement Board of PKN ORLEN, Development and Power Engineering:
"Environmental awareness understood as an attitude which is characterized by a combination of skills and socio-emotional intelligence and responsibility for the consequences of its activities, is an essential aspect of the performance of the business during the current ecological crisis. The answer to the challenges of climate change and scarcity of resources is sustainable development based on eco-innovation. The path is encouraged for EU companies by the Energy and Climate Package and the mechanism of the Best Available Techniques. Their implementation is aimed at minimizing the consumption of materials and energy, the production of "green" products and services, which bring as a result of a competitive advantage implementing these entrepreneurs, the means must now be followed by environmentally responsible companies."

Reducing the impact on the environment is for years one of the priorities of the ORLEN Group. All business activities are conducted in a professional and responsible way, taking into account the consequences of current and future environmental impacts.

The activities were designed to, among others:
- implementation of business strategies while maintaining the highest environmental neutrality,
- strengthening the "green" image of the ORLEN Group,
- effective waste management,
- the consolidation and strengthening of competence in the area of environmental services.

Environmental activities carried out in 2014 by ORLEN Group related mainly to the new regulations introduced by changing the "Environmental Protection Law" under the Industrial Emissions Directive. They were both administrative activities including the preparation of integrated permit applications, execution ofinitial reports and the investment associated with the construction of low emission burners, installation of reduced emissions or modernization of waste management.
The most important environmental investment realized in 2014 in the Production Plant in Płock was the construction of systems for denitrification and dedusting systems for individual and joint Power Plant boiler and flue gas desulphurisation installation. In 2014 next two K5 and K6 boilers are equipped with systems to reduce emissions of nitrogen oxides and dusts, which reduced emissions by more than 23% in terms of oxides of nitrogen and 19% in the dust. Currently 4 of 8 boilers are equiped with reducing installations. In 2015, another boiler will be opened after the modernization and the installation of flue gas desulphurization common to all boilers is planned to launch. In other ORLEN Group's companies in 2014 implemented a number of initiatives aimed at reduce the energy intensity of processes, reducing greenhouse gas emissions and protect the environment from contamination. The most important projects include the modernization of the burners on furnaces in ORLEN Oil Sp. z o.o causing decrease in fuel gas consumption and emissions of the substance, the installation of low-emission burners on boilers in the ORLEN Lietuva Group, the construction of soil oil node in IKS Solino necessary in the process of salt leaching and denitrification installation of DeNOx technology on boilers in power plants T 700 in Unipetrol Group.

2014 was another year of the third trading period of the Community system for greenhouse gas emissions trading. Emission reports for chemical plants in all ORLEN Group companies were first verified by an independent auditor. On the basis of a positive verification of the reports, on March 2014, free CO_2 emission allowances were obtained on the basis of Article 10a of Directive 2003/87/EC, for the year 2013 and 2014 in the amount consistent with the Council of Ministers of 31 March 2014 and due to production of electricity on the basis of Article 10c, Paragraph 5 of this Directive.

In 2014, ORLEN Group published Environmental Report for 2013 jointly prepared by 36 companies within the ORLEN Group. The results of the Report were presented during the environmental seminar of Polish and foreign representatives of environmental services.

PKN ORLEN as one of the signatories of the international Responsible Care Programme realized obligations under the implemented Responsible Care Management Framework System (RCMFS) and tasks in the so-called triad HSE (Health, Safety and Environment). The program is a long-term good practice within the framework of Corporate Social Responsibility.

As a compensation for using of the natural environment, ORLEN Group conducted environmental activities, including, among others, compensatory planting of trees and shrubs in own areas located in Płock, supporting since 1999 peregrine falcon restitution and construction of a children's playground and nature trail dedicated to educational path dedicated to the peregrine falcon.

In 2014, PKN ORLEN once again received an award in the national competition Pantheon of Polish Ecology" in the category of business. The jury awarded the construction project implemented catalytic Denitrogeneation Gas Installation. PKN ORLEN has also received a diploma for participation in the fourth edition of the "Eco-responsible in Business". Monthly "Ecologia I Rynek" awarded PKN ORLEN the title of "Ecological Education Advocate" in recognition of the important role in the field of educational activities for sustainable development and environmental protection.

4.7 Occupational health and safety

Piotr Chełmiński, Member of the Manegement Board of PKN ORLEN, Development and Power Engineering:
"In the past year, all of our activities were conducted in accordance with accepted health and safety strategy for the years 2014 - 2017 in order to ensure the safety of people and property. We achieved the best result in terms of safety in the history of PKN ORLEN, which is the reason for satisfaction, but we remember the need for continuous improvement and search for areas in which we can set, even greater challenges and requirements. We achieved targets, among others, by: putting safety first, lack of acceptance for dangerous behavior, identification and elimination of safety hazards and associated risks. We promote good initiatives and actions for the further development of safety and compliance with the legal requirements in the field of health and life of individuals, as well as the Company's property. I am pleased that we have completed successfully shared goals and tasks. Thanks to the efforts by all of us, we will be able to make even greater use of the synergies of our companies implemented solutions."

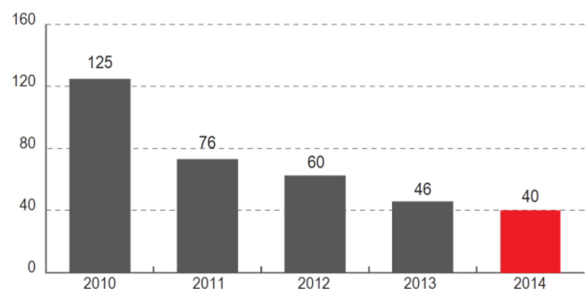
The main objective of the occupational health and safety ("HSE") is to ensure accident-free, corporate culture of occupational safety as well as identification and elimination of occupational safety threats in the ORLEN Group.

In 2014, there was a further development of integration and cooperation between ORLEN Group companies in the field of occupational safety. Continuation of activities in the field of process optimization to provide information about the dangers, accidents, inspections, fires and breakdowns by maintaining the Electronic System for Prevention. Activities were also conducted for the unification of the structures of health and safety, fire safety and process safety in all areas. In terms of fire protection, joint exercises were conducted and training of all fire brigades of ORLEN Group, as well as a monolithic concept of the equipment of fire brigades, taking into account the specifics of individual companies.

Work has also been related to the unification process of safety management system in ORLEN Group including hazard analysis, current and periodic inspection, evaluation and classification of the events of emergency.
In December 2014, PKN ORLEN signed with the Office of Technical Inspection an agreement on joint efforts to improve the level of safety-related production facilities operated by PKN ORLEN. The agreement will enable precise planning of the next term and scope of the necessary technical research, extension of between repairs cycles, optimize installation time, and above all, to minimize the risks associated with their operation.
In 2014, a joint Labor Day for Safety and Health was conducted in all ORLEN Group companies, under which many activities were prepared to promote healthy lifestyles and nutrition, presentation of relaxation techniques, demonstrations of emergency medical and first aid, fire drills and evacuation. For fuel terminal employees training was conducted concerning driver safety operations, management of free-time and safe driving.

The result of measures taken to improve the occupational safety in the ORLEN Group is a drop by (-) 12% (y/y) in the number of accidents.

DIAGRAM 59. The number of accidents in the ORLEN Group in 2010 – 2014.



The accident rate – TRR (Total Recordable Rate) was lower by 12% (y/y) and reached a level of 1.32, which is the best result in the history of ORLEN Group. The methodology of calculating TRR is presented in the "Glossary of selected technical definictions" at the end of foregoing Management Board Report.

5. PRESENT AND FORECASTED FINANCIAL SITUATION OF THE ORLEN GROUP

Sławomir Jędrzejczyk, Vice President of the Management Board of PKN ORLEN, Chief Financial Officer:
”This was a year in which we have proven our ability to provide very alternating results, despite the variable macroeconomic environment. Early 2014 was very difficult – the margins on our products were on the low level. But for the whole year we have achieved the highest EBITDA LIFO result in the history of ORLEN Group which amounted to PLN 5.2 billion. Importantly, a positive impact on this result was achieved by all of the Group’s operating segments: downstream, retail with the highest profit in the history and upstream.”

5.1 Principles of presentation of the consolidated financial statements

The consolidated financial statements have been prepared in accordance with accounting principles contained in the International Financial Reporting Standards (IFRS), comprising International Accounting Standards (IAS) as well as Interpretation of Standing Interpretation Committee (SIC) and the International Financial Reporting Interpretations Committee (IFRIC), which were adopted by the European Union (EU) and were in force as at 31 December 2014.

The consolidated financial statements have been prepared on a historical costs basis, except for derivatives, financial instruments at fair value through profit or loss, financial assets held for sale and investment property which are measured at fair value.

The consolidated financial statements are compliant with all requirements of IFRS adopted by the EU and present a true and fair view of the ORLEN Groups financial position as at 31 December 2014, results of its operations and cash flows for the year ended 31 December 2014.

The consolidated financial statements have been prepared assuming that the ORLEN Group will continue to operate as a going concern in the foreseeable future. As at the date of approval of the Consolidated Financial Statements, there is no evidence indicating that the ORLEN Group will not be able to continue its operations as a going concern. Duration of the Parent Company and the entities comprising the ORLEN Group is unlimited.

The consolidated financial statements, except for consolidated statement of cash flows, have been prepared using the accrual basis of accounting.

Accounting principles applied in the preparation of the Consolidated Financial Statements is presented in note 3 to the Consolidated Financial Statement for 2014.

Since 1 January 2014, the joint arrangements of the Capital Groups: Basell ORLEN Polyolefines Sp. z o.o. (BOP) and Płocki Park Przemysłowo-Technologiczny S.A. (PPPT) are accounted for using the equity method instead of proportional consolidation method previously used in accordance with IFRS 11. As a result of this change, the comparative figures for 2013 and 2012 and as at 31 December 2013 and as at 31 December 2012 the have been restated.
Moreover, since 1 January 2013 Upstream Segment has been separated. Its operations in previous years was presented as a part of the Corporate Functions. As a result of mentioned changes, the comparative figures were restated for 2012.

5.2 Basic economic and financial values and factors and unusual events with significant impact on the achieved financial result

5.2.1 Consolidated statement of profit or loss and other comprehensive income

TABLE 28. Consolidated statement of profit or loss and other comprehensive income.

ITEM, PLN million	2014	2013	2012	change	change %
1	2	3	4	5=(2-3)	6=(2-3)/3
Sales revenues	106 832	113 597	119 864	(6 765)	(6.0%)
Cost of sales	(101 010)	(107 853)	(111 952)	6 843	(6.3%)
Gross profit on sales	**5 822**	**5 744**	**7 912**	**78**	**1.4%**
Distribution expenses	(3 920)	(3 883)	(3 818)	(37)	1.0%
Administrative expenses	(1 512)	(1 451)	(1 509)	(61)	4.2%
Other operating income	766	571	726	195	34.2%
Other operating expenses	(5 924)	(714)	(1 313)	(5 210)	729.7%
Share in profit from investments accounted for under equity method	57	40	32	17	42.5%
Profit / (Loss) from operations under LIFO increased by amortisation and depreciation (EBITDA LIFO) before impairment allowances 1)	**5 213**	**3 086**	**5 095**	**2 127**	**68.9%**
Profit / (Loss) from operations increased by amortisation and depreciation (EBITDA)	**(2 720)**	**2 418**	**4 232**	**(5 138)**	**-**
Profit/ (Loss) from operations	**(4 711)**	**307**	**2 030**	**(5 018)**	**-**
Finance income	354	460	1 465	(106)	(23.0%)
Finance costs	(1 889)	(610)	(879)	(1 279)	209.7%
Net finance income and costs	**(1 535)**	**(150)**	**586**	**(1 385)**	**(923.3%)**
Profit / (Loss) before tax	**(6 246)**	**157**	**2 616**	**(6 403)**	**-**
Tax expense	418	(67)	(446)	485	-
Net profit /(loss)	**(5 828)**	**90**	**2 170**	**(5 918)**	**-**

1) *The impairment of non-current assets recognized in 2014 of PLN (-) 5,360 million, includes: ORLEN Lietuva of PLN (-) 4,181 million, Unipetrol Group of PLN (-) 752 million, Anwil Group (Spolana) of PLN (-) 64 million, Rafineria Jedlicze Group of PLN (-) 42 million and ORLEN Upstream Group of PLN (-) 322 million.*
The impairment of non-current assets recognized in 2012 related to Unipetrol Group of PLN (-) 688 million.

5.2.1.1 Sales revenues

Sales revenues of the ORLEN Group amounted to PLN 106,832 million and decreased by PLN (-) 6,765 million (by (-) 6.0%) (y/y), as result of the lower quotations of a crude oil and ORLEN Group products. Sales volume remained at the similar level to 2013 (decreased by (-) 1.0% (y/y)).

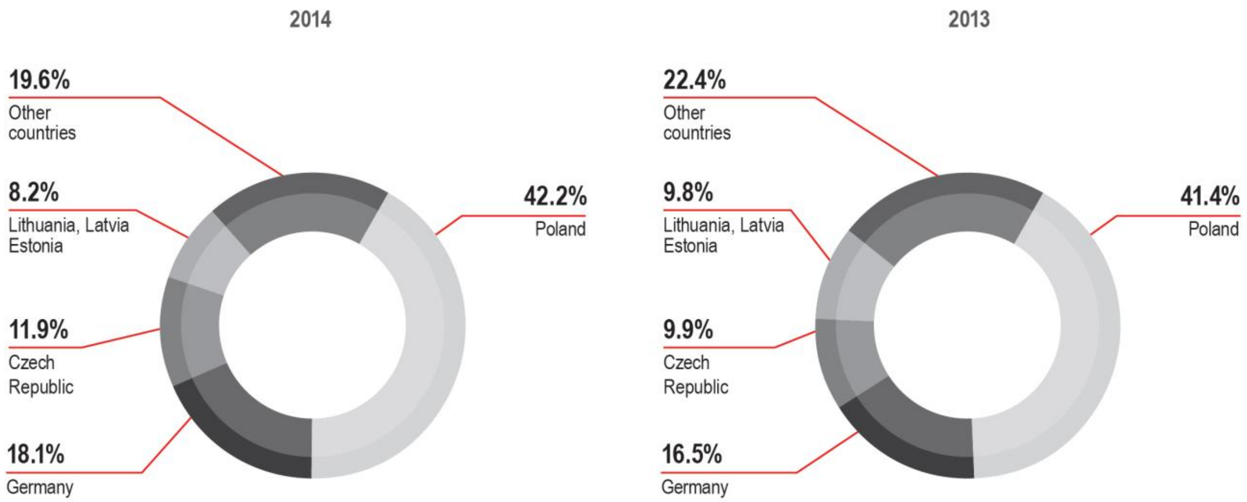
Lower by PLN (-) 6,498 million (by (-) 8.4%) (y/y) sales revenues of downstream segment result mainly from lower crude oil and products quotations and lower by (-) 2,4% (y/y) sales volume. In comparison with prior year the average annual gasoline quotations decreased by (-) 7.5% (y/y), diesel oil by (-) 9.0% (y/y), Jet A-1 fuel by (-) 8.2% (y/y), light heating oil by (-) 8.6% (y/y) and LPG by (-) 15.4% (y/y). Additionally, quotations decreased for products: ethylene by (-) 5.9% (y/y), toluene by (-) 7.1% (y/y), butadiene by (-) 14.8% (y/y), paraxylene by (-) 17.0% (y/y), xylene by 17.5% (y/y), polyethylene HDPE by (-) 3.8% (y/y) and polyethylene LDPE by (-) 1.7% (y/y).

Revenues of retail segment decreased by PLN (-) 549 million (by (-) 1.5%) (y/y) mainly due to lower products quotations and therefore lower fuels prices on petrol stations accompanied by higher by 3.5% (y/y) sales volume.

In 2014 revenues of Upstream segment amounted to PLN 298 million compared to PLN 17 million in 2013.

Detailed information relating to sales volume changes of the particular segments are described in Chapter 4 of the foregoing Report.

DIAGRAM 60. Geographical structure of sales revenues in the ORLEN Group.



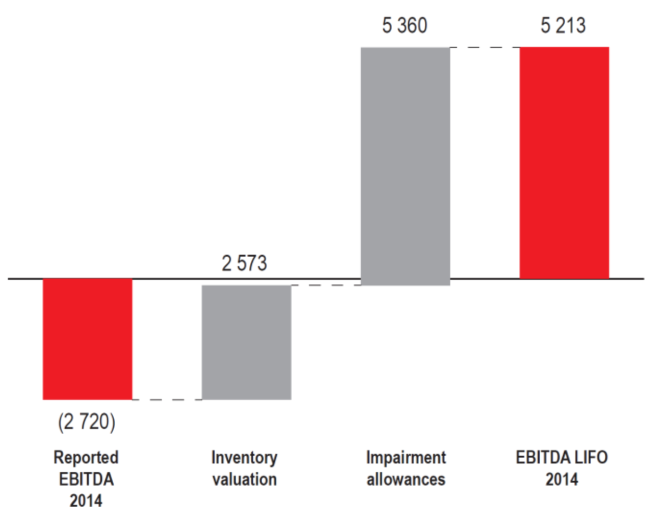
Other countries item contains mainly sales realized to customers from Switzerland, Ukraine, Denmark, Slovakia, Great Britain and Austria.

Information relating to the geographic distribution of sales revenues is also presented in note 6.2.3 to the Consolidated Financial Statements for 2014.

5.2.1.2 Profit from operations increased by depreciation and amortisation according to inventory valuation under LIFO method („EBITDA LIFO") 1)

In 2014, ORLEN Group achieved a record EBITDA LIFO result, before impairment allowances of non-current assets of PLN 5,213 million.

DIAGRAM 61. EBITDA LIFO before impairment of non-current assets in 2014 (PLN million].



1) ORLEN Group's inventories are valued in the financial statements in accordance with International Financial Reporting Standards at weighted average cost method or purchase price method. This method results in a deferred recognition of impact of decrease or increase in price of crude oil relatively to the prices of finished products. Therefore, an upward trend in crude oil prices has a positive effect and the downtrend has a negative impact on the reported results. Application of the LIFO method of inventory valuation causes that current production costs are measured at cost of purchased crude oil and consequently, the results of operations better represent the actual situation. As a result, the operating results based on LIFO method of inventory valuation were additionally presented in the foregoing report. In accordance with IFRS inventory valuation under LIFO is not acceptable and consequently it is not applied in the accounting principles as well as in the financial statements of the ORLEN Group.

EBITDA LIFO of ORLEN Group increased by PLN 2,127 million (y/y).
Positive effect of macroeconomic factors in 2014 related mainly to increase in model downstream margin by 0.6 USD/bbl (y/y) and amounted to PLN 1,473 million (y/y).
The positive sales volume effect of PLN 574 million (y/y) related mainly to the higher sales of downstream segment in the Czech Republic and increase in retail sales in all markets as well as recognition of the results of upstream segment in Canada.

The positive effect of other factors amounted to PLN 80 million (y/y) and related mainly to changes on the balance of other operating activities, excluding impairment allowances of non-current assets of PLN 347 million (y/y), the positive net effect of repurchase transaction and sales of mandatory reserves in 2013 and in 2014 that amounted to PLN 297 million (y/y) and negative impact of other elements of PLN (-) 564 million (y/y).

Change of the balance on other operating activities included mainly:

– recognition of the gain of PLN 180 million (y/y) on bargain purchase of 16.3% of Ceska Rafinerska shares by Unipetrol a.s,

– recognition of the rights: so called yellow and red energy certificates for the period from 30 April to 31 December 2014 of PLN 48 million, the impact of CO_2 emission rights price changes on the CO_2 emission cost of PLN 24 million and the impact of the revaluation of CO_2 emission rights of PLN 28 million.

The impact of the other items of PLN (-) 564 million (y/y) comprised mainly the effect of revaluation at the end of 2014 of inventories to net realisable value in accordance with IAS 2 ("Inventories") due to decrease in crude oil prices and consequently decrease in prices of refinery and petrochemical products.

Impairment allowances of assets in 2014 amounted to PLN (-) 5,360 million and related mainly to the allowances recognized in the II quarter of 2014: ORLEN Lietuva Group of PLN (-) 4,181 million, Unipetrol Group of PLN (-) 752 million and the aforementioned impairment of ORLEN Upstream Group assets in Canada of PLN (-) 311 million in the IV quarter of 2014.

Taking into account the above mentioned impairment allowances, EBITDA LIFO of the ORLEN Group for 2014 amounted to PLN (-) 147 million.

Impact of changes in crude oil price on inventory valuation in 2014 amounted to PLN (-) 2,573 million. As a result, EBITDA of ORLEN Group for 2014 amounted to PLN (-) 2,720 million.

Having regard the costs of depreciation and amortisation as well as impairment allowances of assets, result from operations for 2014 amounted to PLN (-) 4,711 million.

5.2.1.3 Segments` results of the ORLEN Group

DIAGRAM 62. EBITDA LIFO segments' results in 2014 [PLN million].

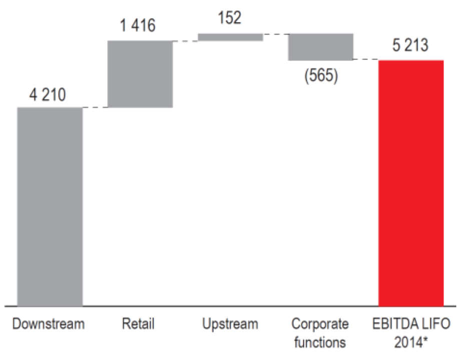
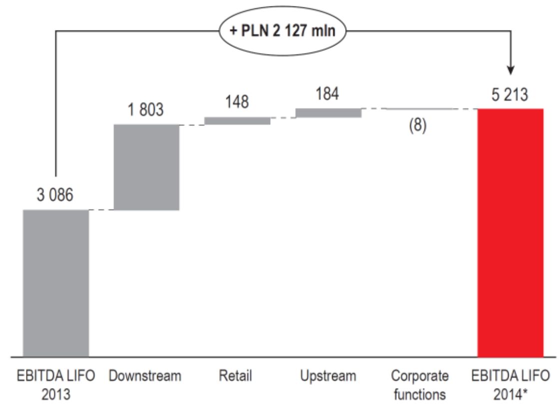


DIAGRAM 63. Change in segments' results in 2014 [PLN million].



**) before the impairment allowances of non-current assets.*

Downstream Segment

TABLE 29. Basic financial data of downstream segment.

DOWNSTREAM SEGMENT, PLN million	2014	2013	2012	change	change %
1	2	3	4	5=(2-3)	6=(2-3)/3
Segment revenues, including:	**85 941**	**92 986**	**101 313**	**(7 045)**	**(7.6%)**
Sales revenues from external customers	70 549	77 047	81 622	(6 498)	(8.4%)
Sales revenues from transactions with other segments	15 392	15 939	19 691	(547)	(3.4%)
Segment expenses	**(85 971)**	**(92 710)**	**(98 646)**	**6 739**	**(7.3%)**
Other operating income/expenses, net	(4 861)	(211)	(561)	(4 650)	(2203.8%)
Share in profit from investments accounted for under equity method	58	41	32	17	41.5%
Operating Profit/(Loss) under LIFO increased by depreciation and amortisation (EBITDA LIFO) before impairment allowances[1)]	**4 210**	**2 407**	**4 724**	**1 803**	**74.9%**
Operating Profit/(Loss) under LIFO increased by depreciation and amortisation (EBITDA LIFO)	**(852)**	**2 407**	**4 036**	**(3 259)**	**-**
Profit/(Loss) from operations increased by depreciation and amortisation (EBITDA)	**(3 425)**	**1 739**	**3 861**	**(5 164)**	**-**
Operating Profit/(Loss) under LIFO	**(2 260)**	**774**	**2 313**	**(3 034)**	**-**
Profit/(Loss) from operations	**(4 833)**	**106**	**2 138**	**(4 939)**	**-**
CAPEX	2 714	1 596	1 251	1 118	70.1%

1) The impairment of non-current assets recognized in 2014 of PLN (-) 5,062 million, includes: ORLEN Lietuva of PLN (-) 4,181 million, Unipetrol Group of PLN (-) 752 million, Anwil Group (Spolana) of PLN (-) 64 million, Rafineria Jedlicze Group of PLN (-) 42 million. The impairment of non-current assets recognized in 2012 related to Unipetrol Group of PLN (-) 688 million.

In 2014, EBITDA LIFO of ORLEN Group in downstream segment, before impairment allowances of non-current assets of PLN (-) 5,062 million, amounted to PLN 4,210 million and increased by PLN 1,803 million (y/y).

The growth of model downstream margin reflecting the changes in macroeconomic parameters contributed to the increase of EBITDA LIFO of the segment by PLN 1,473 million (y/y).

The increase in sales of the refinery products on the Czech market thanks to the greater production capacity after purchase of the Ceska Rafinerska a.s. shares from Shell and the higher availability of installation, was compensated by the lower sales volume on the Baltic markets and in Poland due to unfavorable market situation.
Increased sales of fertilizers was caused by the lack of the negative effects of the 2013 year including shutdown of the ammonia production line of the ANWIL S.A. and shutdown of the production line of Spolana a.s. after the flood in June of 2013.
Higher petrochemical sales on the Czech market resulted from better market situation and the lack of the negative effects of 2013 shutdowns of installations in Litvinov. Petrochemical sales volume on the Polish market have been limited as a result of the periodic standstill of Olefin installation in September 2014.

The standstill of this installation and PVC Plant of ANWIL Group influenced the slight reduction in sales of plasticts of ORLEN Group (y/y).
As a result, despite the lower total sales volume of the segment (y/y), impact of the higher sales of the downstream segment on the Czech market as well as improved sales structure (reduction of export shipped sales, reduction of production and sales of heavy fuel oil by improving yields) have contributed to increase in segment's EBITDA LIFO by PLN 197 million (y/y).

The positive effect of other factors amounted to PLN 133 million (y/y) and related mainly to changes on the balance of other operating activities of PLN 412 million (y/y) before impairment allowances of non-current assets. The positive net effect of repurchase and sales of mandatory reserves in 2013 and 2014 of PLN 297 million (y/y) and negative impact of other elements amounted to PLN (-) 576 million (y/y).

Change of the balance on other operating activities included mainly:

– recognition of the gain of PLN 180 million (y/y) on bargain purchase of 16.3% of Ceska Rafinerska shares by Unipetrol a.s,
– recognition of the rights: so called yellow and red energy certificates for the period from 30 April to 31 December 2014 of PLN 48 million, the impact of CO_2 emission rights price changes on cost of CO_2 emissions rights of PLN 24 million and the impact of the revaluation of CO_2 emission rights of PLN 28 million.

The negative impact of other items of PLN (-) 576 million (y/y) comprised mainly the effect of revaluation at the end of 2014 of inventories to net realisable value in accordance with IAS 2 ("Inventories") due to decrease in crude oil prices and consequently decrease in prices of refinery and petrochemical products.

Impairment allowances of property, plant and equipment in 2014 amounted to PLN (-) 5,062 million and related mainly to the impairment allowances recognized in the II quarter of 2014: ORLEN Lietuva Group of PLN (-) 4,181 million, Unipetrol Group of PLN (-) 752 million and petrochemical assets of ANWIL Group of PLN (-) 64 million.

Having regard the impairment allowances, EBITDA LIFO of ORLEN Group for 2014 amounted to PLN (-) 852 million.

Impact of changes in crude oil prices on inventory valuation in 2014 amounted to PLN (-) 2,573 million. As a result, EBITDA of ORLEN Group for 2014 amounted to PLN (-) 3,425 million.

In 2014, compared to the previous year, the segment's capital expenditures ("CAPEX") increased by PLN 1,118 million (y/y) to the level of PLN 2,714 million.

The most significant investments realised in 2014 comprised of:
– PKN ORLEN: construction of the Power Plant in Włocławek ("CCGT"), construction of the Installation of Catalytic Denitrification and Dedusting and the Installation of Flue Gas Desulphurization, construction of the Metathesis Installation, replacement of the pipelines on Hydrocracking Installation, construction of the reformate tanks on the Composition Department, modernization of the boot collector on the Kettles Department of the Power Plant, adaptation of the storage tanks for liquid hydrocarbon streams of the Ethylene Block, modernization of the furnace of the Olefin II Plant, works related to the reduction of acetic acid consumption of PTA Installation, projects related to PKN ORLEN˛s construction of the gas power plant in Włocławek, increase in the safety of the technology kettles of the Reforming V Installation and modernization of 5 Fuel Terminals,
– ORLEN Lietuva Group: finalization of construction of Visbreaker Vacuum Flasher installation,
– Unipetrol Group: modernization of the unloading station of LPG, projects related to the improvement of energy efficiency, construction of educational and research center and cyclic reconstruction of the pyrolysis furnaces,
– ANWIL Group: projects related to the construction of CCTG in Włocławek, construction of installation for loading and storage packages, modernization of freon-cooling systems and revitalization of power supply system of electrolysis hall.

Retail Segment

TABLE 30. Basic financial data for retail segment.

RETAIL SEGMENT, PLN million	2014	2013	2012	change	change %
1	2	3	4	5=(2-3)	6=(2-3)/3
Segment revenues, including:	**36 104**	**36 624**	**38 264**	**(520)**	**(1.4%)**
Sales revenues from external customers	35 913	36 462	38 142	(549)	(1.5%)
Sales revenues from transactions with other segments	191	162	122	29	17.9%
Segment expenses	**(35 015)**	**(35 695)**	**(37 588)**	**680**	**(1.9%)**
Other operating income/expenses, net	(4)	(12)	(29)	8	66.7%
Profit/(Loss) from operations increased by depreciation and amortisation (EBITDA) before impairment allowances 1)	**1 416**	**1 268**	**1 006**	**148**	**11.7%**
Profit/(Loss) from operations increased by depreciation and amortisation (EBITDA)	**1 440**	**1 268**	**1 006**	**172**	**13.6%**
Profit/(Loss) from operations	**1 085**	**917**	**647**	**168**	**18.3%**
CAPEX	345	467	499	(122)	(26.1%)

1) Impairment of the non-current assets recognized in 2014 of PLN 24 million.

In 2014, EBITDA of the retail segment of the ORLEN Group achieved record level of PLN 1,440 million in comparison with PLN 1,268 million in 2013.

Increase of fuel margins on Polish market, accompanied by the limitations on other markets and increase of results from sale of non-fuel products and services exerted a positive impact on EBITDA of the segment by PLN 121 million.

High retail sales volume (y/y) on all markets improved segment's EBITDA by PLN 81 million (y/y).
The negative impact of the remaining factors amounted to PLN (-) 30 million (y/y) and related mainly to increased costs of operations of fuel stations resulting from the higher by 3.5% (y/y) sales volume.

In 2014 the segment's capital expenditures amounted to PLN 345 million and mainly included the construction and modernization of fuel stations.

At the end of 2014 ORLEN Group operated 2,692 fuel stations, which represent a decrease of (-) 5 (y/y) (and decrease of 10 on Polish market with an increase of 4 on the German market and increase of 1 on the Czech market). Simultaneously, number of stations operating in CODO system decreased by (-) 3 and in the franchise system decreased by (-) 2.

At the end of 2014 number of Stop Café and Stop Cafe Bistro in Poland increased by 203 (y/y) and amounted to 1,250, while on the Czech market increased by 6 (y/y) and amounted to 98. On the Lithuanian market number of Stop Café and Stop Cafe Bistro have not changed (y/y) and amounted to 23.

Upstream Segment

TABLE 31. Basic financial data for upstream segment.

UPSTREAM SEGMENT, PLN milion	2014	2013	2012	change	change %
1	2	3	4	5=(2-3)	6=(2-3)/3
Segment revenues, including:	**298**	**17**	**1**	**281**	**1652.9%**
Sales revenues from external customers	298	17	1	281	1652.9%
Sales revenues from transactions with other segments	0	0	0	0	-
Segment expenses	**(271)**	**(48)**	**(27)**	**(223)**	**464.6%**
Other operating income/expenses, net	(319)	(7)	0	(312)	(4457.1%)
Profit/(Loss) from operations increased by depreciation and amortisation (EBITDA) before impairment allowances[1)]	**152**	**(32)**	**(24)**	**184**	**-**
Profit/(Loss) from operations increased by depreciation and amortisation (EBITDA)	**(170)**	**(32)**	**(24)**	**(138)**	**(431.3%)**
Profit/(Loss) from operations	**(292)**	**(38)**	**(26)**	**(254)**	**(668.4%)**
CAPEX	499	304	124	195	64.1%

1) The impairment of non-current assets recognized in 2014 of PLN (-) 322 million related mainly to ORLEN Upstream Group's assets.

In 2014, upstream segment's EBITDA, before impairment allowances of non-current assets, amounted to PLN 152 million and increased by PLN 184 million (y/y).

The observed decline in crude oil prices on the world markets, had influenced on the Upstream segment results of ORLEN Group in Canada. As a result of the tests performed in the IV quarter of 2014 in accordance with IAS 36 — Impairment of Assets, an impairment allowance of assets related to development and extraction of mineral resources had been recognized of PLN (-) 311 in Canadian TriOil, belonging to the ORLEN Upstream Group. The fair value of assets related to development and extraction of mineral resources in Canada at as 31 December 2014 was determined on a basis of the reserves evaluation developed by an independent company in accordance with professional standards in force in the Canadian market. The total value of impairment allowance of assets of upstream segment amounted to PLN (-) 322 million.

The segment's capital expenditure in 2014 amounted to PLN 499 million and comprised mainly the preparation of new production wells for development of upstream infrastructure in Canada and an unconventional projects in Poland.

Corporate functions

TABLE 32. Basic financial data for corporate functions.

CORPORATE FUNCTIONS, PLN million	2014	2013	2012	change	change %
1	2	3	4	5=(2-3)	6=(2-3)/3
Segment revenues, including:	**311**	**314**	**327**	**(3)**	**(1.0%)**
Sales revenues from external customers	72	71	99	1	1.4%
Sales revenues from transactions with other segments	239	243	228	(4)	(1.6%)
Segment expenses	**(1 007)**	**(1 078)**	**(1 059)**	**71**	**(6.6%)**
Other operating income/expenses, net	26	87	3	(61)	(70.1%)
Share in profit from investments accounted for under equity method	(1)	(1)	0	0	0.0%
Profit/(Loss) from operations increased by depreciation and amortization (EBITDA)	**(565)**	**(557)**	**(611)**	**(8)**	**(1.4%)**
Profit/(Loss) from operations	**(671)**	**(678)**	**(729)**	**7**	**1.0%**
CAPEX	230	117	130	113	96.6%

In 2014, EBITDA of corporate functions remained at the similar level (y/y), despite the lack of the positive effect in the balance of the other operating activities from 2013 due to received compensation and reimbursements of taxes paid in previous years.

The capital expenditures of corporate functions in 2014 related mainly to conversion of perpetual usufruct of land into ownership rights in respect of the part of area of the Production Plant in Płock and an adjacent areas and in remaining part mainly related to realised IT projects.

5.2.1.4 Financial expenses and net result

In 2014 the net financial expenses amounted to PLN (-) 1,535 million and included mainly the net negative exchange differences of PLN (-) 1,459 million, net interests of PLN (-) 167 million and settlement and valuation of the financial instruments in the net amount of PLN 97 million.

The net negative exchange differences comprised mainly the amount of exchange differences resulting from discontinuation of applying a hedge accounting of net investment in foreign operations (net investment hedge). From 30 June 2014, ORLEN Group has discontinued applying a hedge accounting of net investment in foreign operations (ORLEN Lietuva Group). The hedged item (the equity of ORLEN Lietuva Group) decreased as a result of the recognition of impairment allowances of non-current assets in the II quarter of 2014. As a consequence, the accumulated surplus of the negative exchange differences due to valuation of the hedging instrument were reclassified from the equity to the profit or loss. The mentioned surplus of the negative exchange differences in 2014 amounted to PLN (-) 811 million. This reclassification has no impact on total equity of the ORLEN Group.

Taking into account tax charges, net loss generated by the ORLEN Group for 2014 amounted to PLN (-) 5,828 million.

5.2.2 Statement of financial position

TABLE 33. Consolidated statement of financial position – assets.

ASSETS, PLN million	31.12.2014	31.12.2013	31.12.2012	change	change %
1	2	3	4	5=(2-3)	6=(2-3)/3
ASSETS					
Property, plant and equipment	22 644	24 904	24 331	(2 260)	(9.1%)
Investment property	111	121	112	(10)	(8.3%)
Intangible assets	703	823	1 296	(120)	(14.6%)
Perpetual usufruct of land	89	95	94	(6)	(6.3%)
Investments accounted for under equity method	672	615	594	57	9.3%
Financial assets available for sale	40	40	41	0	0.0%
Deferred tax assets	385	151	285	234	155.0%
Other non-current assets	327	158	55	169	107.0%
Non-current assets	**24 971**	**26 907**	**26 808**	**(1 936)**	**(7.2%)**
Inventories	9 829	13 749	14 903	(3 920)	(28.5%)
Trade and other receivables	7 057	7 768	7 996	(711)	(9.2%)
Other financial assets	862	165	368	697	422.4%
Current tax assets	35	59	84	(24)	(40.7%)
Cash and cash equivalents	3 937	2 689	2 029	1 248	46.4%
Non-current assets classified as held for sale	34	15	65	19	126.7%
Current assets	**21 754**	**24 445**	**25 445**	**(2 691)**	**(11.0%)**
Total assets	**46 725**	**51 352**	**52 253**	**(4 627)**	**(9.0%)**

As at 31 December 2014 total assets amounted to PLN 46,725 million and decreased by PLN (-) 4,627 million (by (-) 9.0%) in comparison to 31 December 2013.

Current assets decreased by PLN (-) 2,691 million (by (-) 11.0%) (y/y)) and reached the level of PLN 21,754 million, mainly due to:

– decrease by PLN (-) 3,920 million (by (-) 28.5%) of the inventories value, mainly as a result of the lower crude oil quotations and decrease of crude oil and product volume,
– decrease by PLN (-) 711 million (by (-) 9.2%) of the trade and other receivables value,
– increase by PLN 1,248 million (by 46.4%) of cash and cash equivalents value,
– increase by PLN 697 million (by 422.4%) of other short-term financial assets mainly due to increased valuation of the cash flow hedging instruments.

Total value of non-current assets decreased in comparison to the balance as at 31 December 2013 by PLN (-) 1,936 million (by (-) 7.2%) and amounted to PLN 24,971 million. The most significant influence on this change had a net decrease of property, plant and equipment and intangible assets of PLN (-) 2,380 million (of (-) 9.3%), mainly due to:

– capital expenditures of PLN 3,740 million,
– depreciation and amortization of PLN (-) 1,990 million.
– impairment allowances of assets of ORLEN Lietuva, Unipetrol Group, Rafineria Jedlicze Group, Spolana of ANWIL Group and ORLEN Upstream Group of PLN (-) 5,468 million and
- including into consolidated assets of the Canadian company Birchill of PLN 838 million.

TABLE 34. Consolidated statement of financial position – equity and liabilities.

EQUITY AND LIABILITIES, PLN million	31.12.2014	31.12.2013	31.12.2012	change	change %
1	2	3	4	5=(2-3)	6=(2-3)/3
EQUITY					
Share capital	1 058	1 058	1 058	0	0.0%
Share premium	1 227	1 227	1 227	0	0.0%
Hedging reserve	(1 319)	148	(73)	(1 467)	-
Revaluation reserve	0	0	6	0	-
Foreign exchange differences on subsidiaries from consolidation	509	(201)	81	710	-
Retained earnings	17 296	23 716	24 180	(6 420)	(27.1%)
Equity attributable to equity owners of the parent	**18 771**	**25 948**	**26 479**	**(7 177)**	**(27.7%)**
Non-controlling interest	**1 615**	**1 603**	**1 828**	**12**	**0.7%**
Total equity	**20 386**	**27 551**	**28 307**	**(7 165)**	**(26.0%)**
Loans, borrowings and bonds	9 670	6 507	7 523	3 163	48.6%
Provisions	709	658	660	51	7.8%
Deferred tax liabilities	75	538	668	(463)	(86.1%)
Deferred income	8	10	15	(2)	(20.0%)
Other non-current liabilities	1 843	133	169	1 710	1285.7%
Non-current liabilities	**12 305**	**7 846**	**9 035**	**4 459**	**56.8%**
Trade and other liabilities	11 215	14 013	12 504	(2 798)	(20.0%)
Loans, borrowings and bonds	987	850	1 233	137	16.1%
Current tax liabilities	42	36	83	6	16.7%
Provisions	648	821	802	(173)	(21.1%)
Deferred income	122	124	168	(2)	(1.6%)
Other financial liabilities	1 020	110	121	910	827.3%
Liabilities directly associated with assets classified as held for sale	0	1	0	(1)	-
Current liabilities	**14 034**	**15 955**	**14 911**	**(1 921)**	**(12.0%)**
Total liabilities	**26 339**	**23 801**	**23 946**	**2 538**	**10.7%**
Total shareholders' equity and liabilities	**46 725**	**51 352**	**52 253**	**(4 627)**	**(9.0%)**

Equity as at 31 December 2014 amounted to PLN 20,386 million and was lower by PLN (-) 7,165 million (by (-) 26.0%) in comparison to the balance at the end of the prior year, mainly due to:

- dividend payment of PLN (-) 616 million on a basis of the Ordinary General Shareholders' Meeting of PKN ORLEN S.A. resolution dated 15 May 2014 on 2013 profit distribution and recognition of the net loss for 2014 of PLN (-) 5,828 million,
- decrease by PLN (-) 1,467 million of equity value due to applying hedge accounting,
- increase by PLN 710 million (y/y) in the balance of exchange differences on subsidiaries from consolidation.

Net indebtedness of the ORLEN Group as at 31 December 2014 amounted to PLN 6,720 million and was higher by PLN 2,052 million as compared to that recorded as at the end of 2013. The increase of net indebtedness balance is an effect of net proceeds of loans and issue of bonds of PLN 2,977 million, change of cash balance of PLN (-) 1,248 million as well as the impact of the negative exchange differences due to revaluation of loans in foreign currencies and valuation of indebtedness of PLN 323 million.

5.2.3 Statement of cash flows

TABLE 35. Consolidated statement of cash flows.

ITEM, PLN milion	2014	2013	2012	change	change %
1	2	3	4	5=(2-3)	6=(2-3)/3
Cash flows – operating activities					
Net profit/(loss)	**(5 828)**	**90**	**2 170**	**(5 918)**	**-**
Adjustments for:					
Share in profit from investments accounted for under equity method	(57)	(40)	(32)	(17)	42.5%
Depreciation and amortisation	1 991	2 111	2 202	(120)	(5.7%)
Foreign exchange (gain)/loss	880	64	(494)	816	1275.0%
Interest, net	241	272	335	(31)	(11.4%)
Dividends	(2)	(2)	(2)	0	0.0%
Loss on investing activities	5 015	94	836	4 921	5235.1%
Tax expense	(418)	67	446	(485)	-
Change in provisions	141	391	421	(250)	(63.9%)
Change in working capital	1 752	2 815	(1 226)	(1 063)	(37.8%)
inventories	*4 106*	*974*	*1 008*	3 132	321.6%
receivables	*924*	*405*	*(97)*	519	128.1%
liabilities	*(3 278)*	*1 436*	*(2 137)*	(4 714)	-
Other adjustments	(360)	(215)	(598)	(145)	67.4%
Income tax (paid)	(168)	(107)	(1 088)	(61)	57.0%
Net cash provided by operating activities	**3 187**	**5 540**	**2 970**	**(2 353)**	**(42.5%)**
Cash flows – investing activities					
Acquisition of property, plant and equipment, intangible assets and perpetual usufruct of land	(3 700)	(2 382)	(2 417)	(1 318)	55.3%
Disposal of property, plant and equipment, intangible assets and perpetual usufruct of land	400	164	44	236	143.9%
Acquisition of shares	(792)	(536)	(170)	(256)	47.8%
Disposal of shares	48	0	0	48	-
Deposits, net	(27)	19	(6)	(46)	-
Dividends received	2	22	2	(20)	(90.9%)
Proceeds/(Outflows) from borrowings granted	5	272	(268)	(267)	(98.2%)
Other	44	0	(38)	44	-
Net cash (used) in investing activities	**(4 020)**	**(2 441)**	**(2 853)**	**(1 579)**	**64.7%**
Cash flows – financing activities					
Proceeds from loans and borrowings received	9 639	3 589	4 424	6 050	168.6%
Bonds issued	2 350	700	1 000	1 650	235.7%
Repayments of loans and borrowings	(9 023)	(5 433)	(7 603)	(3 590)	66.1%
Redemption of bonds	0	(304)	(750)	304	-
Interest paid	(245)	(310)	(364)	65	(21.0%)
Dividends paid	(617)	(642)	(15)	25	(3.9%)
Payment of liabilities under finance lease agreements	(30)	(28)	(29)	(2)	7.1%
Grants received	10	1	1	9	900.0%
Other	(1)	(11)	(4)	10	(90.9%)
Net cash provided by/(used in) financing activities	**2 083**	**(2 438)**	**(3 340)**	**4 521**	**-**
Net increase/(decrease) in cash and cash equivalents	**1 250**	**661**	**(3 223)**	**589**	**89.1%**
Effect of exchange rate changes on cash and cash equivalents	(2)	(1)	(1)	(1)	100.0%
Cash and cash equivalents, beginning of the period	2 689	2 029	5 253	660	32.5%
Cash and cash equivalents, end of the period	**3 937**	**2 689**	**2 029**	**1 248**	**46.4%**

In 2014 net cash flows from operating activities amounted to PLN 3,187 million and comprised mainly EBITDA result before non-cash effect of impairment allowances of non-current assets of PLN 2,640 million and the positive change of net working capital of PLN 1,752 million.

The cash used in investing activities in 2014 amounted to PLN (-) 4,020 million and included mainly net expenses for the acquisition of property, plant and equipment, intangible assets and rights of perpetual usufruct of land of PLN (-) 3,300 million and net expenses related to shares acquisition of PLN (-) 744 million regarding mainly acquisition of the Canadian company Birchill Exploration Limited Partnership and Ceska Rafinerska a.s. from Shell.

The cash provided by financing activities in 2014 amounted to PLN 2,083 million and comprised mainly the net proceeds of loans and borrowings of PLN 616 million, the proceeds of debt securities issue of PLN 2,350 million related to the issue of retail bonds by PKN ORLEN S.A. as well as the issue of Eurobonds by SPV ORLEN Capital AB and the dividend payment of PLN (-) 617 million and interest payments of PLN (-) 245 million.

Taking into account the revaluation of cash due to exchange differences, the cash balance in 2014 increased by PLN 1,248 million and as at 31 December 2014 amounted to PLN 3,937 million.

5.2.4 Differences between financial results disclosed in annual report and previously published forecasts of financial results for the year

ORLEN Group did not publish forecasts of financial results for 2014.

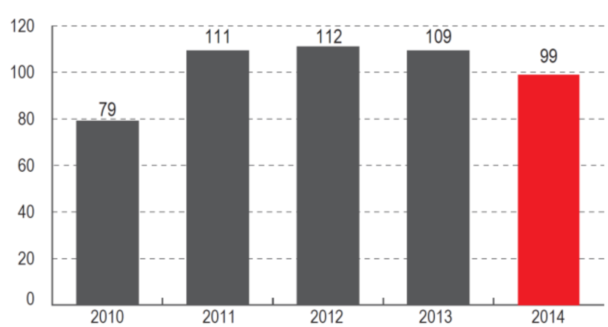
ORLEN Group operating results for 2014 did not change in comparison to the results published on 24 January 2014 in consolidated quarterly report for the IV quarter of 2014.

5.2.5 Macroeconomic factors affecting the financial results and sensitivity analysis

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

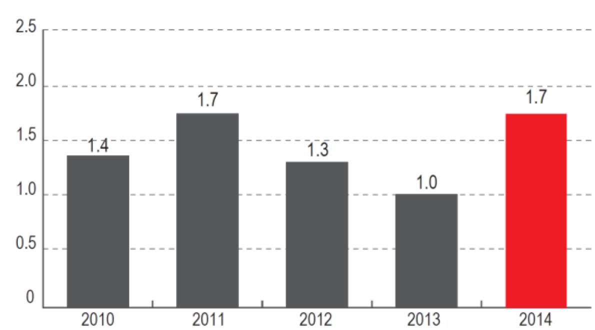
The basic raw material used in the production by the ORLEN Group is crude oil, which international crude oil prices are subject to fluctuations caused by changes in global demand and supply and due to political factors. As a result of 87% share of the Ural sulphated crude oil in the processing structure of ORLEN Group, the level of the Brent/Ural differential has an influence on the operating results as well.

DIAGRAM 64. Brent oil quotations (USD/bbl).



Source: Own calculations based on Platts data

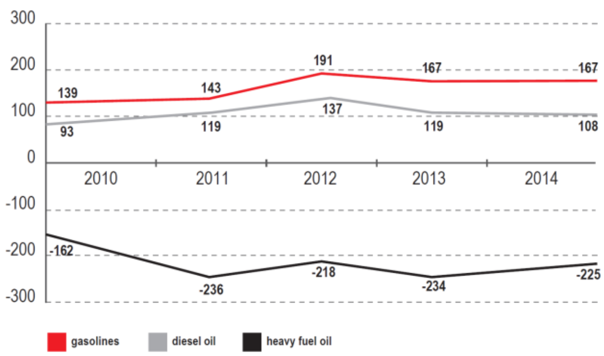
DIAGRAM 65. Brent/Ural differential (USD/bbl).



Source: Own calculations based on Platts data

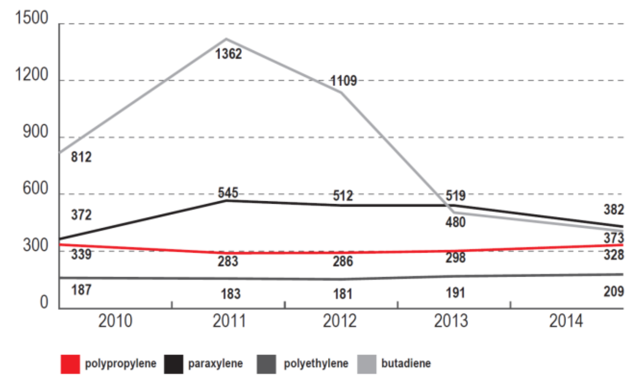
ORLEN Group's results depend on refining and petrochemical margins which, in turn, are dependent on product prices changes on global markets and on crude oil prices.

DIAGRAM 66. Refining margins ("crack") quotations (USD/t).



Source: Own calculations based on Platts data

DIAGRAM 67. Petrochemical margins ("crack") quotations (EUR/t).



Source: Own calculations based on ICIS data

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

Integration of the high-class production assets and the competitive basket of products (extending a value chain), were responsible for changing a management method of the refinery, petrochemical and power activities of ORLEN Group. Moreover, the mentioned conditions afford to create an integrated Downstream Segment. As a consequence, the new index – **model downstream margin** - has been implemented. The indicator's changes allow ORLEN Group to estimate an impact of macroeconomic factors on operating results of downstream segment.

Model downstream margin reflects a typical structure of the basic raw materials and refinery and petrochemical products of ORLEN Group as well as illustrates extended value chain due to full integration of operations of the ORLEN Group.

The method of calculation of model downstream, refinery and petrochemical margins is presented in Glossary of selected technical and financial definitions at the end of the foregoing Report.

DIAGRAM 68. Model downstream margin [USD/bbl].

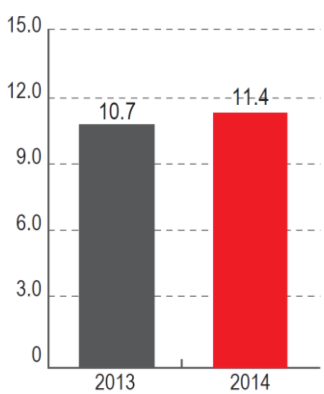


TABLE 36. The product structure of the downstream margin – margins (crack) from quotations.

Products	2014	2013	CHANGE %
Refinery products (USD/t)			
Gasoline	167	167	0.0%
Diesel oil	108	119	(9.2%)
Heavy heating oil	(225)	(234)	3.8%
SN 150	161	131	22.9%
Petrochemical products (EUR/t)			
Ethylene	589	605	(2.6%)
Propylene	543	467	16.3%
Benzene	432	375	15.2%
Paraxylene	382	519	(26.4%)

Generated financial results are influenced by current economic situation in countries in which ORLEN Group operates. Basic indicator reflecting economic situation is GDP index which is correlated with fuel consumption or unemployment rate.

DIAGRAM 69. GDP in Poland (year-to-year change).

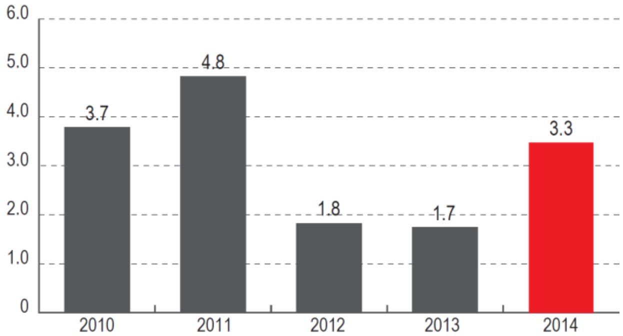


DIAGRAM 70. GDP in the Czech Republic (year-to-year change).

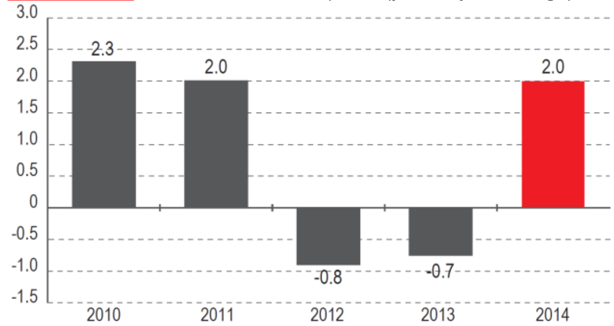


DIAGRAM 71. GDP in Lithuania (year-to-year change).

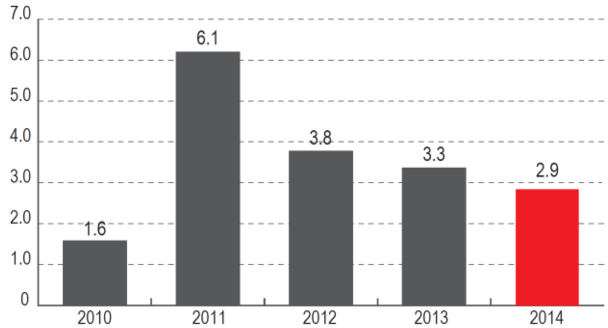
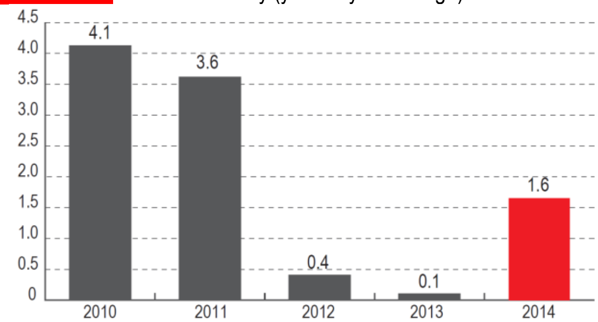


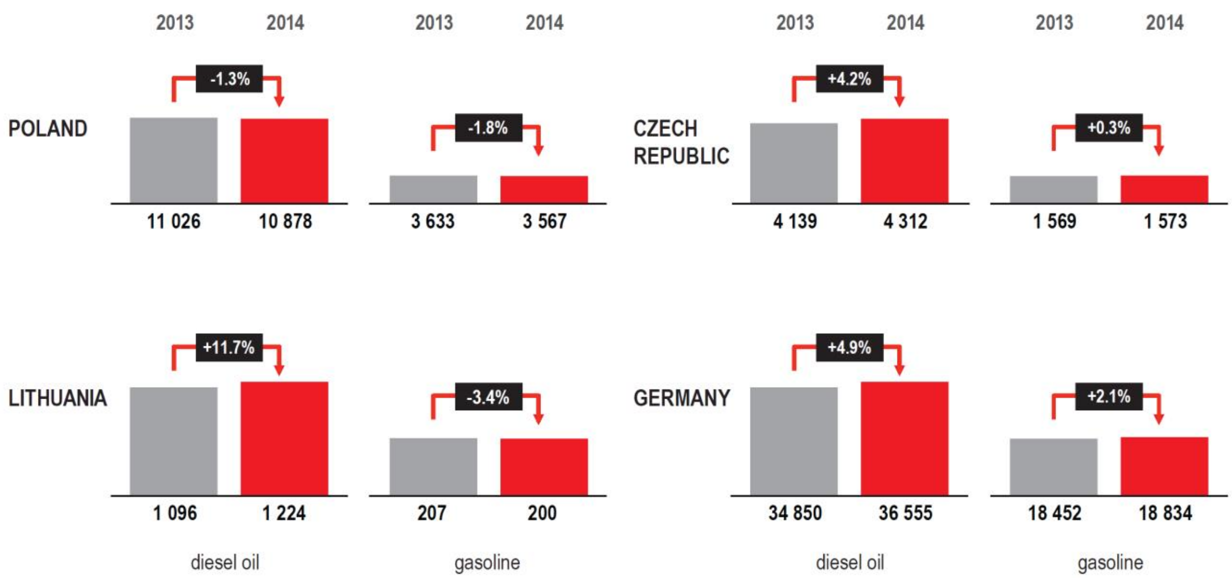
DIAGRAM 72. GDP in Germany (year-to-year change).



Source: Based on EUROSTAT data.

Economic situation determines fuel consumption trends. The overall condition of the economy, e.g. measured with GDP, has an influence on current and future customer behaviours. Unstable economic situation and impact of companies operating in so-called "shadow economy", described in point 4.3.5, significantly influenced fuel consumption within particular markets on which ORLEN Group is already present.

DIAGRAM 73. Consumption of gasoline and diesel oil in countries operated by the ORLEN Group.



Source: The estimates prepared on the basis of available data of the Energy Market Agency (Agencja Rynku Energii S.A.), the Lithuanian Statistical Office, Czech Statistical Office and the German Petroleum Industry Association.

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

DIAGRAM 74. USD/PLN average exchange rate.

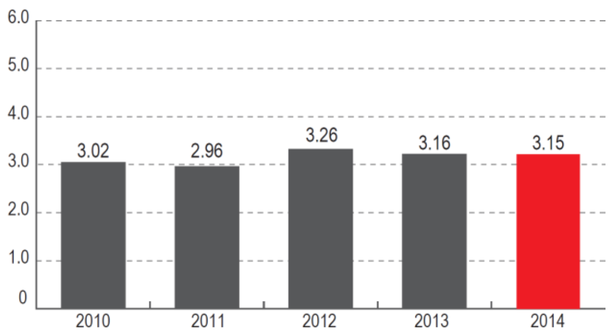
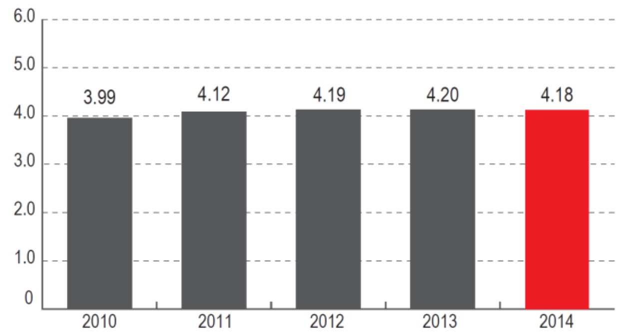


DIAGRAM 75. EUR/PLN average exchange rate.

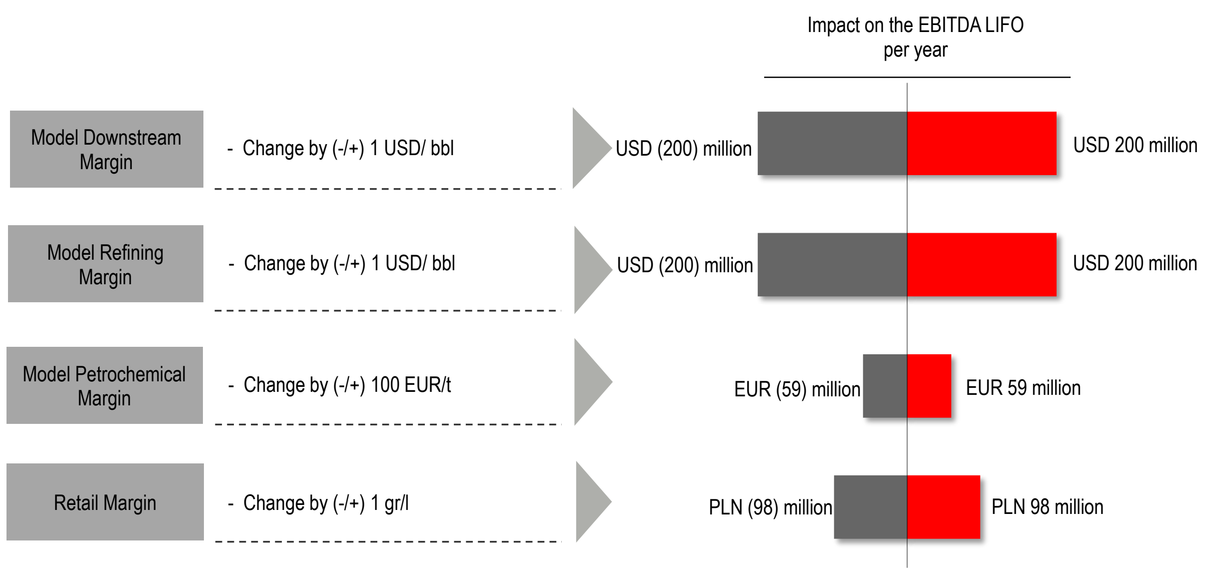


Source: Based on rates of the Polish National Bank (NBP)

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

- Estimates of change in impact of the model downstream and refining margin is performed assuming full processing capacity of crude oil of ORLEN Group amounting around 200 million bbl.
- Estimates of impact of change in the model petrochemical margin are performed assuming the sale of polymers in the ORLEN Group of approximately 590 thousand tonnes per year.
- Estimates of impact of change in retail margin are performed assuming the sale of fuels in ORLEN Group of approximately 9.8 billion litres per year.

DIAGRAM 76. Sensitivity analysis of the change in the key macroeconomic parameters (USD/EUR/PLN million).



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

5.3 Financial resources management

5.3.1 General management rules

ORLEN Group takes advantage of a cash-pooling system to optimize finance costs and effectively manage the current financial liquidity within the ORLEN Group.
In 2014 the following cash polling systems were in operation:
- PLN cash-pooling system which as at 31 December 2014 included 35 members of the ORLEN Group,
- international cash-pooling system for EUR, USD and PLN held for PKN ORLEN and foreign companies of the ORLEN Group (ORLEN Finance AB, ORLEN Lietuva Group, ORLEN Deutschland, Unipetrol Group).

Another instrument used to effectively manage the finance involves sale of part of mandatory crude oil reserves connected with concluding the agreement to maintain those mandatory reserves for PKN ORLEN by third parties and receivable factoring services.
As a part of liquidity management, the Parent Company may issue bonds up to the agreed limits and to acquire bonds issued by the ORLEN Group companies.

In 2014 the ORLEN Group invested funds in bank deposits. Decisions concerning bank deposits are founded on the maximum return on investment and current assessment of the financial standing of the banks based on the short-term rating assessment for deposits on the investment level.

5.3.2 Loans, borrowings, and debt securities

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

TABLE 37. Sources of financing.

ITEM, PLN million	2014	2013	2012	change	change %
1	2	3	4	5=(2-3)	6=(2-3)/3
Bank loans	6 491	5 638	7 378	853	15.1%
Borrowings	5	1	1	4	400.0%
Debt securities	4 161	1 718	1 377	2 443	142.2%
Financial indebtedness	**10 657**	**7 357**	**8 756**	**3 300**	**44.9%**
By maturity:					
Non-current	9 670	6 507	7 523	3 163	48.6%
Current	987	850	1 233	137	16.1%
Cash	**3 937**	**2 689**	**2 029**	**1 248**	**46.4%**
Net financial indebtednees	**6 720**	**4 668**	**6 727**	**2 052**	**44.0%**

Net financial indebtedness amounted to PLN 6,720 million and net financial leverage reached the level of 33.3% at the end of 2014. The value of covenant level included in loan agreements (net debt/EBITDA), without impact of impairment of fixed assets, amounted to 2.55.

The most significant loans in 2014 in the ORLEN Group are the following (in excess of PLN 100 million):

- long-term syndicate loan for the amount of EUR 2,000 million (approximately PLN 8,525 million at the average National Bank of Poland exchange rate for EUR/PLN as at 31 December 2014), signed by PKN ORLEN in April 2014. This loan has replaced the funding of EUR 2,625 million. In accordance with the terms of agreement, loan was available in two installments. The first installment of EUR 1,500 million was used for repayment a debt resulting from loan agreement dated on April 2011. The availability of the second installment of EUR 500 million was determined with demand for funds of Company and ORLEN Group companies. The agreement provided the possibility of withdraw from the second installment within 6 months from the date of signed agreement. Due to issue of eurobonds, the Company resigned from the second installment. As a result the balance of the loan is EUR 1,500 million (approximately PLN 6,393 million at the average National Bank of Poland exchange rate EUR/PLN as at 31 December 2014). The loan is in the form of a multicurrency revolving credit line extended by the syndicate of 17 banks. The loan term is 5 years (i.e. until 2019) with two extension options, each by 1 year. PKN ORLEN may allocate the funds obtained for general corporate and financial purposes of the ORLEN Group companies. The loan may be used in EUR, USD, CZK, CAD and PLN;
- 2 bilateral loan agreements allocated to fund the investments signed by PKN ORLEN with the European Investment Bank (EIB) in 2007 and the European Bank for Reconstruction and Development (EBRD) in 2011. The amount of EUR 210 million (approximately PLN 895 million at the average National Bank of Poland exchange rate for EUR/PLN as at 31 December 2014) was granted by EIB for investments in the development of fuel stations network and environmental protection. The agreement is being repaid. The amount of EUR 250 million (PLN 1,066 million at the average National Bank of Poland exchange rate for EUR/PLN as at 31 December 2014) was granted by EBRD for investments in the development and modernisation of the Power and Heat Plant in Płock and for general corporate purposes. The loan term is 7 years (until 2018). The loan amount will be reduced down to EUR 167 million on the fifth anniversary of signing the loan and down to EUR 83 million on the sixth anniversary. Available currencies of the loan are: EUR, USD and PLN;
- long-term loan as a part of the "Polish Investments" program of Bank Gospodarstwa Krajowego ("BGK") of PLN 1,000

million. The funds will be used by the Company to support an implementation of the energy strategy. The final maturity date is on December 2025;

- 5 bilateral agreements of short-term overdraft in PKN ORLEN's current account in the total amount of PLN 1,551 million for financing current activities;
- 10 overdraft agreements in the Unipetrol Group's current account in the total amount of PLN 2,230 million for financing current activities, base currency for most of loans is CZK;
- loan to ORLEN Finance AB for EUR 200 million (approximately PLN 852 million at the average National Bank of Poland exchange rate for EUR/PLN as at 31 December 2014) as part of international cash pool system. The loan was extended in December 2014 by Nordea Bank Finland, the agreement will remain in force until June 2016;
- syndicated loan to Basell Orlen Polyolefins in the amount of EUR 72 million (PLN 305 million at the average National Bank of Poland exchange rate for EUR/PLN as at 31 December 2014), of which EUR 12 million (PLN 49 million at the average National Bank of Poland exchange rate for EUR/PLN as at 31 December 2014) forms the short-term part of loan and EUR 60 million (PLN 256 million at the average National Bank of Poland exchange rate for EUR/PLN as at 31 December 2014) the revolving part. The loan was syndicated by 3 banks. The loan was signed in December 2014, and the agreement will remain in force until December 2016;
- investment loan to IKS Solino of PLN 176 million extended by the consortium of 2 banks in August 2004 for the construction of underground warehouse of crude oil and fuels, the agreement will remain in force until 2017;
- overdraft in current account for financing the current activities of Spolana owned by ANWIL Group in the amount of CZK 700 million (approximately PLN 108 million at the average National Bank of Poland exchange rate for CZK/PLN as at 31 December 2014). The loan was granted by RBS Bank (Poland) S.A. in December 2010 and the loan agreement is in force until February 2015.
- loan to Upstream Group of CAD 170 million (approximately PLN 514 million at the average National Bank of Poland exchange rate for CAD/PLN as at 31 December 2014). The loan was extended by the consortium of National Bank of Canada, Canadian Imperial Bank of Commerce, HSBC Bank Canada and The Toronto-Dominion Bank.

As regards the loan agreements in force, the ORLEN Group subsidiaries are obliged to maintain selected financial indicators within brackets agreed in the loan agreements. In 2014 the financial ratios assessed by the lending banks remained at the safe level. The financial indicators attained in 2014, presented in point 5.3.8 confirm the full ability to perform payment obligations resulting from the loan agreements and other agreements with banks and financial institutions.

Additional information on the debt structure of the ORLEN Group was presented in note 24 to the Consolidated Financial Statements for 2014.

5.3.3 Issue of securities and usage of the proceeds from the issue

PKN ORLEN continues to use the bond issue scheme, which is in operation in accordance with an agreement executed with a consortium of Polish banks in November 2006 with a debt limit up to PLN 2,000 million.
Funds obtained from the issue are allocated to financing ongoing operations. In 2014, as part of the bond issue scheme, PKN ORLEN issued short-term bonds in PLN for ANWIL, ORLEN Centrum Usług Korporacyjnych, ORLEN KolTrans, ORLEN Paliwa, ORLEN Transport, ORLEN Upstream and Ship-Service. Each time bonds profitability is determined on arm's length conditions.

PKN ORLEN's Supervisory Board, at the meeting held on 28 March 2013, gave consent for issue of bonds within the public bond issue programme ("Programme") by PKN ORLEN. Acting on a basis of the agreement with UniCredit CAIB Poland S.A., Powszechna Kasa Oszczędności Bank Polski S.A. and Bank Pekao S.A., in 2013 PKN ORLEN issued 4-year bonds in 4 Series in the total amount of PLN 700 million, addressed to the retail investors. Continuing the Programme, on 2 April 2014 PKN ORLEN issued 4-year bonds in E Series, in which up to 2,000,000 unsecured bearer bonds were offered with the variable interest rate based on the sum of WIBOR 6M rate and margin set at the level of 130 basis points. Day of final redemption of the bonds is set on 2 April 2018 for the E Series. Moreover, on 9 April 2014 PKN ORLEN issued bonds of F Series – in which up to 1,000,000 unsecured bearer bonds were offered with the fixed interest rate of 500 basis points. Day of final redemption of the bonds is set on 9 April 2020 for the F Series. The issued bonds in F Series was the last issue within the public bond issue programme ("Programme"). Unit nominal value of the bond is PLN 100. Bonds interest is paid in half-year periods.
The Management Board of Giełda Papierów Warościowych w Warszawie S.A. (WSE) adopted a resolution authorizing bonds of E Series and F Series to be listed on the regulated market within the Catalyst platform. On 12 May 2014 first issue of bonds from E Series took place. On 21 May 2014 was the first issue of bonds from F Series.

Fitch Rating Agency has assigned a national rating ("rating") of "A-(pol)" for E Series and F Series bonds.

The total value of issued bonds under the Programme, defined as the number of bonds which were offered multiplied by the issue price, amounted to PLN 1,000 million at the end of 2014 as compared to PLN 700 million at the end of 2013.
PKN ORLEN uses the funds raised through a public bond issue program to finance its current business operations.

On 30 June 2014 ORLEN Capital AB issued eurobonds, of which PKN ORLEN is a guarantor. The issue of eurobonds was amounted to EUR 500 million (PLN 2,080 at the exchange rate as at the date of transaction). Day of final redemption of the eurobonds is set on 30 June 2021. Bonds interest is paid in a year period and amounts

to 2.5%. Eurobonds received a "BBB-" rating from Fitch Ratings Ltd. agency and Baa3 rating from Moody`s Investors Service agency. The funds raised by ORLEN Capital AB from eurobond issue were loaned to PKN ORLEN.
Dealers of Eurobond issue are: Banco Santander S.A., BNP Paribas, HSBC Bank plc, UniCredit Bank AG, Mitsubishi UFJ Securities International plc and The Royal Bank of Scotland plc, and Citibank and N.A. London Branch are acting as agent as well as a payeragent.

At the end of 2014 the total amount of securities issued within the ORLEN Group amounted to PLN 4,161 million in comparison to PLN 1,718 million at the end of 2013.

Additional information on the issue of debt securities was presented in note 24.2 to the Consolidated Financial Statements for 2014.

5.3.4 Borrowings granted and received

At the end of 2014 the following agreements of borrowings granted by the Parent Company to entities within the ORLEN Group were in force:

- borrowings granted to ORLEN Finance AB in relation to international cash-pool system in total amount of PLN 356 million,
- long-term borrowing granted on 12 December 2013 to Unipetrol CZK 4,000 million with final maturity date on 28 April 2017. Total amount used as at 31 December 2014 amounted to CZK 4,000 million plus accrued interest,
- long-term investment borrowing granted on 2 June 2014 to IKS SOLINO S.A. of PLN 50 million. The borrowing will be repaid in installments, with the final maturity dated on 31 December 2024. As at 31 December 2014, the borrowing balance amounts to PLN 50 million.

At the end of 2014 in ORLEN Group the following agreements of borrowings received by the Parent Company from entities within the ORLEN Group were in force:

- short-term borrowing agreement concluded on 22 November 2013 with ORLEN Insurance of USD 15 million with final maturity date on 21 November 2015 with extension possibility for the following year. As at 31 December 2014 the borrowing balance amounts to USD 10 million plus accrued interest,
- borrowings received from ORLEN Finance AB in relation to international cash-pool system in total amount of PLN 205 million,
- long-term borrowing agreement concluded on 30 June 2014 with ORLEN Capital AB of EUR 496 million with the final maturity date on 30 June 2021. As at 31 December 2014 the borrowing balance amounts to EUR 496 million plus accrued interest.

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

5.3.5 Sureties, guarantees and other contingent liabilities

As at 31 December 2014 the ORLEN Group possessed off balance liabilities arising out of the issued guarantees and sureties for the overall of PLN 8,859 million, in comparison with PLN 4,563 million at the end of 2013. In 2014 the amount includes:

- sureties and guarantees issued to subsidiaries to the benefit of third parties of PLN 6,667 million, which related mainly to hedge of ORLEN Capital future liabilities resulting from issue of Eurobonds and timely payment of liabilities by the subsidiaries,
- securities for excise and excise duty on products and goods undergoing the procedure of suspended excise collection in the amount of PLN 1,600 million,
- sureties and guarantees concerning liabilities towards third parties issued in the course of normal business operations mainly relate to: guarantees and performance warranties, customs guarantees, tender guarantees, payment guarantees of PLN 592 million.

The aggregate value of contingent liabilities as at 31 December 2014 increased as compared to 31 December 2013 by PLN 25 million and amounted, as at 31 December 2014, to PLN 31 million.

Additional information on contingent liabilities was presented in note 36 to the Consolidated Financial Statements for 2014.

5.3.6 Working capital management

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

In 2014, under optimization of capital employed in crude oil mandatory reserves, another sale agreement of a part of the mandatory reserves was executed and concurrently agreement that outsources the obligation to maintain the reserves on the account of PKN ORLEN. After the term of the agreement lapses PKN ORLEN may buy back the crude oil in order to perform the statutory obligation to keep the mandatory reserves.

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

Another tool, allowing the flexible working capital management is the possibility of flexible setting of payment dates for the crude oil for the ORLEN Group companies.

The level of net working capital at the end of 2014 amounted to PLN 8,862 million and was lower by (-) PLN 1,474 million mainly as a result of optimisation of the operating inventories level as well as the decrease of trade liabilities.

5.3.7 Financial instruments

Grupa The Group using financial instruments hedges its cash flows:
- from inflows from operating activities performing forward sales and purchases of currency in the formula without settlement (non-deliverable forwards),
- from sales of ORLEN Group products and purchase of crude oil using commodity swaps,
- from periodic increase of operational inventory using commodity swaps,
- from interest payments concerning external financing using interest rate swaps (IRS),
- from investment projects using foreign exchange forwards.

Additional information on financial instruments was presented in note 32 to the Consolidated Financial Statements for 2014.

5.3.8 Selected financial ratios

DIAGRAM 77. Liquidity ratios.

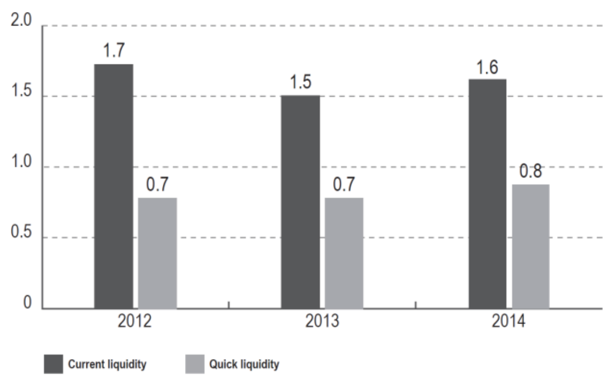


DIAGRAM 78. Turnover ratios (days).

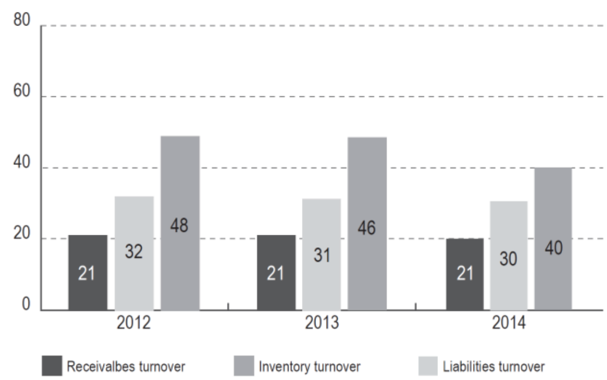
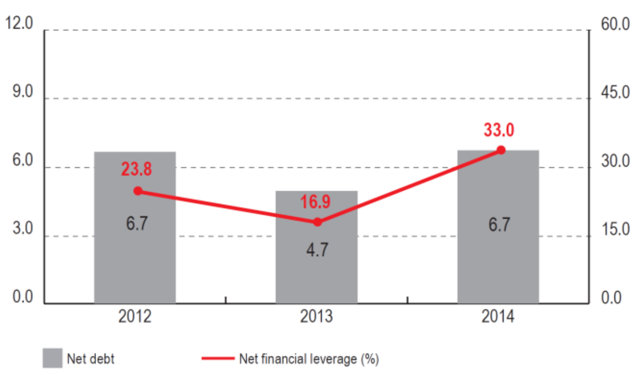


DIAGRAM 79. Net debt / Net financial leverage.



The methodology of calculating ratios is presented in the Financial Glossary at the end of the foregoing Report.

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

5.4.1 The functioning of the Corporate and Market Risk Management System

ORLEN Group within its operations monitors and assesses risks and undertakes activities in order to minimise their impact on the financial situation on the ongoing basis.
PKN ORLEN has an Audit and Corporate Risk Management Department, which coordinates the corporate risk management process at all levels of the organization. The main purpose of the office is to make an independent and objective evaluation of risk management and internal control as well as business process analysis. The Department conducts audit tasks based on the annual audit plans approved by the Management Board and accepted by the Audit Committee of the Supervisory Board and the Supervisory Board. The Department may also perform ad hoc audits commissioned by the Supervisory Board and the Management Board.

SCHEME 14. The Risk Management System organizational structure in the ORLEN Group

<table>
<tr><th colspan="4">SUPERVISORY BOARD (AUDIT COMMITTEE)</th></tr>
<tr><td colspan="4">Performs an annual assessment of the effectiveness of the Enterprise Risk Management System, monitors the level of risks affecting the achievement of business objectives, submits to the General Meeting an evaluation of the internal control system and risk management system.</td></tr>
<tr><th colspan="4">MANAGEMENT BOARD</th></tr>
<tr><td colspan="4">Supervises the process of corporate risk management, accepts the assumptions, principles of risk management, provides the Supervisory Board with comprehensive information about the risks involved in the business and how to manage it.</td></tr>
<tr><th colspan="4">AUDIT AND CORPORATE RISK MANAGEMENT OFFICE</th></tr>
<tr><td colspan="4">Supervises the process of corporate risk management, develops policies and procedures for risk management at the corporate level, periodically reports the results of the risk assessment to the Management Board and the Audit Committee of the Supervisory Board.</td></tr>
<tr><th>Management team</th><th colspan="3">Financial Risk Committe</th></tr>
<tr><td rowspan="3">Management team involved in the process of risk management, is responsible for monitoring, identification, assessment and analysis of risks and the implementation of recommendations on the management of various types of risks in the context of the policies.</td><td>Market risk</td><td>Credit and liquidity risk</td><td>Operating risk</td></tr>
<tr><td>Manages the risk of changes in market prices of commodities (including refinery and petrochemical margins, differential of Brent/Ural, crude oil and products prices, prices of CO_2 emission allowances), and the risk of changes in exchange rates and interest rates</td><td>Liquidity and credit risk management</td><td>Net working capital management</td></tr>
<tr><td>Market risk management policy</td><td>Internal policies and procedures</td><td>Internal policies and procedures</td></tr>
</table>

The objective of market risk management process is to reduce the undesirable effects of changes in market risk factors on the cash flows and results in the short and medium term. The ORLEN Group applies consistent hedging policy in the field of commodity, currency and interest rate risks. ORLEN Group manages the market risks resulting from the above factors on the basis of market risk management policy, which sets out the rules for measuring individual exposures, parameters and time of risk hedging and hedging instruments.
In PKN ORLEN market risk management principles are realized by the designated organizational units under the supervision of: PKN ORLEN's Financial Risk Committee, PKN ORLEN's Management Board and PKN ORLEN's Supervisory Board. Financial Risk Committee of PKN ORLEN is responsible for the supervision and coordination of financial risk management process and consists of: Executive Director for the Financial Management, Executive Director for the Planning and Reporting, Executive Director for Wholesale Trade of Refinery Products, Executive Director for the Supply Chain Management, Executive Director for Crude Oil and Gas Trade, Chief Economist, Director of the Office of Financial Risk and Liquidity Management.

In order to ensure the efficiency and operational safety of the process in the PKN ORLEN's Office of Financial Management three areas were created responsible for carrying out financial transactions (Front Office), measurement and risk analysis (Middle Office), reporting and settlement of transactions (Back Office).

Management Boards are responsible for risk management in the ORLEN Group companies for each company under the supervision of the Supervisory Boards. For the execution of hedging transactions on behalf of individual companies of ORLEN Group covered by the common hedging policy corresponds to PKN ORLEN, which under the contracts was given appropriate powers of attorney. Effectiveness and performance of hedging transactions are monitored by individual companies of ORLEN Group and presented to PKN ORLEN's Committee for Financial Risk Management and PKN ORLEN's Management Board through PKN ORLEN's Office of Financial Management.
In 2013, PKN ORLEN developed and implemented the **Enterprise Risk Management** Policy and Procedure that comprehensively regulated the process of operation of the Integrated Enterprise Risk Management System (ERM). The Enterprise Risk Management System provides information on risks present and enables their effective management which makes it one of the key tools supporting the effective realisation of strategic and operating objectives.

The basic assumptions functioning in the Enterprise Risk Management System include:

- identification and risk assessment based on a common risk model, which contains a systematic classification of risks and their definitions, and methodology specified in the Corporate Risk Management Procedure,
- assigning risks to processes and identifing their owners,
- responsibility of risk managers for risk management in accordance with their competences, rights and responsibilities.

The Management Board, directors, officers and employees of the organizational units are responsible for understanding the risks and controls mechanisms in terms of their responsibility as well as for deciding on the particular risk in accordance with the Policy and assigned competences.
Corporate risk management process in PKN ORLEN is regulated by a number of coherent organizational acts:
- Policy and Procedure for Enterprise Risk Management,
- The procedure for identifying and managing risk,
- Risk Management Plan,
- Policy and instructions for market risk management in PKN ORLEN,
- Organizational rules applicable in the context of risk management in the terms of information security attributes loss in PKN ORLEN and appointment the Panel on the Information Security.

SCHEME 15. The Integrated Enterprise Risk Management System.

Risk assessment is a regular process. It takes place alt least once a year and includes assessment of relevance of each risk by:
- assessment of gross risk, that is the condition prior to implementation of control mechanisms in respect of particular risk,
- tests and assessment of operation of control mechanisms,
- assessment of net risk, that is the condition with the control mechanisms implemented in respect of particular risk,
- assessment of target risk .

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

5.4.2 Risks and threats of conducted operations of ORLEN Group

Main risks in respect of the ORLEN Group`s operations include:

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

Detailed description of the above risks together with their estimated influence on ORLEN Group's financial statements is presented in note 32.5 to Consolidated Financial Statements for 2014.

Market risks

Market risk is the possible negative impact on the Group's performance resulting from changes in market prices of commodities, exchange rates and interest rates.
The aim of market risk management is to reduce the undesirable effects of changes in market risk factors on the cash flows and financial results in the short and medium term.
ORLEN Group applies a consistent policy of hedging commodity risk, currency risk and interest rate risk. Management of these risks is based on a policy of market risk management and hedging strategies, which determine the rules for measuring particular exposures, parameters and time of risk hedging and hedging instruments.

Market risk management is performed using derivatives, which are used solely to reduce the risk of changes in fair value and the risk of changes in cash flows. ORLEN Group applies only those instruments which can be valuated internally using standard valuation models for the instrument.
To obtain market valuations of instruments ORLEN Group uses its own accounting systems and valuation of derivative instruments as well as relies on information obtained from leading banks, brokers and information services. Transactions are concluded only with reliable partners, admitted to the transactions by applying adequate procedures and signing relevant documentation.
There are the following types of market risks:

commodity risk

As part of its operations, the ORLEN Group is mainly exposed to the following commodity risks:

- risk of changes in refinery and petrochemical margins realized on sales of products,
- the risk of change in Brent/Ural differential;
- the risk of changes in the prices of crude oil and products related to the time mismatch which occurs when buying by sea crude oil for processing or oversizing periodic volume of inventories of crude oil, semi-finished products and products or entering into future transactions of product sales;
- the risk of changes in prices of CO_2 emission allowances;
- risk of changes in the prices of crude oil and refinery products related to the obligation to maintain mandatory reserves of crude oil and fuels.

In the framework of developed hedging strategies, ORLEN Group hedges both the refining margin risk and the risk of change in the Brent/Ural diferential.
The risk of changes in the prices of crude oil and/or products associated with time mismatch is systematically and regularly identified and hedged.
ORLEN Group regularly manages the risk of changes in the price of CO_2 emission allowances by at least an annual verification of CO_2 emission allowances volume and determining the method of balancing future shortages or surpluses. In 2013 and 2014 the Group concluded forward purchases of allowances, which in the future will be redeemed as a settlement of CO_2 emissions. Valuation of these transactions are not recognized in the consolidated financial statements, as purchased emission rights will be used for own needs.

The risk of changes in the prices of crude oil and refinery products related to the obligation to keep mandatory reserves of crude oil and fuels is not intentionally hedged due to the volume, the permanent nature of the exposure and non-cash impact of the risk on the Group's results.

exchange rates risk

Within its activities, the ORLEN Group is exposed to the following types of exchange rate risk:

- economic currency exposure over the next 12 months resulting from the proceeds reduced by expenses indexed to or denominated in a currency other than the functional currency,
- balance sheet currency exposure arising from assets denominated in foreign currencies (trade receivables and other receivables, cash and cash equivalents, etc.) and liabilities (trade liabilities and other payables, loans, debt securities, etc.),
- currency risk associated with investment expenditures.

Risk associated with foreign currency economic exposure is regularly and actively hedged by using purchase or sale of forward currency transactions.

Within the framework of hedging strategies developed ORLEN Group hedges selected balance sheet items of currency exposure.

Currency risk associated with investment expenditures is regularly hedged using forward purchases of foreign currencies in which the expenditures are incurred.

interest rates risk

ORLEN Group is exposed to the risk of fluctuations in cash flows due to changes in interest rates resulting from owned assets and liabilities for which revenues and interest cost are dependent on variable interest rates.

ORLEN Group hedges the consolidated exposure to variability of cash flows due to changes in interest rates. A key measure of ORLEN Group's exposure to interest rate risk is the share in the total net debt position for which the interest costs are dependent on variable interest rates. The purpose of interest rate risk management is to maintain the above ratio at a certain level in a defined time horizon. For this purpose interest rate swaps and currency interest rate swaps are used.

Liquidity and credit risk

Liquidity risk is understood as the loss of the ability of a company to timely settle its current liabilities. ORLEN Group is exposed to liquidity risk arising from the relationship of current assets to current liabilities. The objective of liquidity risk management is to ensure the safety and financial stability of the Group and the basic tool for limiting the above risk is the current review of matching maturities of assets and liabilities. In addition, the ORLEN Group continues policy of diversifying funding sources and uses a variety of tools for efficient liquidity management.
A majority stake in the financing of ORLEN Group are loans provided by banks. Considering the increasingly restrictive regulations on obtaining long-term bank financing, the Group has two bond issues programs denominated in PLN and is the issuer of Eurobonds, which allows the use of resources outside the banking market. ORLEN Group uses concentration of financial resources system ("cash pool", "cash-pooling system") to optimize the financial costs and effective management of the current liquidity within the ORLEN Group.

The Group assesses **the credit risk** associated with existing cash and bank deposits as low, since all entities in which the funds are invested have a high rating.
The Group assesses **credit risk** in relation to the assets related to positive valuation of derivative instruments as low due to the fact that all transactions are concluded with banks with high credit ratings.
The Group is exposed to the **credit risk** associated with the guarantees given to the contractors. The maximum level of exposure arising from granted guarantees is an amount that the Group would be forced to pay in the case of request of the contractor to pay the guarantee. Based on the analysis and forecasts the Group has identified at the end of the reporting period, the probability of payment of such amounts as low.
Credit risk is also related to the creditworthiness of customers with whom sales transactions are concluded. The Group conducting trading activities, in collaboration with clients, applies deferred payment terms. Granting trade credit is subject to the risk of unsettled receivables by contractors for delivered products and services.
The above risk in the ORLEN Group is partially limited by the presence of a large number of customers with trade credit dispersed in various sectors of the domestic and foreign economy. In order to minimize the above risk the ORLEN Group grants trade credit limits for the contractors. Each time financial assessments, credibility and solvency checks of the contractors are performed. The inherent factor in credit risk management process implemented in the Group is the current review of the receivables turnover. The Group adopts various legal forms to secure the receivables (mortgages, guarantees, blockade of funds in the bank account, deposits, bills of exchange). Customers, for whom trade credit is granted, in the initial period of cooperation, are required to pay in the form of a prepayment or cash. The Group prepares a statement of the receivables aging which reduces the risks of overdue receivables.

In order to reduce the risk of customer insolvency the ORLEN Group additionally insures part of receivables within an organized trade credit insurance program.

ORLEN Group is also exposed to a number of specific risks for the companies in the petroleum sector.

Industry risk

fuel consumption	General economic situation exert material impact on shaping the fuel consumption trends as well as the product sales and price level and thus exert material impact on the ORLEN Group's financial standing. Changes in the diesel oil and gasoline consumption level recorded on the main markets of the ORLEN Group's operations were presented in point 5.2.5 of this Management Board's Report. The ORLEN Group, operating on the fuel market, is exposed to the risk resulting from the activities of the so called "shadow economy" connected primarily with the distribution of cheaper fuel, disregarding the obligation to pay taxes. In accordance with the estimates of the Polish Organisation of Oil Industry and Trade (POPiHN), influence of „shadow economy" for diesel may be more than 20% of its consumption.
crude oil processing/raw materials supplies	The ORLEN Group is exposed to disruptions in crude oil processing due to irregular raw material supplies, unavailability of transport services through the pipeline and unstable situation in countries where crude oil is extracted. Change in the parameters of supplied crude oil and related lower yields of fuels as well as overhaul turnaround of production plants may also be of importance. Expansion of existing refineries and construction of new ones in Russia may result in lower volume of exported Russian crude oil and, consequently, lower availability of this raw material for European customers, including the ORLEN Group. In addition, higher demand for crude oil in China may result in increased Russian crude oil export on Asian markets and consequently its less availability on European markets what may influence level of the ORLEN Group's products supply. Gas purchases are based on the long-term agreement between PKN ORLEN and PGNiG as well as short-term agreements with alternative suppliers. Due to no price mechanisms on liquid gas markets in Europe, prices of gas in Poland may be lower or higher than the prices on neighbouring deregulated markets (such as German or Czech market). The ORLEN Group takes measures to ensure stable raw materials supply, mainly through diversification of sources and adoption of the production installations to process various types of raw materials. Furthermore, the ORLEN Group implements a number of exploration and extraction projects in order to obtain own sources of gas and crude oil. In the scope of product logistics, the ORLEN Group is largely dependent on local companies such as PERN and OLPP owned by PERN in Poland as well as ČEPRO in the Czech Republic. Product logistics of the refinery in Mazeiku is dependent on the sole provider of the railway transport service that is AB Lietuvos Geležinkeliai.
regulatory risk	**National Indicative Target achievement costs („NIT")** Since 2008 the obligation to comply with the National Indicative Target (NIT) has been imposed on the fuel producers, which determines the minimum share of biocomponents and other renewable fuels calculated at the heating value in the general quantity of liquid fuels and biofuels consumed in transport during the calendar year. Following 1 January 2012, it is possible to apply the reduced NIT – adjusted by the reduction index of 0.85 of the NIT for a given year, if at least 70% of biocomponents obtained from domestic producers entered in the producer register maintained by the Agricultural Market Agency are used in fuel production. In 2014 in the Polish law a significant change associated with the implementation of NIT has been made. Starting from 2015, all bio-components used in order to fulfill the obligation must meet the criteria of sustainable development. In 2015, a decision on a possible extension of the operation of the NIT reduction mechanism for the years 2016 – 2017, will be made. In case of non-compliance with NIT, the penalty of approximately PLN 17.5 thousand per tonne of not used biocomponent may be imposed on the ORLEN Group. Additionally the proposal to implement the provisions of Directive 2009/30/EC will force the realization of the National Target Reduction (NCR) related to the mandatory reduction of greenhouse gas emmisions (GHG) by 6% by the end of 2020 compared with 2010. **CO_2 emmision rights** On 26 February 2014, the European Commission approved the draft plant list with the preliminary number of CO_2 emission rights granted free-of-charge. The legislative process is being finalized on the domestic level. As a part of CO_2 emissions management, the ORLEN Group annually monitors and balances CO_2 emission based on production data for the plants covered by the emission trade system and compares the number of rights, together with determination of the way of systematic balancing of the identified shortages/surpluses by way of intragroup transactions or forward and futures and spot transactions. The amount of emission rights granted free-of-change to the ORLEN Group may not be sufficient to satisfy regulatory obligations and consequently the ORLEN Group's companies may be forced to purchase additional rights at market prices or to limit the production. **Industrial emmisions** The Industrial Emissions Directive introduces, following 2016, emission standards for sulphur dioxide, nitrogen dioxide and dust, more stringent than the existing ones. In order to meet the above requirements, the ORLEN Group is constructing the flue gases desulphurisation, denitriding and dedusting installations, which will reduce the emission of sulphur and nitrogen dioxide as well as dust from the Heat and Power Plant in Płock by more than 90%. **Colour energy certificates**

Colour certificates support electric energy producers of renewable sources and high efficiency cogeneration. The number of awarded free of charge colour certificates depends on size of energy production and the structure of used fuel.
The legislation work carried out on amending the Energy Law and other laws has been restored the certified system of supporting electricity generation in high-efficiency cogeneration in the horizon until 2018. As a result, in the following years, the ORLEN Group is exposed to risks associated with the number of certificates, price changes of certificates and the risk of increase in the cost of substitute fees.

Mandatory reserves

In 2014 as a part of the implementation of Community legislation, the changes regulating the level of mandatory reserves have been made. Under the new regulations, manufacturers and traders in return for a gradual reduction in the level of reserves maintained (from 76 days to 53 days of average daily fuel production or import of crude oil or fuels at the end of 31 December 2017) for the reserves maintained by the for Material Reserves Agency, are required, starting 1 January 2015, to pay an additional fee concerning mandatory reserves in order to finance the maintaining of growing agency reserves. In 2015, mandatory reserves will be reduced by 8 days to the level of 68 days, and the additional fee concerning mandatory reserves will amount to 43 PLN/tonne of crude oil and 99 PLN/tonne of LPG. Change of the mandatory reserves system will have a positive influence on the partial release of capital frozen until now in physically maintained mandatory reserves of crude oil and fuels. As a result of the implemented changes, ORLEN Group is exposed to an increase in operating costs due to additional fee concerning mandatory reserves paid to Material Reserves Agency, which amount will depend on the quantity of reserves maintained. Additional fee could have an influence on fuel prices and as a result on the level of domestic consumption. Moreover, the maintenance of mandatory reserves (despite a reduction in the proportion of reserves maintained by producers) is still connected with the costs of financing and storage and also creates a risk of non-cash impact on the ORLEN Group's operating results in case of changes in market prices leading to revaluation of the reserves' value.

Shale gas

Amendments to the Geological and Mining Law Act established rules of shale gas extraction. The Act requires that geophysical analysis can be carried out only on the basis of a notification, without having to obtain a concession. Instead of the previously existing several types of concessions, the new rules implement a combined exploration-development-extraction concession. The concession will be granted in the tender procedure. It will be allowed to perform extraction in one part of territory covered by concession before finalizing exploration in another part. Long and complicated environmental procedures were moved from the beginning stage of work to the final phase before extraction. One documentation is introduced instead of two separate: geological and investment.

On 11 March 2014 the Council of Ministers approved a draft of "law on special hydrocarbon tax, on change of the law on tax on certain mineral extraction and amending certain other laws". Based on the above mentioned legislative acts, starting from 2020, a special hydrocarbon tax of extracted minerals, among others crude oil and gas, will be implemented. The investor will be charged with an annuity of raw materials, with a target level of around 40%. Annuity will be based on a special hydrocarbon tax, which rate is expected to be between 0 and 25%, depending on the ratio of income to expenditure and tax on certain mineral extraction. In the case of conventional gas, rate will be 3%, for unconventional gas 1.5%, for conventional oil 6% and for unconventional oil 3%. The exploitation fee paid to communities, districts, voivodeships and the National Fund for Environmental Protection and Water Management is expected to increase from 6 PLN to 24 PLN per thousand cubic meters for gas and up to 50 PLN from 36 PLN per tonne in the case of crude oil.
Therefore, the implementation of additional charges resulting from the hydrocarbon law may result in deterioration of the ORLEN Group's business economics in the Upstream segment.

Liberaliztion of the gas market

The process of liberalization of the gas market implies a two-stage departure from the gas price tariffs (the I stage: institutional buyers, the II stage: households). The potential impact of the liberalization of the gas market for ORLEN Group can cause changes in gas prices resulting from the abolition of tariffs and the gradual reduction of the scope of long-term contracts for the construction of a portfolio of suppliers in the short-term contracts.

new business areas

According to the strategy, ORLEN Group focuses on the construction of new business segments including upstream and energy. The development of these areas is aimed at diversification of the of the ORLEN Group operations, which currently focuses on downstream activities, which are related to the processing of crude oil into petroleum products, including fuel, and the sale of these products to customers.
Upstream projects are subject to a number of geological and operational risks, which may prevent the realization of expected profits, as well as temporary can cause losses. Implementation of these projects may be delayed or may not be successful, primarily because of the high exploration risk of this type of projects. Other reasons for failure of projects can include cost overruns, lower than expected crude oil and gas prices, higher-than-expected fiscal burden, adverse changes in the sectoral regulations, shortages of equipment and qualified personnel, harsh weather conditions, and finally the difficulty in finding by the ORLEN Group experienced partners to share the risks and costs connected with conducting such projects.These projects can also often require the use of new, advanced technologies, which are expensive to develop, acquire and implement, and may not function as expected.

	Energy projects are primarily exposed to the risk of an increase in natural gas prices and to the risk of an unfavorable changes in the regulations related to the loss of support for producers of electricity from renewable sources and produced in high-efficiency cogeneration.
operations and unforeseen accident losses risk	The ORLEN Group is exposed to operations and unforeseen accident losses. Any adverse effects of such risks are minimalised through adopted professional and tailored to ORLEN Group's individual needs insurance programme. The programme is created and operated by the entity formed specially for that purpose - ORLEN Insurance Ltd. Insurance coverage under ORLEN Insurance Ltd. polices is reinsured by the biggest international insurance and reinsurance companies under the program led by AIG Europe and Allianz, and where the biggest world and polish insurance companies such as AIG, Allianz, HDI, Munich Re, ACE and companies PZU and TUiR Warta are involved. In addition to comprehensive assets insurance, the ORLEN Group holds other insurances to ensure minimizing the adverse impact of damages i.e. third party insurance or property insurance in transport.
court and regulatory tax proceedings, customs and excise duty inspections	The ORLEN Group's companies are currently engaged in proceedings referred to point 3.7 of the foregoing Report or may possibly be engaged in the future in other court or regulatory proceedings. ORLEN Group has been a subject of a number of tax, customs and excise duty inspections. Although the ORLEN Group does not expect at present that any of the above proceedings, to which it is a party, will possibly exert material negative impact on its financial standing and results on operations, it is uncertain whether the final result of current or future proceedings will not exert material negative impact on the ORLEN Group's results or financial standing.
risk of amendments to applicable laws	Amendments to law on new regulations could have significant impact on the ORLEN Group, its financial situation and results of its operations.
risks related to the stability and security of IT systems and data	Due to the functioning in the ORLEN Group of the complex and advanced IT systems in many areas of activity, to the typical extend for corporate organization, the Group identifies the risks associated with the proper information systems functioning. Information systems in the ORLEN Group are secured in accordance with the best world practices in IT security, but risks in this area can not be completely excluded.

5.5 Feasibility assessment of investment plans

ORLEN Group is a company with a stable financial position maintaining financial ratios at a safe level, which confirms the full capacity to settle its obligations. ORLEN Group has open credit lines and diversifies funding sources. Generated cash flows and available funding sources will enable implementation of the planned investment projects

In subsequent years, the ORLEN Group will seek to further improve the structure of capital expenditures by focusing on the development expenditures and implement the most profitable projects - the most important investment projects are described in point 5.6. in this Report. Acquisitions in Poland and on other markets in the upstream sector will depend on the current market situation of ORLEN Group and market environment. The level of selected financial ratios is presented in point 5.3.8 of the foregoing Report.

5.6 Outlook - prospects for the development of the ORLEN Group in the next financial year

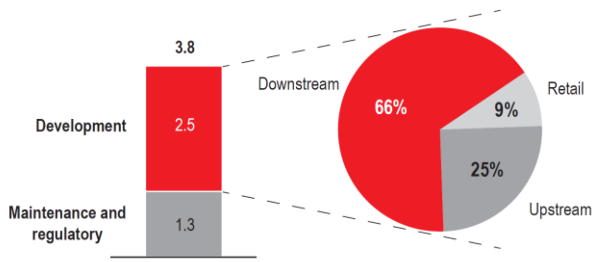
Sławomir Jędrzejczyk, Vice-President of the Management Board, CFO:
"In 2015, in accordance with the updated strategy, PKN ORLEN will implement the most significant investment projects, which aim to support the development of particular business areas. Total expenditures will amount to PLN 3.8 billion, of which up to PLN 2.5 billion will be allocated in development projects. This year will be crucial for the power industry segment due to the finalization of the Company's key investment, which is launch of the Gas and Steam Power Plant in Włocławek. In the long term perspective in the macroeconomic environment we expect an increase in oil prices as a result of the expected economic recovery and a comparable level of downstream margin. In 2015 the scope of maintenance standstills will be lower compared to the previous year. It is worth mentioning two issues from the regulatory environment. In 2015, two regulations that we waited for finally entered into force. Thanks to the new Act of Mandatory Reserves *we will be able to release a portion of working capital which will have a positive impact on our operating cash flows. The second issue is the "shadow economy" - we expect that the new regulations which requires to submit deposits and obtain a fuel trade concession will result in a systematic decline in Poland's shadow economy."*

ORLEN Group in the next financial year assumes further consistent implementation of the Strategy for the years 2014-2017. Lower oil prices, than those assumed in the Strategy, will bring beneficial effects in the downstream sector of increasing in demand and the level of margins, and because of the lower cost, will enable its further development. By focusing on building values, Company will implement actions aimed at improving operational efficiency, increasing the effectiveness of sales in the downstream segment, further strengthening its leading position, increasing market share in the retail segment and sustainable development of upstream segment. Positive cash flows from operating activities and diversified funding sources will provide resources to achieve desired strategic directions.

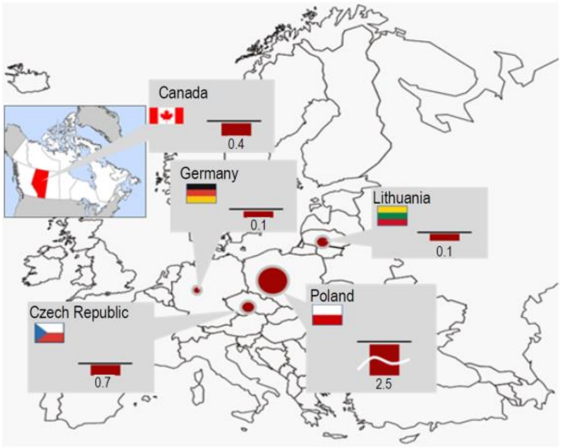
The operational and financial situation of the ORLEN Group in the next financial year may be affected, as in previous years, by internal and external factors.

- **Expected macroeconomic environment:**
  - the level of oil prices and the Brent/Ural differential: assumed temporary stabilization of oil prices at current levels, then increase as a result of economic recovery; increase in oil prices is dependent also on geopolitical risks,
  - model downstream margin: expected a comparable level (y/y) due to the expected growth of oil prices with an increase in the consumption of fuels and petrochemicals,
  - strengthening of the EUR/PLN as a result of higher expected rate of economic growth of Poland compared with Western European countries, including due to European funds. Positive impact on quotations of PLN has also changing perception of the Polish market – so called "better emerging market", which reduces the risk of outflow of foreign capital,
  - strengthening of the EUR/USD mainly due to cheaper energy in the USA compared with the countries of the European Union and shale gas revolution in the USA, which supports economic growth,
- **The projected market trends and competition:**
  - the expected acceleration in GDP growth in Poland and countries served by the ORLEN Group, which has a positive effect on the level of fuel consumption and other products of the ORLEN Group,
  - continued growth in demand for diesel with a slight decrease in demand for gasoline in the region of Central and Eastern Europe,
- **Legislative changes:**
  - lack of further development of "shadow economy" in the area of fuels trade, and thus an increase in consumption correlated with GDP growth,
  - amendment of the mandatory reserve law - optimization of reserves and as a result a reduction of working capital necessity to include the substitution fee in the sales price of fuel,
  - maintained support for high-effciency cogeneration – production of heat and electricity in combination.
- **Investment activities of ORLEN Group:**
  - downstream: the continued cosntruction of the Denitrogeneation and Dedusting Installation and the Flue Gas Desulfurization (FGD) Installation in Power Plant in Płock, the construction of the Metathesis Installation in Płock, the construction of a new installation of PE3 in Unipetrol, the completion of the CCGT in Włocławek and commencement of construction of CCGT in Płock,
  - retail: the construction of a total of more than 30 petrol stations in Poland, Germany and the Czech Republic and the rebranding of several dozen Bliska stations in Poland,
  - upstream: the planned implementation of further shale gas exploration projects in Poland and optimization of expenditures on extraction operations in Canada taking into account the current prices of crude and gas.

DIAGRAM 80. CAPEX in 2015 by development and mandatory projects [PLN bn].



SCHEME 16. CAPEX in 2015 by countries [%].



- **Maintanance shutdowns in ORLEN Group in 2015:**
  - PKN ORLEN: HOG, Reforming, Hydrogen Recovery, PX/PTA.
  - ORLEN Lietuva Group: Reforming, HON; Visbreaking.
  - Unipetrol Group: Visbreaking (Litvinov), Polypropylene (Litvinov), HON (Kralupy), FKK (Kralupy).
  - ANWIL Group: PVC.
  - BOP: Polyethylene (BOP).

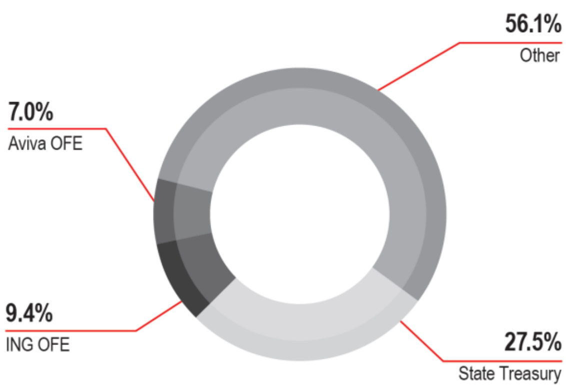
6. SHAREHOLDERS AND SHARES

6.1 Shareholding structure in PKN Orlen

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

Number of shares and shareholding structure in PKN ORLEN as at 31 December 2014 is presented in point 7.4 of the foregoing Report.
The Management Board of PKN ORLEN has no information about the agreements influencing the future change of current shareholding and bondholding structure.

DIAGRAM 81. Shareholding structure in PKN ORLEN as at 31 December 2014. 1)



1) According to information from PKN ORLEN's Ordinary General Meeting held on 15 May 2014 that were identical to the information of the Ordinary General Meeeting of PKN ORLEN held on 27 June 2013.

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

Members of the Management Board of PKN ORLEN as at 31 December 2014 did not hold any shares of the Company.
Mr Grzegorz Borowiec and Mr Artur Gabor from the Supervisory Board of PKN ORLEN held 100 and 3,200 shares of the Company, respectively, at the end of 2014.

Management and supervisory personel of PKN ORLEN as at 31 December 2014 did not hold any shares in the other ORLEN Group's entities.

6.3 Employee stock option scheme monitoring system

In 2014 no employee stock option scheme was implemented in the ORLEN Group.

6.4 Share repurchase

In 2014 PKN ORLEN and other entities of ORLEN Group did not hold or not repurchase its own shares.

6.5 Dividend policy

Improved financial situation of the ORLEN Group achieved in the recent years enabled to implement, within the ORLEN Group's strategy for years 2014-2017, the dividend policy which assumes a gradual increase in the level of dividend per share by taking into account the implementation of strategic financial indicators and forecasts of the macroeconomic situation. This method does not relate the dividend to net profit, which in the ORLEN Group's area of operations is the subject to high fluctuations and can include non-cash items, such as the revaluation of assets, inventories or loans, and as a result does not fully reflect the Group's current financial situation.
Taking the above into account, the Management Board of PKN ORLEN recommends to cover the net loss for 2014 of PLN (4,671,826,145.06) from the reserve capital of the Parent Company.
Simultaneously, the Management Board of PKN ORLEN, after considering the liquidity situation, recommends to distribute the amount of PLN 705,719,950.65 (PLN 1,65 per share) for dividend

payment. The dividend will be paid from PKN ORLEN's reserve capital, which includes net profits from previous years.
The Management Board recommend 16-th of June 2015 as the dividend date and 8-th of July 2015 as the payment date. This recommendation will be presented to the General Shareholders` Meeting of PKN ORLEN, which will make a conclusive decision in this matter.

6.6 Ratings

In 2014, ratings at the investment level in two leading rating agencies: Fitch and Moody`s remained unchanged, BBB- and Baa3 respectively (positive outlook). The above ratings reflects a consistent process of debt removal, of the ORLEN Group financing diversification and maintaining of the financial results at the safe level, which has significantly improved the credit situation of PKN ORLEN despite of hard conditions for the trade.
The Group's reliability was maintained also due to updating of the ORLEN Group's strategy for the years 2014-2017, which is the continuation of the Strategy announced in the end of 2012. The announced strategy is advantageous for the Company's credit profile since it keeps credit ratios at a safe level. The agencies positively assessed greater financial flexibility of the Company. Firstly, the sustainable investment policy was noticed, particularly an additional capex, which can be deferred if the cash flows are weaker than expected. The agency positively views PKN ORLEN"s ability to manage its working capital in response to changes in financial situation. The strategy of the ORLEN Group was assessed to be an ambitious plan for improvement of core activity with development of energy and upstream segments, showing extensive flexibility of actions planned.

6.7 PKN ORLEN on the Stock Exchange

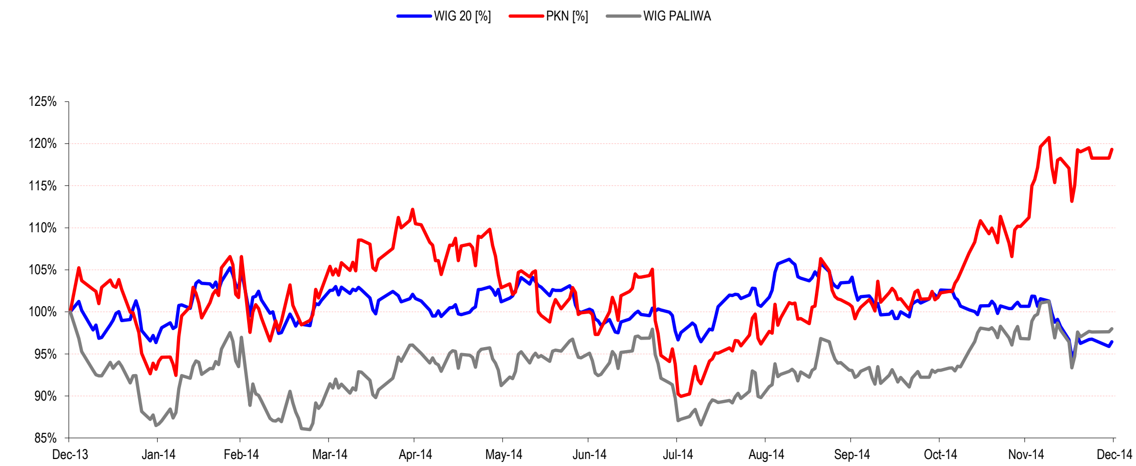
PKN ORLEN shares are quoted on the main market of the Warsaw Stock Exchange in the continuous quoting system and are included in WIG, WIG20, WIG30, WIG-Poland and WIG-FUELS – the industry index.
Since 19 November 2009 PKN ORLEN`s shares are included in the index of companies engaged in corporate social responsibility, called RESPECT index.
In 2014 PKN ORLEN's share price increased by 19.3% (y/y), to afford the highest rate of return of all companies included in WIG20.
Taking into account the dividend payout rate of return from shares of PKN ORLEN reached 23.5%.
Simultaneously, WIG20, the largest companies stock market index, decreased by (-) 3.5% (y/y), whereas WIG index increased by 0.3%.
In the previous year, 198 million of shares changed their holders on the market, that is (-) 12% fewer, comparing with the results from former year.

TABLE 38. Key data regarding PKN ORLEN's shares.

KEY DATA	UNIT	2014	2013	2012	CHANGE %
1	2	3	4	5	6=(3-4)/4
Net profit attributable to equity owners of the Parent Company	PLN milion	(5 811)	176	2 345	-
Highest share price[1)]	PLN	49.50	56.80	52.95	(12.9%)
Lowest share price [1)]	PLN	36.88	40.50	32.02	(8.9%)
Share price at year end[1)]	PLN	48.92	41.00	49.50	19.3%
Average price in the period [1)]	PLN	42.26	47.96	39.27	(11.9%)
P/E ratio average		(3.1)	116.6	7.2	-
P/E ratio at the end of the year		(3.6)	99.6	9.0	-
Number of shares traded	no.	427 709 061	427 709 061	427 709 061	0.0%
Capitalisation at year end	PLN milion	20 924	17 536	21 172	19.3%
Average daily trading value	PLN milion	34	44	45	(22.7%)
Average daily trading volume	no.	796 614	915 877	1 148 614	(13.0%)

1) Share price according to a closing share price.

DIAGRAM 82. Quotations of PKN ORLEN, WIG20 and WIG- FUELS on WSE in 2014. 1)

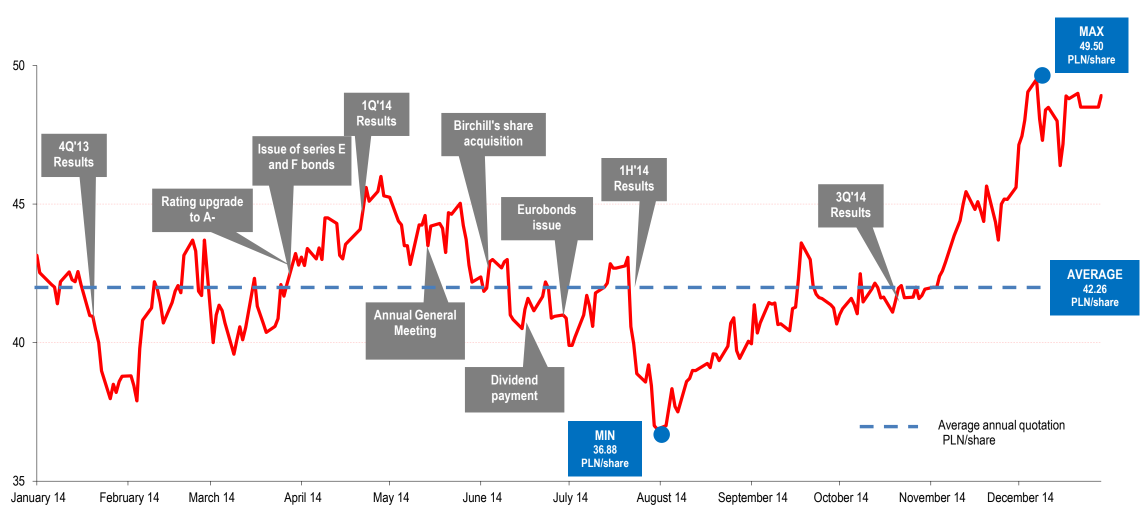


1) percentage change of quotations of PKN ORLEN, WIG 20 in relation to the listing of 30 December 2013
Source: Own calculations based on data from the portal gpwinfostrefa.pl

DIAGRAM 83. Quotations of PKN ORLEN on WSE in 1999 – 2014.

Source: Own calculations based on data from the portal gpwinfostrefa.pl

DIAGRAM 84. The most important events on a background of PKN ORLEN's quotations on WSE in 2014.



Source: Own calculations based on data from gpwinfostrefa.pl

TABLE 39. Brokerage offices which issue recommendations for shares of PKN ORLEN. 1)

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

1) As at the date of approval of this Report.

Current list of recommendations issued for the Company's shares is available on the corporate website under: http://www.orlen.com

7. CORPORATE GOVERNANCE

7.1 A set of applied Corporate Governance rules

In 2014, PKN ORLEN complied with the "Code of Best Practice for WSE Companies ("Code of Best Practice") valid in the Warsaw Stock Exchange. The Code of BPCL can be found on the website dedicated to the corporate governance at the Warsaw Stock Exchange: www.corp-gov.gpw.pl and on the corporate website of PKN ORLEN: www.orlen.pl in the "Investor Relations" section dedicated to the Company's shareholders in the "WSE Best Practice" tab (www.orlen.pl).

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

Communication with the capital market

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

Corporate website www.orlen.pl

PKN ORLEN has its corporate website, which is a reliable and useful source of information about the Company for the capital market representatives. For shareholders, investors and stock market analysts, the Company's webpage provides investor relations section (www.orlen.pl). Its content is prepared in a transparent, fair and complete way so as to enable the investors and analysts making decisions based on the information presented by the Company. The Investor relations section is maintained both in Polish and in English.
The section is divided into a few tabs, where all current and periodical reports published by the Company can be found, as well as presentations prepared for important events in the Company with audio and video recording of such events.

The Investor relations section contains a lot of modern tools useful to investors and stock market analysts. It is continuously improved according to the latest market standards.
One can find there, among others:

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

Investor Relations Service on www.orlen.pl is periodically reviewed and verified so that its content could fully meet the information needs of the capital market representatives. In 2014, the presentation of information was cleaned and supplemented on bonds issued by the Company. A new presentation of financial and operational data of the Company as well as macroeconomic data were also implemented, in conjunction with the introduced from the second quarter of 2014 change in the presentation of the Company's results by operating segment. In addition, since the beginning of 2014 the Company sends monthly PKN ORLEN Investor Relations newsletter with a set of information about macroeconomic data. Also, a new Teleconference tab was created, where all the audio recordings from teleconferences organized on the occasion of important events in the Company are gathered in one place.
On the website, in the investor relations section, there is also a tab concerning the corporate governance. One can find there the Company's annual reports on complying with best practices rules and the "Code of Best Practice". There is also brief information on best practice applied by the Company, the rules for selecting an entity authorized to audit the financial statements as well as information about the participation of women and men in the Company's Management Board and the Supervisory Board in the last two years.

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

The Company also supports its shareholders, investors and analysts to have the knowledge of the industries in which it operates. On a web portal of PKN ORLEN http://ffbk.orlen.com/ there are placed specialized publications and relations from industry conferences. There is also blog of PKN ORLEN's Chief Economist (http://napedzamyprzyszlosc.pl/blog) on which he places his comments on the current market situation. The company sends short messages through its account on Twitter (https://twitter.com/ORLEN_FFbK).

Direct contacts with capital market representatives

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

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

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

The important actions the Company carried out for its shareholders and investors in the last year included i.e.:
- communication of PKN ORLEN's strategy for the 2014-2017,
- dividend payment in the amount of PLN 1.44 per share,
- Eurobonds issue worth EUR 500 million,
- completion of public bond issue programme addressed to individual investors. Under the program, in 2013 and 2014 were issued six series of bonds with a total value of PLN 1 billion. Issued bonds are traded on the stock exchange Catalyst market,
- PKN ORLEN's participation in an educational campaign "Akcjonariat Obywatelski. Inwestyj Świadomie" ("Citizen Shareholders. Invest Knowingly") dedicated to individual stock investors.

The Company's efforts to maintain good capital market relations were also appreciated last years, proof of which are awards it was granted in a field of Investors Relations:
- in 2014, PKN ORLEN held its presence in VII edition of the Respecy Index project,
- PKN ORLEN was placed top 3 of the stock exchange listed companies with the best ESG data reporting in a group of Polish companies noted under WIG 20 and mWIG 40 indices and the group of companies from the energy sector, II edition of the ranking carried on by The Polish Association of Listed Companies, GES and Credo Business Consulting,
- won second year in a row a special prize "The Best of The Best" in The Best Annual Report in 2013 competition carried on by the Polish Institute for Accountancy and Taxes.
- PKN ORLEN has been awarded for the corporate governance and the quality of communication with the capital market in the 8th edition of WarsawScan 2014 survey conducted by the NBS.

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

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

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

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

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

The Company over the years has established the highest standards both in the current market activity and in relation to the issue of sustainable development. During the implementation of business strategy The Company is guided by the principle that the increase in value of the Company should be consistent with the interests of the environment in which it operates and be based on sustainable and responsible use of resources. In response to the current challenges PKN ORLEN developed CSR Strategy in 2014, which main idea is to translate adopted in 2012, "The values and rules of conduct of PKN ORLEN S.A." for specific directions, goals and activities of the business strategy. CSR strategy in the next 3-year-period sets priorities and key areas of the Company's CSR:
- ORGANIZATION, where the foundation is to build relationships. Priorities in this area include: safety of employees, development and diversity management, life balance and community involvement of employees.

- CLOSE ENVIRONMENT based on shaping attitudes where the priorities are: building the image of a responsible company, engaging stakeholders and social commitment of the Company.
- FURTHER ENVIRONMENT, in which we aim to lead change while maintaining priorities such as the development of responsible, ethical leadership, new business areas and innovation.

The Company communicates the operations in area of corporate social responsibility by regularly prepared social reports. Since its establishment, it published ten of them. Since 2008, they have been prepared in accordance with the GRI (Global Reporting Initiative) international standard. The CSR 2013 Report was prepared in accordance with GRI G4 Guidelines. The report informs in details about e.g. environmental protection, employment and decent work, respecting human rights matters. As the previous ones, it was published on the Company's website: http://www.orlen.pl/EN/CSR/Reports/EnvironmentalReports/Pages /default.aspx.

All information about the principles of providing support and specific examples of projects implemented as part of the charity and sponsorship are available on the company website, in the section Responsible Business. Implementation of charitable activities is based on the "Charity policy of Polski Koncern Naftowy ORLEN S.A.". The sponsoring activities of PKN ORLEN is carried out in accordance with established directions of sponsorship specified in the Company's marketing plan and is guided by principles published on the the Company's website. Communication support for social activities undertaken by PKN ORLEN is also fanpage Niesamowici Ludzie (Amazing People) which won the sympathy of nearly 60 thousand fans.

Permanent care of people is reflected in carried out by PKN ORLEN and the ORLEN's Foundation – Dar Serca social campaigns, programmes addressed to current and ex-employees, or projects for local communities. The ORLEN's Foundation – Dar Serca is a public benefit organization, established to implement the social mission of the Founder. The mission of the corporate Foundation (one of the first on the Polish market) is to manage activities with high value added, for equalling opportunities for children without parental care and active partnership with local communities, implemented by encouraging and supporting youth in the process of education, involvement in improvement of safety and health protection projects.
The Foundation informs about conducted projects on its website in annual reports http://www.orlendarserca.pl/PL/NaszaDzialalnosc/Strony/Sprawozdanie-z-dzialalnosci.aspx., and also on the fanpage Debeściaki which is regularly visited by over 20 thousand fans.

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

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

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

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

This system is the leading system in the ORLEN Group. Thanks to a uniform IT platform used the Parent Company has control over the recording of financial – accounting events within the ORLEN Group. The system has an option enabling the control of access rights of different users in a way that ensures the control over their access to specific objects and transactions.
All actions performed in the system are recorded for individual transactions and users. In order to protect against unauthorized access, the entire system, along with the user data, is stored in a special directory structure of the operating system, which is secured with the appropriate access rights.

Security and availability of information contained in the financial-accounting system are controlled at all levels of the database, applications and presentations as well as at the level of operating system. System integration is ensured by the data entry control systems (validation, authorization, a list of values) and logs of changes. In case of system failure not completed transactions are withdrawn. Logs of changes give the possibility of path reviews.
Users do not have direct access to the operating system and database. Integrated menu of the system includes access paths to all transactions available in the system. Securing the access to individual transactions is based on the authorizations assigned to the user. Security systems are used at the hardware and software level of the system.

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

The consolidated financial statements are prepared based on the integrated IT system where consolidation process of entered data from reporting packages provided by the ORLEN Group companies is performed. The system is designed for financial management and reporting purposes. The system enables the unification of financial information. Results budgeted and forecasted data as well as statistics are gathered in one place, what ensures direct control and compatibility of the entered data.
The data is reviewed in terms of their cohesion, completeness and continuity, which is achieved thanks to controls implemented in the system, which check the compliance of data entered by the companies.
Designated users of the system supervise the safety management of the system and established stages of consolidation process management. Granting access rights to individual users is strictly dependent on the security roles defined for (assigned to) them. Appropriate security classes have been set up for individual users in order to maintain control. Access to financial resources is limited by a system of permissions that are granted to authorized personnel only within the performance of their duties. These authorizations are subject to regular audits and verification. Controlling of the access to applications is carried out at each stage of preparation of the financial statement. Starting from data entry and ending with the generating of the final information.
Financial information is stored in an IT system, so that they can be used to create transparent reports and forecasts, both for internal needs and external recipients, such as public bodies, financial analysts, shareholders and business partners.
The preparation of consolidated financial statements in a single integrated tool enables to shorten the processes of consolidation and reporting of financial information as well as to obtain high-quality substantive and usable financial information.

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

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

The Company has an Audit and Corporate Risk Management Department which has to ensure an independent and objective evaluation of the risk management and internal audit systems, and analyze business processes.
The Department operates basing on the annual audit plans approved by the Management Board and accepted by the Audit Committee of the Supervisory Board and the Supervisory Board. The Audit and Corporate Risk Management Department can also carry out random audits as ordered by the Company's Supervisory Board or the Management Board.
Within the realized tasks and objectives, the Audit and Corporate Risk Management Department provides recommendations as to the implementation of solutions and standards for realized audit tasks, designed to mitigate the risk of PKN ORLEN not meeting the targets set, to improve the effectiveness of the internal control system and to increase the efficiency of business processes.
Twice a year the Audit and Corporate Risk Management Department prepares a report for the Management Board and the Audit Committee of the Supervisory Board on the implementation status of recommendations monitoring, which summarizes the conclusions regarding the audit tasks performed and monitors the realization of the Company's financial statements auditor's recommendations.
Additionally, the Audit and Corporate Risk Management Department coordinates the process of corporate risk management and ensures the tools and methodological support for the business areas. The department manages the process of risks self-evaluation every year and carries out the tests of control mechanisms to the needs of Integrated Enterprise Risk Management System (ERM). Based on the work performed the Department prepares a report on the current risk profile of PKN ORLEN and an evaluation of the effectiveness of functioning control mechanisms, under the ERM.

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

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

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

On 16 May 2013, the Company reported disobedience of this rule via the EBI system. Disregarding above rule does not affect the reliability of the Company's reporting policy of the Company nor does it give rise to any risk of shareholders being limited or impaired in respect of their participation in the debates of General Meetings.

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

The Company does not exclude the possibility of applying the above mentioned principles in the future.

In 2014, PKN ORLEN complied with all other mandatory rules of corporate governance contained in the Code of Best Practice.

7.4 PKN ORLEN's shareholders with a significant stake

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

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

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

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

In 2014 and until the date of authorization of this Report there was no change in the structure of shareholders with a stake of more than 5% in the PKN ORLEN share capital. The number of shares held by the shareholders is presented based on the most recent, official information acquired by the Company.

TABLE 40. Shareholding structure of PKN ORLEN as at 1 January 2014 and 31 December 2014.

SHAREHOLDERS	NUMBER OF SHARES	NUMBER OF VOTES AT A GENERAL MEETING OF PKN ORLEN	SHARE IN TOTAL NUMBER OF VOTES AT A GENERAL MEETING OF PKN ORLEN	SHARE IN SHARE CAPITAL OF PKN ORLEN
State Treasury	117 710 196	117 710 196	27.52%	27.52%
ING OFE [1)]	40 000 000	40 000 000	9.35%	9.35%
Aviva OFE [1)]	30 000 000	30 000 000	7.01%	7.01%
Others	239 998 865	239 998 865	56.12%	56.12%
Total	**427 709 061**	**427 709 061**	**100.00%**	**100.00%**

1) according to the information from the OGM of PKN ORLEN held on 15 May 2014 that were same as the information of the OGM of PKN ORLEN, held on 27 June 2013.

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

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

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

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

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

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

The State Treasury is authorized to appoint and revoke one of the Supervisory Board Members. Moreover, one of the PKN ORLEN"s Management Board Member is appointed and revoked by the Supervisory Board at the request of the Minister in charge of State Treasury.
In addition, in accordance with the Statute of the Company, as long as the State Treasury is entitled to appoint a member of the Supervisory Board, a resolution granting approval for activities relate to sale or encumbrance of shares in any way or stock in the following companies: Naftoport.sp. z o.o., Inowroclawskie Kopalnie Soli S.A. and the company that will be created in order to operate the pipeline transport of liquid fuels, require a vote in favor of their adoption by the Supervisory Board member appointed by the State Treasury.

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

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

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

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

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

7.6 Rules for amending PKN ORLEN's Articles of Association

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

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

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

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

Convening and calling off PKN ORLEN's General Meeting

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

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

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

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

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

The General Meeting of PKN ORLEN are held in the Company's seat in Płock, however, thet can also be held in Warsaw.

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

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

Competence of PKN ORLEN's General Meeting

The General Meeting of Shareholders is especially authorized to:

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

- pass resolutions on winding-up the Company, its dissolution, liquidation, restructuring of the Company and merger with another company
- holding contracts within the meaning of article 7 of the Commercial Companies Code.

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

Voting at PKN ORLEN's General Meetings

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

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

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

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

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

Participation in PKN ORLEN's General Meetings

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

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

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

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

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

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

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

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

General Meetings in 2014

On 15 May 2014 the Ordinary General Meeting of PKN ORLEN was held.

During the Ordinary General Meeting the shareholders approved the annual reports on the operations of the Company and the ORLEN Group as well as the financial statements for 2013. They also decided on the fulfilment of duties by all the Supervisory and the Management Boards Members.

General Meeting decided on the allocation of profit generated by the Company in 2013 and decided to allocate the profit, amounted to PLN 617,684,481.47 as follows:

1) the amount of PLN 615,901,047.84 was allocated to dividend payment (PLN 1.44 PLN per share)
2) the remaining amount of PLN 1,783,433.63 was allocated to the Company's reserve capital.

Simultaneously, the Ordinary General Meeting set the 16 June 2014 as the dividend date and 8 July 2014 as the dividend payment date.

The Ordinary General Meeting also adopted the decision to liquidate the Privatization Fund Petrochemia Płock S.A. and to reallocate the funds collected under the Privatization Fund Petrochemia Płock S.A. of PLN 53,476,400 to the reserve capital.

The Ordinary General Meeting after the resolution establishing the composition of 9 Members of the Supervisory Board of PKN ORLEN S.A., appointed Mr. Adam Ambrozik and Mr. Radosław Leszek Kwaśnicki as new Members of the Supervisory Board.

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

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

7.8.1 The Management Board

As at 1 January 2014 the composition of the Management Board of PKN ORLEN was as follows:

TABLE 41. Composition of the PKN ORLEN's Management Board as at 1 January 2014 and 31 December 2014.

NAME AND SURNAME	POSITION HELD IN PKN ORLEN MANAGEMENT BOARD
Dariusz Jacek Krawiec	President of the Management Board, Chief Executive Officer
Sławomir Jędrzejczyk	Vice – President of the Management Board. Chief Financial Officer
Piotr Chełmiński	Member of the Management Board. Petrochemistry - until 14.05.2014 Member of the Management Board. Business Development/Power and Heat Generation Officer - since 15.05.2014
Krystian Pater	Member of the Management Board. Refinery - until 14.05.2014 r. Member of the Management Board. Production - since 15.05.2014 r.
Marek Podstawa	Member of the Management Board. Sales

On 15 May 2014, the Management Board made a new distribution of competences between the Members of the Management Board and the functions performed in the Management Board of PKN ORLEN.

The Supervisory Board at its meeting on September 24, 2014 appointed, as of 24 September 2014, Mr. Igor Ostachowicz as Member of the Management Board of PKN ORLEN for joint three-year term of the Board.
On 26 September 2014 Mr. Igor Ostachowicz submitted a statement of resignation from the post of Member of the Board.

At 31 December 2014 and at the date of authorization of this financial statement, composition of the Management Board has not changed.

TABLE 42. Number of women and men acting as Management Board Members of PKN ORLEN, including changes in composition of the reporting period.

AS AT	NUMBER OF WOMAN	NUMBER OF MAN
1 January 2014	0	5
24 September 2014	0	6
26 September 2014	0	5
31 December 2014	0	5

Division of powers of the Company's Management Board

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

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

Mr. Piotr Chełmiński, Member of the Management Board. Business Development/Power and Heat Generation Officer supervises the following areas: implementation of property investments, power and heat generation development, health and safety, environmental protection.

Mr. Krystian Pater, Member of the Management Board in charge of Production supervises the following areas: refinery production, petrochemical production, investment and production efficiency, technology.

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

The rules of PKN ORLEN's Management Board operations

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

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

Appointing and recalling PKN ORLEN's Management Board

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

The term of office of the Management Board Members is a joint term of office, ending on the day when the Ordinary General Meeting has been held, approving the financial statement for the whole second financial year of such term of office. Determined joint term of office is assumed to commence on 7 June 2008. At its meeting on 6 March 2014 the Supervisory Board appointed the Management Board of PKN ORLEN S.A. the following persons:
- Mr. Dariusz Jacek Krawiec – President of the Management Board,
- Mr. Sławomir Jędrzejczyk – Vice-President of the Management Board,
- Mr. Piotr Chełmiński – Member of the Management Board,
- Mr. Krystian Pater – Member of the Management Board,
- Mr. Marek Podstawa – Member of the Management Board.

for a joint three-year term. The new term of the Management Board started on day after the holding of the Ordinary General Meeting approving the financial statements for 2013.

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

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

Organization of PKN ORLEN's Management Board activity

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

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

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

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

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

Competences of PKN ORLEN`s Management Board

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

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

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

- adopt and amend the Management Board Regulations,
- adopt and amend the Organizational Rules and Regulations of PKN ORLEN,
- adopt motions to be submitted to the Supervisory Board and/or to the General Meeting of Shareholders, in particular, any motions sent to these bodies for their consent to perform certain actions, issue opinions, make an assessment or give an approval, which are required in accordance with the generally applicable law and/or the Company's Articles of Association,
- convene the General Meetings of Shareholders and adopt the proposed agenda of the General Meetings,
- approve annual and long-term financial plans as well as the Company's development strategy,
- approve investment tasks and corresponding liabilities if the resulting expenditures and encumbrances exceed PLN 10,000,000,
- incur liabilities, manage the property rights and any form of encumbrance on the Company's property where the total value exceeds PLN 20.000.000 (with certain exceptions to that rule),
- dispose and purchase real estate, perpetual usufruct or an interest in real estate and to establish a limited property right,
- dispose of, purchase and encumber stakes, shares or other interest in other entities, including shares admitted to public trading,
- issue the Company's securities,
- approve the annual report on the Company's business operations, the Company's annual, half-yearly and quarterly financial statements. the ORLEN Group's annual. half-yearly and quarterly financial statements,
- adopt and change the Company's employees‟ remuneration scheme, as well as decisions regarding introduction and fundamentals of the incentive schemes,
- conclude amend and terminate a collective labour agreement applicable in the Company, and other agreements with trade unions,
- establish the principles of granting and revoking powers of attorney,
- formulate the so-called donation policy of the Company,
- grant a procuration,
- establish the internal segregation of duties among the members of the Management Board,
- set up establishments/offices abroad,
- handle other matters which at least one member of the Management Board requests to be handled in the form of a resolution,
- take decisions on the payment of interim dividends.

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

7.8.2 The Supervisory Board

Compostion of PKN ORLEN's Supervisory Board in 2014

TABLE 43. Composition of PKN ORLEN's Supervisory Board as at 1 January 2014.

NAME AND SURNAME	POSTION HELD IN PKN ORLEN'S SUPERVISORY BOARD
Angelina Sarota	Chairman of the Supervisory Board
Leszek Pawłowicz	Vice – Chairman of the Supervisory Board (Independent Member of the Supervisory Board)
Michał Gołębiowski	Secretary of the Supervisory Board (Member of the Supervisory Board till 20 April 2014)
Grzegorz Borowiec	Member of the Supervisory Board
Artur Gabor	Member of the Supervisory Board (Independent Member of the Supervisory Board)
Cezary Banasiński	Member of the Supervisory Board (Independent Member of the Supervisory Board)
Cezary Możeński	Member of the Supervisory Board

On 17 April 2014 Mr. Michał Gołębiowski resigned from the position of a member of the Supervisory Board of PKN ORLEN S.A., effective from 21 April 2014.

On 15 May 2014 the Company's Ordinary General Meeting appointed the following members of PKN ORLEN's Supervisory Board:

– Adam Ambrozik,
– Radosław L. Kwaśnicki.

On 15 May 2014 the Minister of Treasury, acting pursuant to § 8 item 2 point 1 of PKN ORLEN's Articles of Association has appointed Maciej Bałtowski as a Member of the Supervisory Board.

TABLE 44. Composition of PKN ORLEN's Supervisory Board as at 15 May 2014.

NAME AND SURNAME	POSTION HELD IN PKN ORLEN'S SUPERVISORY BOARD
Angelina Sarota	Chairman of the Supervisory Board
Leszek Pawłowicz	Vice – Chairman of the Supervisory Board (Independent Member of the Supervisory Board)
Adam Ambrozik	Member of the Supervisory Board (Secretary of the Supervisory Board since 20 May 2014)
Grzegorz Borowiec	Member of the Supervisory Board
Artur Gabor	Member of the Supervisory Board (Independent Member of the Supervisory Board)
Cezary Banasiński	Member of the Supervisory Board (Independent Member of the Supervisory Board)
Cezary Możeński	Member of the Supervisory Board
Maciej Bałtowski	Member of the Supervisory Board
Radosław L. Kwaśnicki	Member of the Supervisory Board

Until 31 December 2014, the above composition of PKN ORLEN's Supervisory Board has remained unchanged.

In 2014 the Supervisory Board held 9 minuted meetings and adopted 93 resolutions.

TABLE 45. Number of women and men in the Supervisory Board of PKN ORLEN, including changes in the composition in the presented period.

As at	Number of women	Number of men
1 January 2014	1	7
21 April 2014	1	5
15 May 2014	1	8

The rules of conduct of PKN ORLEN's Supervisory Board

Appointing and recalling members of PKN ORLEN's Supervisory Board

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

PKN ORLEN's Supervisory Board is composed of six to nine members. The State Treasury is authorized to appoint and recall one Member of the Supervisory Board, other Members of the Supervisory Board are appointed and recalled by the General Meeting of Shareholders. On 27 June 2013 the Ordinary General Meeting of PKN ORLEN appointed Supervisory Board Members to a new term of office. On 15 May 2014 the PKN ORLEN's General Meeting appointed Mr. Adam Ambrozik and Dr. Radosław L. Kwaśnicki as Members of the Supervisory Board. Furthermore, the Minister of the Treasury on behalf of the shareholder of the Treasury, pursuant to § 8 item 2 point 1 of the Company's Articles of Association, appointed Prof. Maciej Bałtowski as a Member of the Supervisory Board, effective from 15 May 2014.

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

– he/she is not an employee of the Company or a Related Entity,
– he/she has not been a member of management authorities of the Company or a Related Entity within the last five years prior to the appointment to the Supervisory Board,
– he/she is not a member of supervisory and management authorities of a Related Entity,
– he/she does not receive nor has received, within the last five years prior to the appointment to the Supervisory Board, a considerable additional remuneration. i.e. remuneration exceeding the aggregate amount of PLN 600,000 from the Company or a Related Entity, apart from the remuneration due to the member of supervisory authorities,
– he/she is not nor has been, within the last three years prior to the appointment to the Supervisory Board, a partner or employee of the current or former chartered auditor examining the financial statements of the Company or a Related Entity,
– he/she is not a shareholder holding 5% or more votes at the Company's General Meeting of Shareholders or a Related Entity's General Meeting,
– he/she is not a member of supervisory or management authorities or an employee of an entity having 5% or more votes at the Company's General Meeting of Shareholders or a Related Entity's General Meeting,
– he/she is not an ascendant, descendant, spouse, sibling, spouse's parent or any other person remaining in an adoptive relationship with any of the persons mentioned above,
– he/she has not hold the position of the Company's Supervisory Board member for more than 3 terms of office,
– he/she is not a member of the Management Board of the company, where a member of the Company's Management Board holds the position of a member of the Supervisory Board,
– he/she is free from any significant connections with members of the Company's Management Board by participation in other companies.

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

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

Organization of PKN ORLEN's Supervisory Board's operations

Organization of the Supervisory Board is in accordance with the principles set out in the Regulations of the Supervisory Board.

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

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

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

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

Passing resolutions on the following matters:
- any contribution to members of the Management Board provided by the Company or any related entities,
- giving permission to sign any significant agreement by the Company or a subsidiary with an entity related to the Company, a member of the Supervisory Board, or Management Board as well as with their related entities,
- appointing a certified auditor to audit the financial statements of the Company

requires the consent of at least one half of the independent members of the Supervisory Board. Such provisions do not exclude applying art. 15 § 1 and 2 of the Commercial Code.

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

Competence of PKN ORLEN's Supervisory Board

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

Pursuant to the Articles of Association the Supervisory Board is also authorized to:
- appoint and recall the President, Vice-Presidents and other members of the Management Board (except for one member of the Management Board appointed and recalled by the Supervisory Board at the request of the State Treasury until the State Treasury sells the last Company share). represent the Company in contracts with the Management Board, including the terms of their employment contracts,
- suspend the activities of individual or all members of the Management Board for important reasons as well as delegating a member or members of the Supervisory Board to temporarily perform the duties of those members of the Management Board who are unable to perform their duties,
- approve the Management Board Regulations,
- appoint an entity authorized to audit the financial statements and performing an audit or review of financial statements of the Company and the consolidated financial statements of the ORLEN Group,
- assess the financial statements in terms of its accuracy both in terms of its compliance with the accounting books and documents the factual status, assess the Management Board's report on the Company's business operations as well as the Management Board motions on the allocation of profit and coverage of loss, and submit to the General Meeting of Shareholders an annual written report on the results of the above assessments,
- assess the financial statement of the ORLEN Group and the Management Board's report on the business operations of the ORLEN Group and submit the annual written report on the results of such assessment,
- issue opinions on any matter submitted by the Management Board to be presented either to Ordinary or Extraordinary General Meeting of Shareholders,
- grant consent to the members of the Management Board to take positions in supervisory or management authorities of other entities and to collect remuneration for such activities,
- grant consent to implement investment project and to incur the related liabilities in case the expenses or charges due to such activity exceed the equivalent of one half of the Company's share capital,
- set the scope, accuracy and time for submission by the Management Board of its annual and long-term financial plans and plans for the Company's development strategy,
- approve the Company's development strategy and long-term financial plans,
- issue opinions on the annual financial plans,
- give consent, upon the Management Board's motion, to sell real estate, perpetual usufruct or participation in real estate where the net book value does not exceed one twentieth of the share capital,
- give consent, upon the Management Board's motion, to purchase real estate, perpetual usufruct or participation in real estate where the net acquisition price exceeds one fortieth of the share capital,
- give consent to purchase the Company's own shares to prevent serious damage referred to in art. 362 § 1 item 1 of the Commercial Code, posing a direct threat to the Company,

- appoint the acting President of the Management Board, referred to in § 9 item 3 point 3, in the event the President is suspended from duty or his/her mandate expires before the end of the term of office.

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

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

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

Given the best practice standards and in order to enable the shareholders to make a true and fair view of the Company, the Supervisory Board of PKN ORLEN is in charge of the additional duty to submit to the General Meeting of the Company a concise assessment of PKN ORLEN's standing, including internal control and risk management system relevant for the Company. The assessment is submitted annually, before the date of the Company's General Meeting to allow time for PKN ORLEN shareholders to get acquainted with it. Moreover, the Supervisory Board prepares an annual report on its work, in which it takes into account both the number of meetings held and the most important issues dealt with in the year.

7.8.3 Committees of Supervisory Board

The Supervisory Board of PKN ORLEN may elect permanent or ad hoc committees which act as its collective advisory and opinion making bodies. The following permanent Committees operate within the Supervisory Board of PKN ORLEN:
- Audit Committee,
- Strategy & Development Committee,
- Nomination and Remuneration Committee,
- Corporate Governance Committee.

In addition, on 25 November 2014, the Supervisory Board has decided to appoint Corporate Social Responsibility Committee (CSR Committee).

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

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

The Committee meetings are convened by the Committee Chairman and if he/she is either absent or unable to perform his/her duties by the chairman of the Supervisory Board or another member of the Supervisory Board indicated by the chairman, who invites all the Committee Members to the meeting and notifies all the other

Supervisory Board members of the meeting. All the members of the Supervisory Board can participate in the Committee meetings. The Committee chairman can invite to the Committee meetings members of the Management Board, the Company's employees and other persons whose participation in the meeting is expedient to carry out the Committee tasks.

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

Composition of Supervisory Board Committees of PKN ORLEN in 2014

TABLE 46. Composition of Supervisory Board Committees of PKN ORLEN as at 1 January 2014.

Name and Surename	Position held in PKN ORLEN's Supervisory Board Committee
Audit Committee	
Artur Gabor	Committee Chairman, Independent Member of the Supervisory Board
Leszek Jerzy Pawłowicz	Committee Member, Independent Member of the Supervisory Board
Michał Gołębiowski	Committee Member (until 20 April 2014)
Grzegorz Borowiec	Committee Member
Corporate Governance Committee	
Cezary Możeński	Committee Chairman
Angelina Sarota	Committee Member
Michał Gołębiowski	Committee Member (until 20 April 2014)
Strategy and Development Committee	
Cezary Banasiński	Committee Chairman, Independent Member of the Supervisory Board
Leszek Pawłowicz	Committee Member, Independent Member of the Supervisory Board
Artur Gabor	Committee Member, Independent Member of the Supervisory Board
Angelina Sarota	Committee Member
Cezary Możeński	Committee Member
Nomination and Remunaration Committee	
Angelina Sarota	Committee Chairwoman
Grzegorz Borowiec	Committee Member
Michał Gołębiowski	Committee Member (until 20 April 2014)
Cezary Banasiński	Committee Member, Independent Member of the Supervisory Board

TABLE 47. Composition of the Supervisory Board Committees of PKN ORLEN as at 20 May 2014.

Name and Surname	Position held in PKN ORLEN's Supervisory Board Committee
Audit Committee	
Artur Gabor	Committee Chairman, Independent Member of the Supervisory Board
Leszek Pawłowicz	Committee Member, Independent Member of the Supervisory Board
Grzegorz Borowiec	Committee Member
Radosław L. Kwaśnicki	Committee Member
Strategy and Development Committee	
Cezary Banasiński	Committee Chairman, Independent Member of the Supervisory Board
Leszek Pawłowicz	Committee Member, Independent Member of the Supervisory Board
Artur Gabor	Committee Member, Independent Member of the Supervisory Board

Angelina Sarota	Committee Member
Cezary Możeński	Committee Member
Nomination and Remunaration Committee	
Angelina Sarota	Committee Chairwoman
Grzegorz Borowiec	Committee Member
Adam Ambrozik	Committee Member
Cezary Banasiński	Committee Member, Independent Member of the Supervisory Board
Maciej Bałtowski	Committee Member
Corporate Governance Committee	
Cezary Możeński	Committee Chairman
Angelina Sarota	Committee Member
Radosław L. Kwaśnicki	Committee Member
Maciej Bałtowski	Committee Member

TABLE 48. Composition of Corporate Social Responsibility Committee appointed on 25 November 2014.

NAME AND SURNAME	POSITION HELD IN PKN ORLEN'S SUPERVISORY BOARD COMMITTEE
Corporate Social Responsibility Committee	
Artur Gabor	Committee Chairman, Independent Member of the Supervisory Board
Adam Ambrozik	Committee Member
Radosław L. Kwaśnicki	Committee Member

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

Committees of PKN ORLEN's Supervisory Board

Audit Committee

In 2014, the Audit Committee of the Supervisory Board held 11 meetings, including 2 shared meetings with the Strategy and Development Committee and adopted 5 resolutions.

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

- to monitor the work of the certified auditors and submit recommendations to the Supervisory Board as to the selection and fee of the certified auditors,
- to discuss with the certified auditors, prior to commencement of audit of each annual financial statements, the nature and scope of the audit, and to monitor co-ordination of work between the certified auditors,
- review interim and annual financial statements of the Company (consolidated and separate), with particular focus on:
  - any changes of accounting standards, rules and practices,
  - main areas of judgement,
  - material adjustments following from the audit,
  - going concern statements,
  - compliance with applicable accounting regulations.

Furthermore, the tasks of the Audit Committee are:

- to discuss any problems or objections that may result from the audit of the financial statements,
- to analyze Management Letter Point prepared by the certified auditors, independency and objectivity of their audit and the Management Board's replies,
- to give opinions on annual and long-term financial plans,
- to give opinions on the dividend policy, profit distribution and issue of securities,
- to review the management accounting system,
- to review the internal control system, including control mechanisms in terms of finance, operations, compliance with the provisions of law, risk and management assessment,
- to review the reports of internal certified auditors employed by the Company and basic findings made by other internal analysts together with the Management Board's replies to these observations, including an examination of the degree of independence of internal auditors and to give opinions on the Management Board's intentions as to employment matters or dismissal of the head of internal audit,
- to review, on an annual basis, the internal audit program, coordination of the work of internal and external auditors and to analyze the conditions for internal auditors operation, cooperation with the Company's organizational units in

charge of audit and control and to evaluate their work on a periodical basis,
- cooperation with the Company's organizational units responsible for audit and control and periodic evaluation of their work,
- to consider all other issues relating to the Company's audit raised by the Committee or the Supervisory Board,
- to notify the Supervisory Board of any material issues regarding the operation of the Audit Committee.

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

Corporate Governance Committee

In 2014 the Corporate Governance Committee of the Supervisory Board held 5 meetings, including 1 shared meeting with the Strategy and Development Committee.

The task of the Corporate Governance Committee is to assess:
- implementation of the corporate governance principles,
- presentation of above principles to the Supervisory Board,,
- opinion on normative documents regarding corporate governance,
- assessment of reports concerning compliance with the corporate governance principles prepared for the Warsaw Stock Exchange in Warsaw,
- opinion on the draft amendments of th Company's corporate documents and to develop such drafts in case of own documents of the Supervisory Board,
- monitoring the Company management for compliance with legal and regulatory requirements, including compliance with the of PKN ORLEN's Code of Ethics and the corporate governance principles.

Strategy and Development Committee

In 2014 the Strategy and Development Committee of the Supervisory Board held 10 meetings, including 2 shared meeting with the Audit Committee and one shared with the Corporate Governance Committee.

The task of the Strategy and Development Committee is to issue opinions and submit recommendations to the Supervisory Board on planned investments and divestments which exert a material impact on the Company's assets. In particular, the Committee:
- assesses the effect of planned and conducted already implemented investments and divestments on the form of the Company's assets,
- evaluates the activities contracts letters of intent and other documents relating to the actions aimed at acquisition, sale, encumbrance or any other disposal of the Company's material assets,
- issues opinions on any strategic documents which the Management Board submits to the Supervisory Board,
- issues opinions on the Company's development strategy, including long-term financial plans.

Nomination and Remuneration Committee

In 2014 Nomination and Remuneration Committee of the Supervisory Board held 3 meetings.

The task of the Nomination and Remuneration Committee is to help to attain the strategic goals of the Company by providing the Supervisory Board with opinions and motions on how to shape the management structure, with regard to organizational solutions, remuneration schemes and selection of the staff with the skills required to ensure the Company's success. In particular, the tasks of the Committee include:
- to initiate and issue opinions on the solutions in the area of Management Board members nomination system,
- to issue opinions on the solutions proposed by the Management Board in the area of the Company's management system, aimed at ensuring efficiency, integrity and safety of the Company's management,
- to periodically review and recommend the rules for determining incentive schemes to the Management Board members and top executives, with a view to the Company's interest,
- periodically review the remuneration system applicable to Management Board members and managerial staff directly reporting to the Management Board members, including managerial contracts and incentive schemes and to submit to the Supervisory Board the proposals how to shape them in the context of the Company's strategic goal attainment,
- to submit to the Supervisory Board opinions on the rationale behind performance-driven remuneration, in the context of evaluating the degree to which the Company's specified tasks and goals are met,
- to assess the Company's human resources management system.

Corporate Social Responsibility (CSR) Committee

The first meeting of the Corporate Social Responsibility Committee is scheduled in 2015.

The task of the CSR Committee is to support the Company's strategic objectives by taking into account social, ethical and environmental issues in the Company's operations and in contacts with stakeholders (including employees, customers, shareholders, local communities). In particular, the tasks of the Committee include:
- supervising the implementation of Corporate Social Responsibility strategy by the Company,
- monitoring the Company management for compliance with the PKN ORLEN's Code of Ethics.,
- periodic assessment of the Company's activities in the area of CSR,
- acceptance of the annual report summarizing the CSR activities performed by the Company.

7.9 Description of the remuneration policy and the rules for its determination

Remuneration of management and supervisory authorities

Remuneration for Members of the Board is determined by the Supervisory Board taking into account the recommendations of the Nomination and Remuneration Committee. The components of the Management Board Members remuneration system include:
- monthly fixed base pay,
- annual bonus dependent on the accomplishment level of quantitative and qualitative targets,
- severance pay for dismissal from the Management Board Member function,
- compensation for non-competition.

All elements of the remuneration and additional benefits are governed by an agreement between the Member of the Management and the Company.

General terms and conditions of the annual bonuses

Members of the Management Board are entitled to an annual bonus on the principles established in the contract, which includes the Bonus System Regulations for the Management Board. The level of annual bonus depends on the performance of individual tasks (qualitative and quantitative), established by the Supervisory Board for the individual Members of the Management Board. The Supervisory Board appoints each year from four to seven individual bonus tasks that are recorded in Goals Charter of the Board Member. Assessment of the performance of individual bonus tasks (quantitative and qualitative) by particular Member of the Management Board is made each year by the Supervisory Board on the Chairman of the Management Board's recommendation, which contains assessment of individually performed bonus tasks of all Members of the Management Board, reports on the performance of bonus tasks by members of the Board, PKN ORLEN's financial statements and other documents the investigation of which the Supervisory Board deems appropriate.
Quantitative assessment of the performance of individual bonus tasks is made by awarding percentage points. Qualitative assessment of the performance of individual bonus tasks is made by granting a level of achievement according to the principles contained in the Bonus System Regulations of the Management Board. Execution of individual bonus tasks is expressed as the sum of the weighted percentage points granted by the Supervisory Board for each bonus task.
The Supervisory Board adopts a resolution to grant or not the Board Member of the annual bonus for the financial year, and its amount, by 30 April of the following year. The annual bonus will be paid if the Company's consolidated financial statements for the financial year will be approved by the General Meeting.

For 2014, the Supervisory Board has set for all Members of the Management Board the following six quantitative objectives:
- reported EBIT,
- EBITDA according to LIFO + overheads and personnel costs,
- development CAPEX,
- stock exchange rate (TSR PKN relative to the market),
- accident rate (TRR rate)

and attributed to them relevant bonus thresholds. The Supervisory Board for each of the Members of the Management Board also established quality objectives associated with supervised by them unit.

Rules for awarding bonuses for key management personnel (including Members of the Management Board)

2014 was followed by bonus system update, for the Counsel of the Company and directors reporting directly to the PKN ORLEN's Management Board and other key positions in the ORLEN Group, which aims for greater standardization and attractiveness of the bonus.
The regulations applicable to PKN ORLEN Management Board, directors reporting directly to the Management Board of PKN ORLEN and other key positions have certain common features. Persons covered by the above-mentioned systems are remunerated for the implementation of individual goals set at the beginning of the bonus period by the Supervisory Board for the Management Board and the Management Board for the key executive personnel. The bonus systems are consistent with the Company's Values and promote cooperation between particular employees and motivate them to achieve the best possible results for the PKN ORLEN.
The targets set are qualitative and quantitative, and are settled for after end of the year for which they were set, based on the principles adopted in the applicable Bonus System Regulations. Regulations also gives the possibility to highlight employees who have a significant contribution to the achieved results.

Remuneration of the Members of the Management Board and the Supervisory Board of the Company due to sit on the Management or Supervisory Boards of subsidiaries, jointly controlled entities and associates

Members of the PKN ORLEN's Management Board in 2014 and 2013, who were acting as the Management or Supervisory Boards Members of subsidiaries, jointly controlled entities and associates of ORLEN Group did not receive any remuneration, with the exception of Unipetrol a.s. wherein the payments were transferred to ORLEN's Foundation "Dar Serca". As at 31 December 2014, four members of the Management Board of PKN ORLEN sat on the Supervisory Board of Unipetrol a.s.

The agreements with the Members about non-competition and termination on appeal from the position held

In accordance with applicable agreements, Members of PKN ORLEN's Management Board are required for a period of 6 or 12 months from the date of termination or expiry of the contract, to refrain from competitive activities. During this period, the Management Board members are entitled to receive compensation in the amount of six or twelve monthly basic salary, paid in equal monthly installments. The Company may waive the President, Vice President and Members of the Management Board of the non-competition clause applicable after the termination or expiration of the contract or reduce the duration of the ban. In the case of an exemption from the ban of competition, the Company does not pay compensation. If the period of the ban of competition was shortened, compensation shall be in proportion to the duration of non-competition.
In addition, the agreements provide for the payment of compensation in case of termination due to dismissal from the post. Salary in this case amounts to six or twelve basic monthly remuneration. The Supervisory Board may authorize the use of these provisions also in case of resignation from the position of Member of the Management Board as Board Member.

ORLEN Group Members of the Board are obliged from the date of termination or expiry of the agreement to refrain from competitive activity for a period of 6 months. During this period they receive remuneration in the amount of 50% of six-month basic salary, payable in six equal monthly installments. In contrast, the severance allowance of appeal from the position held is three to six times the monthly remuneration.

The Management Board Report on the Operations of the ORLEN Group was approved by the Management Board of the Parent Company on 24 March 2015.

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Dariusz Krawiec
President of the Board

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Sławomir Jędrzejczyk
Vice-President of the Board

....
Piotr Chełmiński
Member of the Board

....
Krystian Pater
Member of the Board

....
Marek Podstawa
Member of the Board

Glossary of selected technical and financial definitions

GLOSSARY OF DEFINITIONS AND ABBREVIATIONS	
ALKYLATION	Refinery process in PKN ORLEN. namely that olefin and paraffin fractions are merged in order to produce high-octane gasoline component (alkylate). The process is run on alkylation installation in the presence of hydrofluoric acid.
BARREL	Unit of liquid volume used mainly in the oil industry. 1 barrel of crude oil (1 bbl) = 42 American gallons = 158.96832 l.
BIOESTERS	Methyl esters of higher fatty acids produced from vegetable oils or animal fats. Used as a bio-component for diesel fuel or as a fuel for cars with diesel engines. Meets the quality standards set for the biofuel in the PN EN 14214. applicable both in Poland and other European Union markets.
BIOETHANOL	Ethanol derived from biomass or biodegradable waste.
BOE	Barrel of oil equivalent
DISTILLATION	Method of physical separation of liquid mixtures. which uses the phenomenon of differences in boiling temperatures of particular components in the mixture undergoing distribution.
DIFFERENTIAL BRENT/URAL	Difference between the quotations of two kinds of crude oil. calculated as: Med Strip - Ural Rdam (Ural CIF Rotterdam).
HYDROCRAKING	Cracking of hydrocarbon raw materials in the presence of hydrogen. This process raises the efficiency of light products from crude oil
HYDRODESULPHURIZATION	The process of removing sulfur compounds in the raw material by contact with hydrogen at the catalyst bed under high temperature and pressure.
CATALYST	Substance. which accelerates (initiates) the expected chemical reaction.
CRACKING	Thermal or catalytic conversion of heavy or more complex hydrocarbons into light products and coke. which increases the yields of light products from crude oil.
MED STRIP	Brent crude oil quotation.
MODEL DOWNSTREAM MARGIN	Calculated as: revenues from products sold (90,7% Products = 22.8% Gasoline + 44.2% Diesel +15.3% HHO + 1.0% SN 150 + 2.9% Ethylene +2.1% Propylene + 1.2% Benzene + 1.2% PX) – costs (input 100% = 6.5% Brent Crude + 91.1% URAL Crude + 2.4% Natural Gas)
MODEL REFINING MARGIN	Calculated as: revenues from products sold (93.5% Products = 36% Gasoline + 43% Diesel + 14.5% HHO) - costs (100% input: crude oil and other raw materials). Total input calculated acc. to Brent crude quotations. Spot market quotations.
MODEL PETROCHEMICAL MARGIN	Calculated as: revenues from products sold (98% Products = 44% HDPE + 7% LDPE + 35% PP Homo + 12% PP Copo) - costs (100% input = 75% naphtha + 25% LS VGO). Contract market quotations.
MONOMERS	Molecules of the same type or number of different kind of compounds characterize not very high molecular weight. which can form polymers during polymerization reaction.
NET DRILLINGS	The number of drillings corrected with the share of other partners.
POLYMERS	Chemicals of very high molecular weight. which consist of many repeated units called mers. polyethylene and polypropylene
TOE	Tonne Oil Equivalent (toe) - energy equivalent of one metric ton of crude oil with a calorific value equal to 10,000 kcal/kg.
TRR	Total Recordable Rate = international accident rate in enterprises determined as follows: (number of accidents in a given period/number of hours worked in the period)* 1 000 000.
UPSTREAM	Oil exploration and mining.
URAL RDAM (URAL CIF ROTTERDAM)	Ural crude oil quotation in Rotterdam.
WHITE PRODUCT YIELD	The yield of gasoline, diesel and heating fuel, fuel fractions, dry and liquefied petroleum gas compared to the amount of processed crude oil.
HYDROCARBONS	Organic compounds made of carbon and hydrogen. Crude oil and natural gas are mixtures of hydrocarbons.
HIGH-PERFORMANCE COGENERATION	The production of electricity or mechanical energy and heat in cogeneration what allows savings of primary energy used in cogeneration unit in amount not lower than 10% in comparison to production of electricity and heat in separated systems or in cogeneration unit of installed electric capacity below 1 MW in comparison to production of electricity and heat in separated systems.

Glossary is also available on the Company website:
http://www.orlen.pl/PL/BiuroPrasowe/SlownikPojec/Strony/default.aspx.

FINANCIAL GLOSSARY	
ADR	American Depository Receipt = certificate issued by an American bank representing a share of a foreign stock that the bank holds in trust but that is traded on an American stock exchange..
EURIBOR	Interbank Offered Rate – interest rate of interbank credit on the interbank market in euro zone.
GDR	Global Depositary Receipt = security issued outside of Poland by the Depositary Bank in relation to shares.
LIBOR	London Interbank Offered Rate – interest rate on the London market that apply to interbank credits.
WIBOR	Warsaw Inter Bank Offered Rate - interest rate on the Polish interbank market that apply to interbank credits.

FINANCIAL RATIOS	
LIQUIDITY RATIOS	
CURRENT LIQUIDITY	current assets/short-term liabilities
QUICK LIQUIDITY	(current assets– inventories - prepayments)/ short-term liabilities
NET WORKING CAPITAL	trade receivables + inventories – trade liabilities
TURNOVER RATIOS	
RECEIVEABLES TURNOVER	average amount of trade receivables. net/ net revenues x 365 days
LIABILITIES TURNOVER	average amount of trade liabilities. gross /cost of goods sold x 365 days
INVENTORY TURNOVER	average amount of inventories/net revenues x 365 days
ASSETS TURNOVER	net revenues/average balance of assets
DEBT SERVICE COVERAGE RATIO	
FINANCIAL LEVERAGE	net debt/equity x 100%