



**ORLEN**

**Polski Koncern Naftowy ORLEN**  
Spółka Akcyjna

**REPORT**  
**OF THE SUPERVISORY BOARD OF PKN ORLEN S.A. FOR THE**  
**FINANCIAL YEAR 2020**

**WARSAW, April 2021**

## I. COMPOSITION OF THE SUPERVISORY BOARD

As at January 1st 2020, the composition of the Supervisory Board of PKN ORLEN S.A. (the “Company”) was as follows:

Izabela Felczak-Poturnicka	Chair of the Supervisory Board
Andrzej Szumański	Deputy Chair of the Supervisory Board ( <i>Independent Member</i> )
Anna Wójcik	Secretary of the Supervisory Board
Barbara Jarzembowska	Member of the Supervisory Board ( <i>Independent Member</i> )
Andrzej Kapała	Member of the Supervisory Board ( <i>Independent Member</i> )
Michał Klimaszewski	Member of the Supervisory Board ( <i>Independent Member</i> )
Roman Kusz	Member of the Supervisory Board ( <i>Independent Member</i> )
Jadwiga Lesisz	Member of the Supervisory Board
Małgorzata Niezgoda	Member of the Supervisory Board
Adrian Dworzyński	Member of the Supervisory Board ( <i>Independent Member</i> ).

Changes in the composition of the Supervisory Board in 2020:

- On January 16th 2020, Izabela Felczak-Poturnicka resigned as Chair of the Supervisory Board;
- On March 5th 2020, the Extraordinary General Meeting removed Małgorzata Niezgoda from the Supervisory Board, and appointed Wojciech Jasiński and Dominik Kaczmarek to the Supervisory Board. The Extraordinary General Meeting appointed Mr Jasiński to serve as Chair of the Supervisory Board.

As at December 31st 2020, the composition of the Supervisory Board was as follows:

Wojciech Jasiński	Chair of the Supervisory Board
Andrzej Szumański	Deputy Chair of the Supervisory Board ( <i>Independent Member</i> )
Anna Wójcik	Secretary of the Supervisory Board
Barbara Jarzembowska	Member of the Supervisory Board ( <i>Independent Member</i> )
Dominik Kaczmarek	Member of the Supervisory Board
Andrzej Kapała	Member of the Supervisory Board ( <i>Independent Member</i> )
Michał Klimaszewski	Member of the Supervisory Board ( <i>Independent Member</i> )
Roman Kusz	Member of the Supervisory Board ( <i>Independent Member</i> )
Jadwiga Lesisz	Member of the Supervisory Board
Adrian Dworzyński	Member of the Supervisory Board ( <i>Independent Member</i> ).

## II. ACTIVITIES OF THE SUPERVISORY BOARD

In 2020, the Supervisory Board held 13 minuted meetings and passed 237 resolutions.

The average attendance of members of the Supervisory Board at the meetings held in 2020 was 99%. If a member of the Supervisory Board was absent from a meeting, the Supervisory Board, having considered the

cause of the absence, passed a resolution to authorise the absence. In 2020, there were no unauthorised absences of members of the Supervisory Board from the meetings.

In the financial year 2020, in the exercise of its supervisory and control powers and functions, the Supervisory Board among other things:

- appointed a member of the Management Board, Chief Finance Officer, and a member of the Management Board for Communication and Marketing, for a term of office ending on the date of the Annual General Meeting which received the financial statements for 2019;
- appointed members of the Management Board for a new term of office commencing upon conclusion of the Annual General Meeting which received the financial statements for 2019, and passed a resolution to appoint President of the Management Board for a new joint term of office;
- executed employment contracts with members of the Management Board on behalf of the Company;
- granted consent for members of the Management Board to serve, and receive remuneration for serving, on supervisory or management bodies of other entities;
- assessed the financial statements of Polski Koncern Naftowy ORLEN Spółka Akcyjna for the year ended December 31st 2019;
- assessed the Directors' Report on the operations of the ORLEN Group and PKN ORLEN S.A. in 2019;
- assessed the consolidated financial statements of the ORLEN Group for the year ended December 31st 2019;
- received the statement concerning the audit firm and the Audit Committee;
- approved amendments to the policy of and the procedure for selection and appointment of the audit firm;
- approved extension of the scope of audit services and increase in the amount of consideration for such services necessitated by the need to include financial data of Energa and Ruch in the financial statements of the ORLEN Group;
- assessed the Management Board's proposal for allocation of net profit for the financial year 2019;
- gave positive opinions on proposals submitted by the Management Board for consideration by the General Meeting;
- gave positive opinions on the agenda and draft resolutions for the Extraordinary General Meeting convened for March 5th 2020 and on the agenda and draft resolutions for the Annual General Meeting of PKN ORLEN S.A. convened for June 5th 2020;
- approved the ORLEN Group Strategy 2030;
- adopted amendments to the Rules of Procedure for the PKN ORLEN Supervisory Board;
- approved the submission to the European Commission of the declaration, and subsequently the revised declaration, concerning delivery of the commitments undertaken by PKN ORLEN S.A. in order to implement the concentration consisting in acquisition by PKN ORLEN S.A. of a controlling equity interest in Grupa LOTOS S.A.;
- approved the acquisitions of shares in Energa S.A., Ruch S.A. and Polska Press Sp. z o.o. by PKN ORLEN S.A.;
- approved conclusion or amendment of a contract/contracts for the provision of legal services, marketing services, public relations and communication services, and management consultancy services where the total amount of expected fees for the services provided under such contracts or under other agreements concluded with the same entity would exceed PLN 500,000.00 (VAT exclusive) per year;

- granted consent for PKN ORLEN S.A. to incur liabilities which under a single legal transaction or a series of related legal transactions executed in 2020 exceeded the equivalent of one-fifth of the share capital of the Company;
- approved the 'Rules for setting and assessment of delivery of individual bonus-triggering objectives for members of the Management Board of PKN ORLEN S.A. for 2020';
- approved MBO sheets for the Management Board members for 2020 along with separate objectives which, if achieved, would trigger payment of bonuses;
- assessed delivery of qualitative bonus-triggering objectives, separate objectives triggering payment of annual bonus for 2017, and granted members of the Management Board who served on the PKN ORLEN Management Board in 2017 an annual bonus for the financial year 2017;
- assessed delivery of qualitative bonus-triggering objectives, and separate objectives triggering payment of variable remuneration for 2019, and granted variable remuneration to members of the Management Board for the financial year 2019;
- authorised the grant of in-kind and financial donations by PKN ORLEN S.A.;
- authorised share capital increase at selected ORLEN Group companies;
- authorised the voting of shares in certain ORLEN Group companies concerning changes in their corporate documents;
- authorised sale of real property, usufruct rights to or interests in real property where the net carrying amount of individual assets did not exceed one-twentieth of the Company's share capital;
- authorised establishment of a division/plant abroad and of subsidiaries in Poland and abroad;
- adopted the 'Procedure for periodic assessment of material transactions executed PKN ORLEN S.A. on arm's length terms in the ordinary course of business';
- authorised execution of agreements with promissory note guarantors;
- approved the 'Remuneration policy for members of management and supervisory boards of ORLEN Group companies'.

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

All activities of the Supervisory Board were documented by resolutions and minutes of the Supervisory Board meetings held in 2020.

### **III. COMMITTEES OF THE SUPERVISORY BOARD**

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

In 2020, the following standing Committees operated within the Supervisory Board:

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

Changes in the composition of the Supervisory Board in 2020 resulted in changes in the composition of the Committees, as presented in the description of the activities of each of the Committees below.

The detailed scope of work of the Committees in 2020 was documented in minutes of the Committees' meetings (in 2020, the Committees held a total of 33 meetings).

### **Audit Committee**

As at January 1st 2020, the Audit Committee consisted of:

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

Due to the changes in the composition of the Supervisory Board in 2020, the composition of the Audit Committee also changed and as at December 31st 2020 was as follows:

Andrzej Kapała	Chair of the Committee ( <i>Independent Member of the Supervisory Board</i> )
Michał Klimaszewski	Member of the Committee ( <i>Independent Member of the Supervisory Board</i> )
Barbara Jarzembowska	Member of the Committee ( <i>Independent Member of the Supervisory Board</i> )
Jadwiga Lesisz	Member of the Committee.

In 2020, the Audit Committee held nine minuted meetings.

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

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

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

In 2020, the Audit Committee performed its tasks by:

- inspecting and monitoring the audit firm, work of the Company's auditors and the auditors' independence;
- assessing the qualified auditor's independence and giving consent to the provision by the auditor of permitted non-audit services;
- reviewing interim financial statements as well as full-year separate and consolidated financial statements of PKN ORLEN S.A.;
- discussing any issues or reservations that may be identified in the course of or arise from the audit of financial statements;
- analysing, on a quarterly basis, the ORLEN Group's actual results and performance relative to the original targets and budgets;
- giving an opinion on the Management Board's proposal for allocation of profit for 2019;

- assessing the Company's standing, which included assessment of the internal audit, risk management and compliance systems, and of the internal audit function;
- assessment of the use of non-current assets by the Company;
- reviewing the report on the activities of PKN ORLEN S.A.'s and the ORLEN Group companies' audit functions;
- monitoring the implementation of recommendations issued by the Audit Office;
- reviewing internal control, risk management and internal audit systems at the ORLEN Group.

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

### **Strategy and Development Committee**

As at January 1st 2020, the Strategy and Development Committee consisted of:

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

Due to the changes in the composition of the Supervisory Board in 2020, the composition of the Strategy and Development Committee also changed and as at December 31st 2020 was as follows:

Michał Klimaszewski	Chair of the Committee ( <i>Independent Member of the Supervisory Board</i> )
Wojciech Jasiński	Member of the Committee
Dominik Kaczmarek	Member of the Committee
Andrzej Kapała	Member of the Committee ( <i>Independent Member of the Supervisory Board</i> )
Anna Sakowicz-Kacz	Member of the Committee ( <i>Independent Member of the Supervisory Board</i> ).

In 2020, the Strategy and Development Committee held five minuted meetings.

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

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

In 2020, in the exercise of its functions, the Strategy and Development Committee:

- reviewed, on a quarterly basis, the progress of PKN ORLEN's strategy;
- discussed the status of work on preparation of the ORLEN Group's long-term strategy until 2030.

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

### **Corporate Governance Committee**

As at January 1st 2020, the Corporate Governance Committee of the Supervisory Board of PKN ORLEN S.A. consisted of:

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

Due to the changes in the composition of the Supervisory Board in 2020, the composition of the Corporate Governance Committee also changed and as at December 31st 2020 was as follows:

Andrzej Szumański	Chair of the Committee ( <i>Independent Member of the Supervisory Board</i> )
Barbara Jarzembowska	Member of the Committee ( <i>Independent Member of the Supervisory Board</i> )
Dominik Kaczmarek	Member of the Committee
Andrzej Kapała	Member of the Committee ( <i>Independent Member of the Supervisory Board</i> )
Roman Kusz	Member of the Committee ( <i>Independent Member of the Supervisory Board</i> ).

In 2020, the Corporate Governance Committee held three minuted meetings.

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

The Corporate Governance Committee's remit is defined in Section 16 of the Rules of Procedure for the Supervisory Board, according to which the Committee is responsible for making recommendations concerning implementation of corporate governance standards, assessing the implementation of corporate governance standards, giving opinions on corporate governance documents and proposed amendments thereto, as well as drafting such amendments in the case of the Supervisory Board's own documents, monitoring the Company management in terms of compliance with legal and regulatory requirements, including disclosure obligations on the capital market, as well as compliance with the Core Values and Standards of Conduct of PKN ORLEN S.A. and corporate governance principles, and assessing reports on compliance with corporate governance standards prepared for the Warsaw Stock Exchange and reports on compliance with the best practices referred to in Art. 7.3 of the Act on State Property Management.

In 2020, in the exercise of its functions, the Corporate Governance Committee:

- gave an opinion on the annual report on PKN ORLEN S.A.'s compliance with the Code of Best Practice for WSE Listed Companies;
- assessed the Company's compliance with its corporate governance disclosure obligations;
- gave an opinion on draft resolutions of the Annual General Meeting of PKN ORLEN S.A. to amend the Articles of Association of the Company;

- familiarised themselves with the Polish Financial Supervision Authority's recommendations for PKN ORLEN S.A. concerning proper performance of the Company's disclosure obligations on the capital market;
- gave an opinion on the Management Board's proposals to amend articles of association of the following ORLEN Group companies: UNIPETROL, a.s., ORLEN Południe S.A., ORLEN Deutschland GmbH, AB ORLEN Lietuva and AB ORLEN Baltics Retail.

### **Nomination and Remuneration Committee**

As at January 1st 2020, the Nomination and Remuneration Committee consisted of:

Małgorzata Niezgodą	Chair of the Committee
Anna Sakowicz-Kacz	Member of the Committee ( <i>Independent Member of the Supervisory Board</i> )
Michał Klimaszewski	Member of the Committee ( <i>Independent Member of the Supervisory Board</i> )
Andrzej Szumański	Member of the Committee ( <i>Independent Member of the Supervisory Board</i> )
Anna Wójcik	Member of the Committee.

Due to the changes in the composition of the Supervisory Board in 2020, the composition of the Nomination and Remuneration Committee also changed and as at December 31st 2020 was as follows:

Wojciech Jasiński	Chair of the Committee
Anna Sakowicz-Kacz	Member of the Committee ( <i>Independent Member of the Supervisory Board</i> )
Michał Klimaszewski	Member of the Committee ( <i>Independent Member of the Supervisory Board</i> )
Andrzej Szumański	Member of the Committee ( <i>Independent Member of the Supervisory Board</i> )
Anna Wójcik	Member of the Committee.

In 2020, the Nomination and Remuneration Committee held eight minuted meetings and passed on resolution.

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

The responsibilities of the Nomination and Remuneration Committee are set out in Section 18 of the Rules of Procedure for the Supervisory Board, pursuant to which the Committee is responsible for supporting the Company's strategic goals by providing the Supervisory Board with opinions and recommendations regarding the Company's management structure, including organisational solutions, the remuneration system, and selection of personnel with appropriate qualifications to contribute to the Company's success.

In 2020, in the exercise of its functions the Nomination and Remuneration Committee:

- recommended proposed MBO sheet for members of the PKN ORLEN Management Board for 2020 and objectives for members of the PKN ORLEN Management Board conditioning payment of variable remuneration in 2020;
- recommended that the bonus-triggering objectives set for members of the PKN ORLEN Management Board for 2017 be accepted as delivered;
- prepared a recommendation on assessment of the delivery of the qualitative objectives by members of the PKN ORLEN Management Board for 2019;



- recommended approval of the delivery of individual bonus-triggering objectives and passing of resolutions to grant variable remuneration to members of the PKN ORLEN Management Board for the financial year 2019;
- gave an opinion on the Remuneration Policy for members of the Management and Supervisory Boards of PKN ORLEN S.A. and Update to the Remuneration Policy for members of the Management and Supervisory Boards of the ORLEN Group companies;
- assessed candidates for the positions of members of the PKN ORLEN Management Board in the context of the required qualifications as part of recruitment procedures announced by the PKN ORLEN Supervisory Board and recommended meetings with candidates in justified cases;
- gave opinions on agreements/contracts with members of the PKN ORLEN Management Board;
- assessed the Human Resources Management system at PKN ORLEN S.A.

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

As at January 1st 2020, the CSR Committee consisted of:

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

Due to the changes in the composition of the Supervisory Board in 2020, the composition of the CSR Committee also changed and as at December 31st 2020 was as follows:

Jadwiga Lesisz	Chair of the Committee
Michał Klimaszewski	Member of the Committee ( <i>Independent Member of the Supervisory Board</i> )
Roman Kusz	Member of the Committee ( <i>Independent Member of the Supervisory Board</i> ).
Anna Wójcik	Member of the Committee.

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

In 2020, the CSR Committee held eight minuted meetings.

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

In 2020, in the exercise of its functions the CSR Committee:

- familiarised themselves with information on the implementation of PKN ORLEN S.A.'s charitable policy in 2019;
- discussed the implementation of the ORLEN Group CSR Strategy until 2022 in 2019 and the challenges for the coming years;

- discussed the annual report summarising the CSR activities carried out by PKN ORLEN S.A. in 2019;
- assessed CSR activities of PKN ORLEN S.A. in the six months ended June 30th 2020;
- familiarised themselves with the implementation of the ORLEN Group CSR Strategy until 2022 in the six months ended June 30th 2020;
- discussed the report on implementation of the Social Sponsorship in the six months ended June 30th 2020;
- familiarised themselves, on a bi-annual basis, with information on consistency of the Company's management practices with the 'Core Values and Standards of Conduct of PKN ORLEN'.

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

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

In compliance with the reporting obligation, in 2020 the Supervisory Board provided the Ministry of State Assets with quarterly reports on the Company, signed by a Supervisory Board member representing the State Treasury.

The quarterly reports were submitted on the following dates:

- for the fourth quarter of 2019 – January 30th 2020
- for the first quarter of 2020 – May 11th 2020
- for the second quarter of 2020 – July 30th 2020
- for the third quarter of 2020 – November 13th 2020
- for the fourth quarter of 2020 – February 8th 2021.

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

#### **V. ASSESSMENT OF THE DIRECTORS' REPORT ON THE OPERATIONS OF THE ORLEN GROUP AND PKN ORLEN S.A. IN 2020**

Acting pursuant to Art. 8.11.6 and 8.11.6a of the Company's Articles of Association in conjunction with Art. 382.3 of the Commercial Companies Code and Art. 49 and 55.2a of the Accounting Act in conjunction with Art. 7.7.1 of the Company's Articles of Association, the Supervisory Board gives a favourable assessment of the Directors' Report on the operations of the ORLEN Group and PKN ORLEN S.A. in 2020, having found the report to be true, accurate, and consistent with the relevant accounting records and documents.

#### **VI. ASSESSMENT OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31ST 2020**

Acting pursuant to Art. 382.3 of the Commercial Companies Code and Art. 8.11.6 of the Company's Articles of Association in conjunction with Art. 395.2.1 of the Commercial Companies Code, and pursuant to Art. 45 and Art. 53.1 of the Accounting Act and Art. 7.7.1 of the Company's Articles of Association, the Supervisory Board gives a favourable assessment of the audited financial statements of Polski Koncern Naftowy ORLEN Spółka Akcyjna for the year ended December 31st 2020, comprising:

- the separate statement of profit or loss (presented in the statement of profit or loss and other comprehensive income) for the period from January 1st 2020 to December 31st 2020, showing a net loss of PLN 2,355,671,374.21 (two billion, three hundred and fifty-five million, six hundred and seventy-one thousand, three hundred and seventy-four zloty, 21/100);
  - the separate statement of financial position as at December 31st 2020, showing total assets and total equity and liabilities of PLN 54,456,723,624.25 (fifty-four billion, four hundred and fifty-six million, seven hundred and twenty-three thousand, six hundred and twenty-four zloty, 25/100);
  - the separate statement of changes in equity, showing a decrease in equity as at December 31st 2020 of PLN 3,055,528,362.41 (three billion, fifty-five million, five hundred and twenty-eight thousand, three hundred and sixty-two zloty, 41/100);
  - the separate statement of cash flows, showing a net decrease in cash of PLN 4,478,108,243.19 (four billion, four hundred and seventy-eight million, one hundred and eight thousand, two hundred and forty-three zloty, 19/100);
  - supplementary information, including the introduction and notes to the separate financial statements.
- having found the statements true, accurate and consistent with the relevant accounting records and documents.

Acting pursuant to Art. 8.11.6a of the Company's Articles of Association, in conjunction with Art. 382.1 of the Commercial Companies Code, and Art. 55 and Art. 63c.4 of the Accounting Act in conjunction with Art. 7.7.1 of the Company's Articles of Association, the Supervisory Board gives a favourable assessment of the audited consolidated financial statements of the ORLEN Group for the year ended December 31st 2020, comprising:

- the consolidated statement of profit or loss (presented in the consolidated statement of profit or loss and other comprehensive income) for the period from January 1st 2020 to December 31st 2020, showing a net profit of PLN 2,825,328,087.71 (two billion, eight hundred and twenty-five million, three hundred and twenty-eight thousand, eighty-seven zloty, 71/100);
  - the consolidated statement of financial position as at December 31st 2020, showing total assets and total equity and liabilities of PLN 83,827,374,208.72 (eighty-three billion, eight hundred and twenty-seven million, three hundred and seventy-four thousand, two hundred and eight zloty, 72/100);
  - the consolidated statement of changes in equity, showing an increase in equity as at December 31st 2020 of PLN 3,770,628,919.05 (three billion, seven hundred and seventy million, six hundred and twenty-eight thousand, nine hundred and nineteen zloty, 5/100);
  - the consolidated statement of cash flows showing a net decrease in cash and cash equivalents of PLN 4,958,423,602.79 (four billion, nine hundred and fifty-eight million, four hundred and twenty-three thousand, six hundred and two zloty, 79/100);
  - supplementary information, including introduction and notes to the consolidated financial statements.
- having found the statements true, accurate and consistent with the relevant accounting records and documents.

## **VII. ASSESSMENT OF THE PROPOSAL ON COVERING THE LOSS FOR 2020 AND ON THE AMOUNT OF DIVIDEND**

Acting pursuant to Art. 382.3 of the Commercial Companies Code and Art. 8.11.6 of the Company's Articles of Association, in conjunction with Art. 395.2.2 of the Commercial Companies Code and Art. 7.7.3 of the Company's Articles of Association, the Supervisory Board gives a favourable assessment of the Management Board's proposal to cover PKN ORLEN S.A.'s net loss for 2020 of PLN 2,355,671,374.21 (two billion, three hundred and fifty-five million, six hundred and seventy-one thousand, three hundred and seventy-four zloty, 21/100) from statutory reserve funds.

Pursuant to Art. 382.3 of the Commercial Companies Code, and Art. 8.11.6 of the Company's Articles of Association, in conjunction with Art. 395.2.2 and Art. 348.1 of the Commercial Companies Code, and Art. 7.7.3 of the Company's Articles of Association, the Supervisory Board gives a favourable assessment of the Management Board's proposal to allocate an amount of PLN 1,496,981,713.50 (one billion, four hundred and ninety-six million, nine hundred and eighty-one thousand, seven hundred and thirteen zloty, 50/100) to the payment of dividend (PLN 3.50 per share). The dividend referred to in the preceding sentence will be paid

from the Company's statutory reserve funds created from retained earnings. The Supervisory Board is of the opinion that the Management Board's recommendation on the amount of dividend to be paid in 2021 is consistent with the Company's strategy and objectives.

The Supervisory Board gives a favourable assessment of the Management Board's recommendation to set July 22nd 2021 as the dividend record date and August 5th 2021 as the dividend payment date.

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

### **Activities of the Audit Office in 2020**

In 2020, the PKN ORLEN S.A. Audit Office, operating in conditions ensuring objectivity and independence, carried out audit tasks provided for in the annual audit plan as well as ad hoc tasks. Another objective of the Office's activities was to coordinate audit activities at the ORLEN Group, thus enhancing the effectiveness of the ORLEN Group's audit function. Audit coordination tasks at the ORLEN Group are defined in the following internal regulations:

- Rules for the implementation of audits, consultancy and business analysis assignments at PKN ORLEN;
- Cooperation agreement between PKN ORLEN S.A. and the ORLEN Group companies;
- Corporate Governance at the ORLEN Group;
- Organisational Rules of PKN ORLEN S.A.

The pandemic necessitated reorganisation of work across the ORLEN Group, including at the Audit Office, which placed constraints on the ability to implement the Audit Plan in its original form and affected the execution of the audit assignments planned for 2020. The use of remote work solutions (VPN, Skype) in daily practice did not significantly affect the activities of the Audit Office, yet the restricted contact with business areas (auditees) affected the testing of control mechanisms by the auditors and thus extended the duration of audit assignments. As the situation evolved and travel restrictions became apparent, it was necessary to decide how to conduct audits without being physically present in, for example, a foreign company.

In 2020, the Audit Office carried out a total of 22 audit tasks, including: 13 audit assignments (10 audits, 2 advisory projects and 1 business analysis) provided for in the Annual Audit Plan for 2020 and 9 ad hoc tasks. The observations and recommendations formulated in the course of the audit assignments were forwarded for implementation to the directors responsible for the areas concerned.

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

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

The Audit Office monitors the implementation of recommendations issued as part of the audits based on Standard 2500 - Monitoring Progress and in accordance with the "Rules for the implementation of audits, consultancy and business analysis assignments at PKN ORLEN". The process of monitoring the implementation of the recommendations is based on responses from the addressees of the recommendations. Results of the monitoring showed that most of the recommendations made in 2020 have been implemented or actions are underway in the audited areas to implement the solutions proposed by the Audit Office. In accordance with the Rules of Procedure for the Audit Office, details of the implementation of the recommendations are presented on a regular basis to the Management Board and the Audit Committee of the PKN ORLEN Supervisory Board.

### **Risk management system at PKN ORLEN S.A. in 2020**

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

The principal objectives of the ERM are as follows:

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

In 2020, the Enterprise Risk Management Team carried out the following ERM tasks:

- the process of risk self-assessment and testing of risk controls at selected ORLEN Group companies was completed;
- review of the results of the risk self-assessment process and testing of risk controls at selected ORLEN Group companies was completed;
- review and updating of key risks and risk controls at selected ORLEN Group companies was initiated;
- workshops on risk self-assessment and risk controls testing for key management staff were carried out at selected ORLEN Group companies;
- methodological support was provided to stakeholders of the process of risk self-assessment and risk controls testing at selected ORLEN Group companies;
- training was provided to project managers and persons involved in project activities at PKN ORLEN S.A. and ORLEN Group companies, covering identification, description and assessment of project risks using CA Clarity;
- the ERM Policy and Procedure was updated.

### **Compliance system at PKN ORLEN S.A. in 2020**

The Compliance Management Department was established within the Financial Control, Risk and Compliance Management Office in August 2018. The reason for establishing the Department was the need to optimise activities related to the constantly changing regulatory environment and then to adapt to it by implementing an effective and modern compliance system. The Compliance Management Department supervises compliance of the ORLEN Group companies with applicable laws, internal regulations, voluntary standards of conduct and ethical standards by:

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

In connection with the above assignments, in 2020 the Compliance Management Department prepared and implemented the following projects, among others:

- update of the ORLEN Group Compliance Policy;
- activities aimed at minimising the risks for PKN ORLEN S.A. and ORLEN Group companies caused by changes in the regulatory environment related to threats posed by COVID-19, and thus continuous monitoring of planned and effective national regulations in the area of counteracting the effects of COVID-19;
- cooperation with Compliance Officers at the Group companies and business areas at PKN ORLEN S.A., and supporting them in addressing current issues and challenges within individual projects (e.g. implementation of the Antitrust Policy, updating PKN ORLEN S.A.'s Core Values and Standards of Conduct, The World's Most Ethical Companies certification, analysis of compliance/AML forms for customers and trading partners, etc.);
- preparation of a description of key changes in the regulatory environment for the Company's Management Board, presenting compliance requirements under the key legislation, level of risk relating to the

Company's compliance with these requirements, and preparing recommendations for risk mitigation or elimination.

As part of its management information reporting functions, the Compliance Department submitted to the Management Board information on compliance with key regulations, prepared the Compliance System Report for 2020, and participated (in April and November 2020) in the preparation of information to the CSR Committee of the PKN ORLEN Supervisory Board on the management of PKN ORLEN S.A. in terms of compliance with the requirements of the Core Values and Standards of Conduct of PKN ORLEN S.A.

## **Internal control system at PKN ORLEN S.A. in 2020**

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

In 2020, the Audit Office supported the organisation in maintaining effective controls by promoting their continuous improvement and by assessing them during the performance of audit tasks, observing in this respect International Standard for the Professional Practice of Internal Auditing 2130 – Control. The Company uses a model of three lines of defence, which puts risk management by business units and risk controls in the Company's operational processes on the first line of defence, Compliance functions on the second line of defence, and internal audit on the third line of defence with responsibility for oversight of the other two lines. The first line of defence, i.e. the Integrated Enterprise Risk Management System (ERM), and the second line of defence, the Compliance function, are managed and coordinated by the Financial Control, Risk and Compliance Management Office. The third line of defence, i.e. the internal audit function, is the responsibility of the Audit Office, whose purpose is to perform independent and objective assessment of internal audit systems and analyse business processes. As part of its day-to-day operations (audit, advisory and business analysis assignments), the Audit Office reviews compliance issues by checking whether processes are performed in keeping with the applicable internal regulations.

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

The OSKW audit covered the entire organisation of PKN ORLEN S.A., including the activities of the Audit Office. Only 8% of the controls were found to require redesign. This means that there is room for improvement and further enhancement of the internal control system. In 2020, the review of the implementation status of the recommendations revealed that the OSKW recommendations were implemented.

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

Regulatory basis for the control activities of the Control and Security Office in 2020 were:

- Order No. 17/2018/DG, dated May 21st 2018, on the rules of control and verification procedures at PKN ORLEN S.A. with appendices: the Rules of control procedures carried out by the Control and Security Office, and the Rules of verification procedures carried out by the Control and Security Office;
- Order No. 35/2019/DG, dated June 4th 2019, on the rules of inspection of service stations and fuel terminals by the Control and Security Office;
- Order No. 34/2018/DG, dated September 25th 2018, on the rules of financial control at PKN ORLEN S.A., which introduced the Rules of Procedure for Financial Control, Risk and Compliance Management Office.
- The implementation of follow-up recommendations is monitored in line with applicable rules by the control staff.
- External inspections carried out by public administration bodies are monitored and archived in the Electronic Inspection Portal implemented by Order No. 7/2020/DG, dated January 20th 2020, on official use of the 'Rules for the operation of the PKN ORLEN Electronic Inspection Portal'.

Due to the restrictions related to the spread of the COVID-19 virus, the work of the Internal Control Department was reorganised in accordance with the rules and measures implemented by PKN ORLEN S.A. Inspection activities requiring face-to-face contact were reduced and a staff rotation system was introduced.

The rules for monitoring the implementation of follow-up instructions and recommendations are laid down in the *Rules of control procedures carried out by the Control and Security Office*, attached as Appendix 1 to Order No. 17/2018/DG. Paragraph 36 states:

1. Members of the Management Board of PKN ORLEN S.A. are obliged to supervise on an on-going basis the implementation of post-inspection instructions and recommendations issued by the Control and Security Office, within the time limits specified in inspection reports.
2. The Control and Security Office monitors the implementation of post-inspection instructions and recommendations.
3. At the request of the Director of the Control and Security Office, Directors reporting directly to members of Management Board of PKN ORLEN S.A. shall provide the Control and Security Office with information on the progress in the implementation of post-inspection instructions and recommendations, within 14 days from the date of receiving information about commencement of the monitoring process.

In addition to its obligations laid down in the Rules, the Control and Security Office checks the implementation of follow-up instructions and recommendations twice a year (at the beginning and in the middle of the year). Upon completion of the monitoring process, the Head of the Control and Security Office provides the PKN ORLEN Management Board with a half-year summary statement of the status of implementation of follow-up instructions and recommendations. Paragraph 37 states:

The Director of the Control and Security Office shall present to the Management Board of PKN ORLEN S.A.:

- information on the inspections carried out in the previous year – by the end of January of the following year,
- a summary half-year statement of the status of implementation of follow-up instructions and recommendations – upon completion of the monitoring process.

The Director of the Control and Security Office shall also present to the Audit Committee of the PKN ORLEN Supervisory Board bi-annual and annual reports on the inspections carried out.

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

In accordance with the Code of Best Practice for WSE Listed Companies 2016, the Supervisory Board prepares and submits to the Annual General Meeting, as part of its annual report, an assessment of compliance by the company with the corporate governance disclosure obligations set out in the Stock Exchange Rules and legal regulations concerning disclosure of current and periodic information by issuers of securities. The following is a proposal for such an assessment.

Assessment of PKN ORLEN S.A.'s compliance with corporate governance disclosure obligations set out in the Stock Exchange Rules and legal regulations concerning disclosure of current and periodic information by issuers of securities

In 2020, PKN ORLEN S.A. applied all the principles included in the Code of Best Practice for WSE Listed Companies 2016 ('Code of Best Practice') applicable on the Warsaw Stock Exchange.

The Company has in place procedures ensuring its compliance with Section 29.3 of the WSE Rules, pursuant to which if the Company permanently does not comply with or has incidentally violated a principle set forth in the Code of Best Practice, it discloses such non-compliance or violation in a current report issued through the EBI reporting system.

The Company properly fulfils its corporate governance disclosure obligations resulting from the WSE Rules and regulations on current and periodic information to be disclosed by issuers of securities.

Acting in accordance with Par. 70.6.5) of the Regulation of the Minister of Finance on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, dated March 29th 2018 (Dz.U. of 2018, item 757), PKN ORLEN S.A. releases a statement of compliance with corporate governance principles in its consolidated and separate annual reports.

The 'Investor Relations' section of the Company's website contains a corporate governance tab (<http://www.orlen.pl/PL/RelacjeInwestorskie/Gielda/Strony/DobrePraktykiGPW.aspx>), which is where the Company's annual reports on compliance with WSE best practices, as well as the Code of Best Practice for WSE Listed Companies itself, can be downloaded. In addition, it also contains a brief statement of best practices applied by the Company, and all other information required by the Code.

The PKN ORLEN Supervisory Board adopts resolutions to delegate its members to individually perform supervisory duties with respect to the Company's compliance with the corporate governance disclosure obligations set forth in the WSE Rules and the regulations on current and periodic information to be published by issuers of securities. In 2020, Ms Izabela Felczak-Poturnicka and Mr Andrzej Szumański were delegated to perform this function; following the resignation of Ms Izabela Felczak-Poturnicka, i.e. as of January 16th 2020, the function was performed by Mr Andrzej Szumański, Deputy Chairman of the Supervisory Board. In December 2020, the Supervisory Board approved the standard for the Company's annual reports to the Supervisory Board on the fulfilment of disclosure obligations of a public company. The 2020 report was then presented.

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

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

PKN ORLEN S.A. is clearly in the vanguard among companies most dedicated to sponsorship. In the surveys relating to 2020, 54%<sup>1</sup> of the respondents pointed to PKN ORLEN S.A. as the company most frequently engaged in sponsorship activities, with the Company significantly rising in the ranking by 11 percentage points on 2019.

PKN ORLEN enjoys the reputation of the most active sponsor of sports events. 2020 saw a major improvement also in this area, as the Company rose 12 percentage points in the ranking compared with 2019, having gathered 45%<sup>1</sup> of the votes from the respondents.

As a brand supporting culture and arts, as well as a sponsor of community and charitable campaigns, PKN ORLEN S.A. remains an undisputed leader in Poland, having also gone up in those rankings on 2019<sup>1</sup>.

These results clearly show that the Company's sponsorship activities are indeed effective.

Objectives of the sponsorship activities:

1. Building global awareness for the ORLEN brand;
2. Reinforcing the ORLEN brand's good image in Poland and in the Company's other markets (Czech Republic, Germany, Lithuania);
3. Social sponsorship as a corporate social responsibility tool, including dialogue with local communities in the markets where the Company operates.

### **Building global awareness for the ORLEN brand**

ORLEN Group products are sold in over 110 countries on six continents. The Company has been consistently strengthening the image of ORLEN as the owner of the Star and Benzina brands, also through sponsorship activities undertaken in 2020.

In keeping with the adopted strategy and the acquisitions made, the Company strives to build a multi-energy player enjoying a strong visibility in Europe. International recognition of the ORLEN brand is essential to the delivery of the Company's strategic goals. To this end, a number of sponsorship projects in various sports were undertaken. The company engaged, for instance, in motorsport disciplines such as rallies, speedway, F1H2O, aerobatics, as well as volleyball, athletics, cycling, football and handball.

Holding naming rights to the F1 Alfa Romeo Racing ORLEN team and partnership with Robert Kubica, ORLEN brand ambassador, was the Company's flagship sponsorship project. In 2020, the advertising value

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<sup>1</sup> Report on the survey carried out by ARC Rynek i Opinia, commissioned by PKN ORLEN – December 2020.



equivalent from global TV exposure through the Company's involvement in the F1 team exceeded PLN 400m<sup>2</sup>, three times the figure reported in the previous season. The social media advertising value equivalent was in excess of PLN 30m<sup>2</sup>. The ORLEN brand also made its way to 100 thousand publications<sup>2</sup>.

According to Nielsen research, the total audience of the Formula 1 coverage, broadcast in 51 national television networks, reaches 400m viewers<sup>3</sup>.

Other major motorsport projects:

- Sponsorship of the ORLEN Team members' participation in the Dakar Rally – including Jakub Przygoński, Maciej Giemza, Adam Tomiczek, Kamil Wiśniewski and Martin Prokop;
- Sponsorship of Bartosz Zmarzlik – two-time Individual Speedway World Champion;
- Sponsorship of Bartłomiej Marszałek – a Formula 1 motorboat racer;
- Sponsorship of rally drivers – Mikołaj "Miko" Marczyk and Kacper Wróblewski.

Top athletes generating the highest media value in 2020<sup>4</sup>:

- Robert Kubica
- Jakub Przygoński
- Bartosz Zmarzlik
- Kimi Raikkonen
- Justyna Święty-Ersetic
- Antonio Giovinazzi

### **Reinforcing the ORLEN brand's good image in Poland**

In 2020, 5215 events were held with the support of PKN ORLEN S.A. and involving the participation of entities sponsored by the Company:

- 1,930 professional and amateur sports events;
- 939 culture sponsorship and patronage events;
- 1,607 community sponsorship events;
- 634 media sponsorship events;
- 105 special projects and communication events.

In summary, 14 such events were held on a daily basis.

In 2020, despite the unfolding pandemic, PKN ORLEN S.A. did not withdraw its support for sports associations, clubs, athletes, cultural institutions, and numerous community and special projects. Athletes were involved in special activities held in place of the competitions which were frequently cancelled. One of such initiatives was the Miracle on the Vistula 100th anniversary event, which reached an unprecedented number of viewers in PKN ORLEN S.A.'s sponsorship history owing to the project's unique concept and multistage media and digital efforts. The audience of the Company's own channels exceeded 23m. Activities in the press, on the internet and in audiovisual media resulted in 198 publications reaching 26.7m users, and the original material on TV attracted an audience of 5.8m.

Importantly, PKN ORLEN S.A.'s attitude in the time of the pandemic also translates directly into how the entire Group is perceived. Surveys held in September 2020 by Wavemaker agency demonstrated that PKN ORLEN S.A. is a brand which is by far the most strongly recognised for its dedication to the fight against the pandemic. Additionally, the *Przegląd Sportowy* daily awarded PKN ORLEN S.A. the 'Patron of Polish Sport in Challenging Times 2020' title.

### **Social sponsorship and dialogue with local communities**

In 2020, the Company sponsored a number of sports initiatives for children and young people, including two leading national kart racing series – ROK CUP Poland and Rotax Max Challenge. PKN ORLEN supported five promising young kart drivers as part of ORLEN Team Academy, Football Academies all around Poland, the 'From backyard to a running track' programme, and the 26th Finals of Track&Field Thursdays.

In 2020, the Company was also involved in a number of patriotic events such as the Sybirak Memorial Run and the Path of Wolves. The Cursed Soldiers Memorial Run. ORLEN also supported the 'Protective Kit for

<sup>2</sup> Report by Sauber Motorsport entitled "EXPOSURE – INDEPENDENT ANALYSIS 2020", covering the period from January 1st to October 20th 2020.

<sup>3</sup> Report by Sauber Motorsport entitled "END OF SEASON PARTNER CONFERENCE, December 2nd 2020", based on Nielsen's research into F1 audience.

<sup>4</sup> Pentagon Research report "PKN ORLEN brands, media value January – December 2020".

Insurgent' and the HeroesON campaign, with the goal to commemorate and honour Warsaw Uprising Veterans.

Under the 'ORLEN for Płock' project, the Company provided support to the Józef Szaniawski Dramatic Theatre and the Witold Lutosławski Polish Symphony Orchestra in Płock. PKN ORLEN also sponsored local youth sports clubs and community safety projects. The 'Christmas gift box for Płock senior citizens' was also one of the Company's charity initiatives.

The 'ORLEN for Pomerania' project included support provided to the 12th Film Festival 'The Rebellious, the Invincible, the Cursed', and the 'Adult children' concert commemorating the 40th anniversary of the NSZZ Solidarność trade union.

In 2020, PKN ORLEN also supported many cultural institutions, including the Teatr Wielki – Polish National Opera, the National Museum, and the Teatr Kamienica Performance Art Theatre.

According to the survey commissioned by PKN ORLEN S.A., sponsorship of culture and art has a positive impact on brand image.

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

Corporate social responsibility (CSR) is among the key elements of sustainable development, which sets the direction for PKN ORLEN S.A.'s and the ORLEN Group's activities. In order to best implement the 'ORLEN Group CSR Strategy until 2022', actions are prioritised on a yearly basis. In 2020, emphasis was placed on projects involving environmental protection, promotion of safety (including road safety), as well as health promotion and protection.

PKN ORLEN S.A. is also engaged in disease prevention projects as well as education on active and healthy lifestyles, which is highly appreciated by the public. The Company is committed to ensuring the best possible health and safety conditions for its employees and contractors. It enhances the safety of production processes, striving to create a safe working environment.

Focus group interviews highlighted considerable differences between dwellers of big cities and smaller towns as to a sense of identification with their local community, perceived deficits related to living in a city or town, and the level of support they expect. Those differences are significant enough to call for tailored local community support programs to meet the needs of as many target groups as possible. Taking into account the support provided to Volunteer Fire Brigades from smaller towns under the 'ORLEN for Firefighters' grant programme, as well as the distribution of grants awarded under the 'My Place on Earth' grant programme in terms of the size of towns and cities where the beneficiary NGOs operate, a conclusion must be drawn that the Company's support reached those beneficiaries who are most in need of such assistance, who use the support to achieve the objective expected by the Stakeholders (namely, the development of local communities), and who appreciate the assistance the most and thus contribute to building a positive brand image in their local community and immediate environment.

The Company's activities are best evaluated against the results of surveys, which show that 61% of the respondents who are customers at ORLEN service stations and 54% of the remaining respondents agree with the statement that PKN ORLEN S.A. is a socially responsible company.<sup>5</sup> Nearly 70% of the respondents admit that community and charitable sponsorship contributes to the brand's good image.<sup>6</sup> Almost two thirds of the respondents appreciate the ORLEN brand's involvement in the sponsorship of community and charitable events, and nearly 40% of the respondents declare that it is a decision driver that makes them more eager to visit ORLEN stations.<sup>7</sup>

In terms of the Company's CSR activities, the inhabitants of Płock mostly appreciated the involvement in

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<sup>5</sup> Survey on the #GoodDriver (#DobryKierowca) public awareness campaign – in April 2020, Kantar Polska conducted a nationwide survey on the #GoodDriver campaign. The purpose of the survey was, inter alia, to measure the impact of the #GoodDriver campaign on perception of the ORLEN brand, especially with regard to 'promoting road safety rules'. The #GoodDriver campaign had a very large impact, reaching 68% of adult Poles. According to the research agency Kantar Polska, the #GoodDriver campaign was an example of best practice and achieved an unprecedented reach and good feedback from the public.

<sup>6</sup> Sponsoring Monitor 2020, ARC Rynek i Opinia. Sponsorship activities monitoring survey: May – June 2020.

<sup>7</sup> Monitoring survey on PKN ORLEN's sponsorship activities – ARC Rynek i Opinia. Nationwide survey monitoring the attitudes and opinions of Poles with respect to the involvement of the PKN ORLEN brand in sports and culture sponsorship as well as community and charity events, October – December 2020.

environmental protection and healthcare projects, as well as general support provided to the local communities. They recognise the Company's involvement in the life of the town, as evidenced by the high average score under 'the Company's importance for the town and its inhabitants' – at 8.1 (on a scale from 1 to 10, where 1 means that PKN ORLEN S.A. is not important at all and 10 means that the Company is very important for the inhabitants of Płock). In addition, the percentage of respondents who are in favour of closing down the PKN ORLEN Production Plant in Płock declined from 25% to 8%, which also confirms these findings.

Compared to last year's survey results, there was also a significant increase in spontaneous (unaided) recall of events supported by PKN ORLEN – going up by 16 percentage points. Over half of the inhabitants of Płock know the ORLEN Foundation (up from 42% to 56%), and 30% of the respondents recognise the Grant Fund for Płock Foundation (up by 9 percentage points relative to last year's survey), with PKN ORLEN most frequently recognised as the Fund's sponsor (67%).<sup>8</sup>

The survey also covered PKN ORLEN's sponsorship activities in the area of social outreach efforts. Nearly 70% of the respondents admit that PKN ORLEN's sponsorship of community and charitable events has a positive impact on their perception of the ORLEN brand. 44% of all respondents and over 50% of ORLEN service station customers declare that ORLEN's involvement in social outreach activities encourage them to stop at ORLEN service stations.<sup>9</sup>

The #GoodDriver public awareness campaign had a large coverage, reaching 68% of adult Poles. The campaign presented ORLEN as a company dedicated to promotion of good driving behaviour (57% of the respondents) and higher road safety (54% of the respondents), which earned a definitely positive feedback. 61% of the respondents who are customers at ORLEN service stations and 54% of the remaining respondents agree with the statement that PKN ORLEN S.A. is a socially responsible company. The campaign has served its educational purpose. Almost half (46%) of those who have been exposed to the campaign say it has influenced their actual driving behaviour. The impact of the campaign is evident in the respondents' declarations of future driving behaviour.<sup>10</sup>

According to the respondents, PKN ORLEN should be involved in the delivery of the following Sustainable Development Goals: climate action, affordable and clean energy, decent work and economic growth, as well as industry, innovation and infrastructure.<sup>11</sup>

PKN ORLEN S.A. continues to be the highest ranked company among those operating in Płock, and its advantage over other business organisations and institutions is evident as regards its engagement in the life of the town and commitment to its development as well as from its image as a potential employer.

In the area of organisational culture, the inhabitants of Płock attach highest priority to how the Company cares about its employees (74% of the respondents) and builds a culture of work safety (71%). Just over half of the residents declare that the Company performs well in these areas.<sup>12</sup>

The Charitable Giving Policy is an important component of PKN ORLEN S.A.'s corporate social responsibility and one of the key tools in implementing the ORLEN Group's CSR Strategy until 2022. PKN ORLEN S.A.'s commitment to charitable projects is a response to the needs of stakeholders, mainly local communities. The nationwide coverage of many initiatives makes it possible to reach the areas that need aid and the Company's support makes a real change in the life of communities.

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

- ORLEN for the environment
- ORLEN for society

<sup>8</sup> PKN ORLEN's image among the inhabitants of Płock – a survey by Kantar Polska, January/February 2020.

<sup>9</sup> Sponsoring Monitor 2020, ARC Rynek i Opinia. Monitoring survey on PKN ORLEN S.A.'s sponsorship activities: May – June 2020.

<sup>10</sup> Survey on the #GoodDriver (#DobryKierowca) public awareness campaign – in April 2020, Kantar Polska conducted a nationwide survey on the #GoodDriver campaign.

<sup>11</sup> Dialogue session with stakeholders – in November/December 2020, CSRIinfo carried out a dialogue with stakeholders commissioned by PKN ORLEN in order to review the materiality of CSR topics as part of the GRI-compliant reporting process.

<sup>12</sup> PKN ORLEN's image among the inhabitants of Płock – a survey conducted by Kantar Polska in January/February 2020.

- ORLEN for safety and health
- ORLEN for sports, education and culture

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

In 2020, PKN ORLEN continued the 'Comprehensive Programme for the Prevention, Diagnostics and Treatment of Cancers and Respiratory System Diseases for Residents of the City and County of Płock', a pioneering initiative in Poland. The project's key objective is to undertake pro-health initiatives relating to respiratory system diseases and cancers, as well as the implementation of educational programmes on the causes of those diseases. One of its goals is to encourage the residents of Płock and surrounding areas to change their lifestyles, as this may significantly reduce the risk of illness.

PKN ORLEN S.A. and the ORLEN Foundation also provided active in-kind and financial support to combat the COVID-19 epidemic. The support was provided in particular to hospitals, medical services and uniformed services tasked with saving the life and health of infected people, as well as to the staff and residents of nursing homes.

The majority of survey respondents pointed to PKN ORLEN S.A. as a company dedicated to combating coronavirus – with the Company scoring 57% among all brands indicated by respondents and 68% among customers of ORLEN service stations.<sup>13</sup>

In the area of charitable activities, PKN ORLEN S.A. partners with other ORLEN Group companies to tap into the synergies and expand the coverage of provided support. In keeping with the 'General recommendations for conducting charitable activities at companies of the ORLEN Group', the ORLEN Group companies engaging in charitable projects are guided by the Charitable Giving Policy. In 2020, the Group companies made donations e.g. to the 'ORLEN for Firefighters' grant programme and the 'For Eagles' scholarship programme for children of the employees across the ORLEN Group. In addition, in the 12-month period ended December 31st 2020, ORLEN Group companies donated funds as part of their community outreach projects to combat the COVID-19 pandemic. ORLEN Group companies also provided support to local communities in the form of donations for student, sports and scientific clubs, sponsored patriotic events, supported initiatives for children and young people (including the organisation of camps and school trips, donations of computer hardware, and financing of educational projects), provided assistance to Fire Brigade units, and supported health protection and promotion projects.

In the pursuit of the Company's social outreach mission, the ORLEN Foundation engages in numerous scholarship and grant programmes, not only addressing social inequalities, but also greatly contributing to building local human capital and competences of small NGOs. The ORLEN Foundation reaches out to many communities on a non-discriminatory basis, which meets the expectations of the Stakeholders and contributes to enhancing the positive image of PKN ORLEN S.A. and other ORLEN Group companies. The Foundation's activities are very well perceived, therefore its programmes should be continued and expanded, while paying attention to the special role of corporate communication in disseminating information on the Company's CSR activities using all available communication channels.

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

The ORLEN Group consistently strengthens the position of its core companies, expanding its operations in the Power Generation, Refining, Petrochemicals and Retail segments, and pursuing a policy of cautious continuation in the Upstream segment. The purpose of the measures undertaken by the ORLEN Group is to increase its market value, boost its position on home markets, and expand its product offering and geographical

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<sup>13</sup> Recognition and evaluation of social outreach activities during the COVID-19 pandemic – as part of the Sponsoring Monitor 2020 study, ARC Rynek i Opinia conducted a survey 'Recognition and evaluation of social outreach activities during the COVID-19 pandemic'.

reach. The ORLEN Group also seeks to diversify its operations towards a multi-energy group, both organically and through acquisitions.

To streamline management, the ORLEN Group has implemented segment-based management solutions designed to support the achievement of Parent-defined goals shared across the Group.

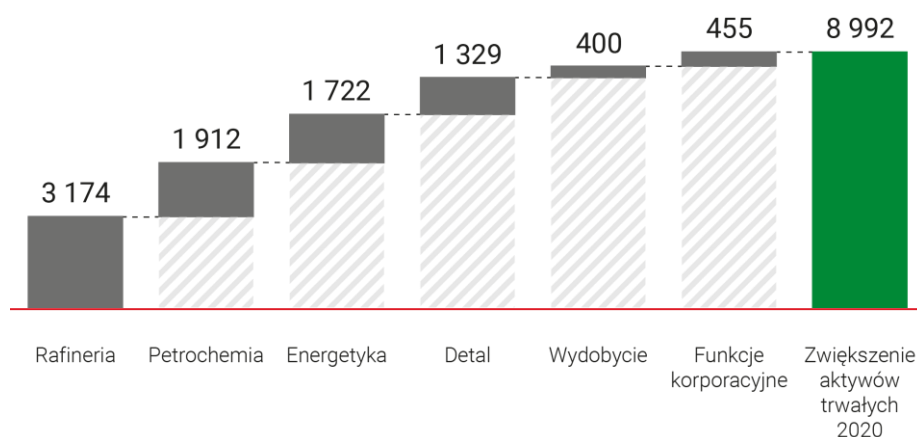
In 2020, PKN ORLEN S.A. continued its work on equity acquisition of Grupa LOTOS S.A. and announced plans to acquire the PGNiG Group. Also, PKN ORLEN S.A. acquired 90.92% of shares in the Energa Group and 64.94% of shares in RUCH S.A. and took control of these companies. In 2020, work began to integrate the assets of the Energa Group and ORLEN Group companies, thus leveraging the synergies offered by the acquisition.

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

As at December 31st 2020, the ORLEN Group consisted of 102 companies, including 88 subsidiaries.

In 2019–2020, it consistently pursued its strategic objectives amid headwinds created by the COVID-19 pandemic. Despite the adverse macro impact, lower key margins and lower sales volumes, reflecting subdued demand, the average 2019–2020 LIFO-based EBITDA was PLN 10.8bn, 0.5bn above the Group's Medium-Term Plan. The generated earnings and stable financial condition, confirmed by safe levels of debt ratios and the Baa2 rating from Moody's, allowed the Group to increase its CAPEX by PLN 0.4bn. On average, the Group spent PLN 7.2bn on investments, including projects to build the Polyethylene 3 unit at Unipetrol and a metathesis unit in Płock, purchase of shares in the Energa Group, and capacity additions under the Petrochemicals Development Programme. In 2020 alone, the amount of the ORLEN Group's capital expenditure was PLN 8,992m, having increased by PLN 3,535m (or 64.8%) on 2019. Over 35% of the amount was spent on the Refining segment, 21% on the Petrochemicals segment, 19% on Power Generation, 15% on Retail, and 4% on the Upstream segment.

### Increase in non-current assets in 2020 [PLN million]



Rafineria	Refining
Petrochemia	Petrochemicals
Energetyka	Power Generation
Detal	Retail
Wydobycie	Upstream
Funkcje korporacyjne	Corporate Functions
Zwiększenie aktywów trwałych 2020	Increase in non-current assets in 2020

Major investment projects carried out in 2020 by segment:

Refining – increase by PLN 1,453m, or 84.4% (y/y)

- Construction of a visbreaker unit in Płock
- Construction of a polypropylene glycol unit at ORLEN Południe

Petrochemicals – increase by PLN 962m, or 101.3% (y/y)

- Completion of the main part of the polyethylene unit in the Czech Republic
- Expansion of fertilizer production capacities at Anwil
- Construction of new units under the Petrochemical Development Programme

Power Generation – increase by PLN 1,404m, or 441.5% (y/y)

- Upgrade of the TG1 turbine generator set at the CHP plant in Płock
- Generation and distribution projects at the ENERGA Group
- Project to prepare construction of offshore wind farms in the Baltic Sea

Retail – decrease by PLN 62m, or 4.5% (y/y)

- A total of 51 new fuel stations were opened, 30 stations were closed down/partnership was discontinued, and 12 stations were upgraded
- 65 Stop Cafe/Star Connect outlets were opened (including convenience stores)

Upstream – decrease by PLN 232m, or 36.7% (y/y)

- Canada – PLN 254m/ Poland – PLN 146m

The adverse impacts of the coronavirus pandemic and an ambitious CAPEX plan aimed at increasing the Group's value necessitated a downward revision of the dividend for 2020 to PLN 1.00 per share. In line with the ORLEN2030 strategy adopted in November 2020, the Parent intends to resume its previous policy of

paying dividends of at least PLN 3.50 per share, and to maintain or increase profit distributions in the coming years.

In 2020, PKN ORLEN was included in ‘The 2020 World’s Most Ethical Companies’ and ‘Top Employers Polska 2020’ lists, a distinction it had also received in their prior editions.

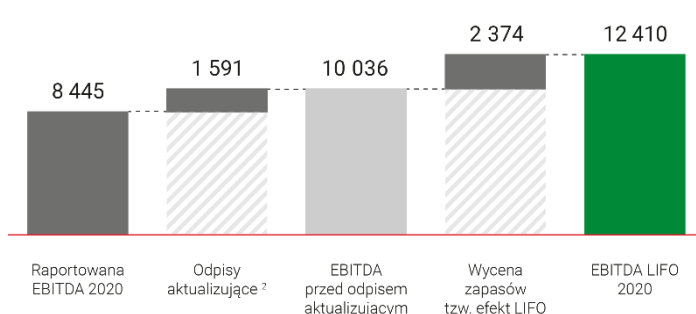
## RESULTS OF THE ORLEN GROUP

Item	UoM	2020	2019	2018	change	% change
1	2	3	4	5	6=(3-4)	7=(3-4)/4
Revenue	PLNm	86,180	111,203	109,706	(25,023)	(22.5%)
<b>EBITDA</b>	<b>PLNm</b>	<b>8,445</b>	<b>8,862</b>	<b>9,888</b>	<b>(417)</b>	<b>(4.7%)</b>
EBITDA before impairment <sup>1</sup>	PLNm	10,036	9,041	9,184	995	11.0%
<b>LIFO EBITDA before impairment<sup>1</sup></b>	<b>PLNm</b>	<b>12,410</b>	<b>9,172</b>	<b>8,324</b>	<b>3,328</b>	<b>35.3%</b>
Operating profit (EBIT)	PLNm	3,908	5,365	7,215	(1,457)	(27.2%)
Net profit	PLNm	2,825	4,298	5,604	(1,473)	(34.3%)
Equity	PLNm	42,379	38,607	35,739	3,772	9.8%
Total assets	PLNm	83,827	71,202	64,141	12,625	17.7%
Headcount as at Dec 31	no. of persons	33,377	22,337	21,282	11,040	49.4%

1) Impairment losses on non-current assets recognised in 2020, 2019 and 2018 were PLN (1,591)m, PLN (179)m and PLN 704m, respectively.

The ORLEN Group’s revenue for 2020 was PLN 86,180m, having decreased by PLN (25,023)m (y/y). The year-on-year decline in revenue resulted from (12)% lower sales volumes (in Refining, Petrochemicals and Retail) and reflects a (35)% decrease in crude oil prices and, consequently, prices of key products. In 2020, gasoline prices fell by 36%, diesel oil prices by 38%, jet fuel prices by 43%, heavy fuel oil prices by 33%, ethylene prices by 21% and propylene prices by 21% relative to the same period in 2019.

### Reported EBITDA and LIFO-based EBITDA before impairment losses [PLN million]



EBITDA of the ORLEN Group in 2020 was PLN 8,445m.

EBITDA of the ORLEN Group before impairment losses on assets, of PLN (1,591)m, was PLN 10,036m.

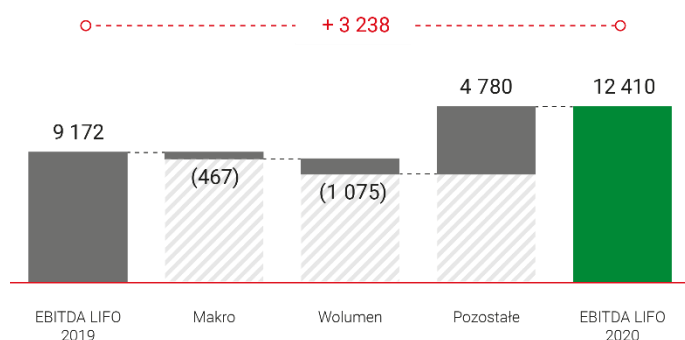
The effect of oil price movements on the value of inventories, reflected in EBITDA, was PLN (2,374)m.

As a result, the ORLEN Group’s LIFO-based EBITDA for 2020 came in at PLN 12,410m.

Raportowana EBITDA 2020	Reported 2020 EBITDA
Odpisy aktualizujące <sup>2</sup>	Impairment losses <sup>2</sup>
EBITDA przed odpisem aktualizującym	EBITDA before impairment
Wycena zapasów tzw. efekt LIFO	Valuation of inventories (the LIFO effect)
EBITDA LIFO 2020	LIFO-based EBITDA 2020

### LIFO-based EBITDA evolution (y/y) [PLN million]

Due to changes in the macroeconomic environment, the financial result of the ORLEN Group declined by **PLN (467)m (y/y)**, mainly on the back of a USD (0.2)/bbl decrease in Urals/Brent differential and lower margins on light and middle distillates, olefins and fertilisers. The negative effect of those factors was partly offset by higher margins on heavy fractions, polyolefins and PVC, as well as the weakening of the Polish zloty against foreign currencies. There was also a positive effect from the use of raw materials for internal energy generation purposes as a result of a decline in crude prices by more than USD (22)/bbl and the effect of a favourable relation between the market prices of electricity and natural gas in Power Generation. Additionally, cash flow hedging



EBITDA LIFO 2019	LIFO-based EBITDA 2019
Makro	Macro
Wolumen	Volumes
Pozostałe	Other
EBITDA LIFO 2020	LIFO-based EBITDA 2020

transactions associated with crude oil purchases and product sales, totalling PLN 1,500m (y/y) (including measurement and settlement of a CO<sub>2</sub> contract worth PLN 700m), had a positive effect.

The restrictions on economic activity imposed in the ORLEN Group's operating markets following the outbreak of the COVID-19 pandemic and a scheduled maintenance shutdown of the Litvinov refinery in the Unipetrol Group produced a negative volume-related effect of **PLN (1,075)m (y/y)**.

The effect of other factors was positive at **PLN 4,780m (y/y)** and included:

- PLN 4,062m – gain on bargain purchase of 80% of shares in ENERGA;
- PLN 1,260m – recognition of the ENERGA Group's results;
- PLN (1,119)m (y/y) – negative effect of utilisation of historical inventory layers due to maintenance shutdowns, mainly at PKN ORLEN and the Unipetrol Group;
- PLN (124)m (y/y) – negative effect of inventory write-downs to net realisable values for available inventory layers using the LIFO method;
- PLN 701m (y/y) – other components, including mainly higher wholesale and retail margins and absence of the negative effect of stock-taking deficits of materials in third-party warehouses recognised in 2019 at PLN 156m (y/y), partly offset by higher overheads and labour costs.

After accounting for depreciation and amortisation expense of PLN (4,537)m, the ORLEN Group reported EBIT of PLN 3,908m for 2020.

In the reporting period, net finance costs were PLN (1,037)m and included mainly net currency exchange losses of PLN (506)m, net interest expense of PLN (375)m, and PLN (178)m on settlement and measurement of financial instruments.

After income tax of PLN (31)m, the ORLEN Group posted a net profit of PLN 2,825m for 2020, PLN (1,473)m less (y/y).

As at December 31st 2020, the Group's equity was PLN 42,379m, having increased by PLN 3,772m on year-end 2019, mainly due to the recognition of a net profit for the 12 months of 2020 of PLN 2,825m, an increase of PLN 772m (y/y) in equity attributable to non-controlling interests, mainly at the ENERGA Group, an increase in retained earnings attributable to owners of the parent of PLN 588m, mainly due to the acquisition of an additional 10.91% interest in the ENERGA Group, a negative effect of a PLN (344)m change in equity due to hedge accounting, an effect of exchange differences on translating equity of foreign operations of PLN 481m, and an effect of profit distributions (dividend) from retained earnings of PLN (428)m.

As at the end of 2020, the ORLEN Group's net financial debt was PLN 13,120m, having increased by PLN 10,672m on year-end of 2019, mainly due to: recognition of a PLN 7,395m debt following changes in the structure of the ORLEN Group (including debt of the ENERGA Group of PLN 7,349m), net outflows including proceeds from and repayments of borrowings, as well as redemption and issue of bonds of PLN (2,206)m, a PLN 4,919m decrease in the balance of cash and cash equivalents, and net effect of foreign exchange losses on remeasurement of debt and interest of PLN 564m.

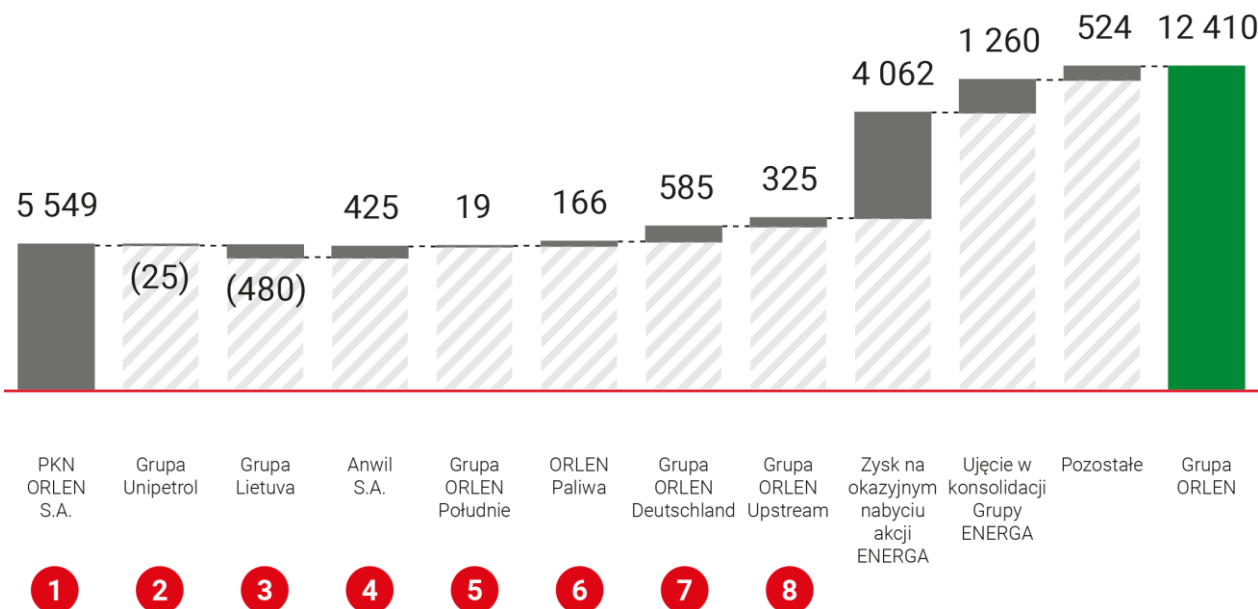
In 2020, the ORLEN Group's hiring policy was focused on recruiting top quality specialists for both day-to-day tasks and strategic projects. Acquisition of the ENERGA Group (9,731 people) and the RUCH Group (407 people) in 2020 and expansion of the ORLEN Group's power generation, petrochemicals, maintenance



services, IT and retail areas led to a year-on-year increase in total workforce by 11,040 people, to 33,377 employees.

## I. LIFO-based EBITDA OF KEY ORLEN GROUP COMPANIES IN 2020

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



Grupa Orlen Południe	ORLEN Południe Group
ORLEN Paliwa	ORLEN Paliwa
Zysk na okazijnym nabyciu akcji ENERGA	Gain on bargain purchase of Energa shares
Ujęcie konsolidacji Grupy ENERGA	Consolidation of the ENERGA Group
Pozostałe	Other

### 1. PKN ORLEN S.A.

Item	UoM	2020	2019	2018	change	% change
1	2	3	4	5	6=(3-4)	7=(3-4)/4
Revenue	PLNm	58,816	89,049	86,997	(30,233)	(34.0%)
<b>EBITDA</b>	<b>PLNm</b>	<b>3,473</b>	<b>5,818</b>	<b>5,989</b>	<b>(2,345)</b>	<b>(40.3%)</b>
EBITDA before impairment <sup>1</sup>	PLNm	3,496	5,826	6,014	(2,330)	(40.0%)
<b>LIFO EBITDA before impairment<sup>1</sup></b>	<b>PLNm</b>	<b>5,549</b>	<b>5,972</b>	<b>5,025</b>	<b>(423)</b>	<b>(7.1%)</b>
Operating profit (EBIT)	PLNm	1,550	4,059	4,624	(2,509)	(61.8%)
Net profit	PLNm	(2,356)	4,813	5,434	(7,169)	-
Equity	PLNm	31,869	34,924	31,634	(3,055)	(8.7%)
Total assets	PLNm	54,457	60,276	54,797	(5,819)	(9.7%)
Headcount as at Dec 31	no. of persons	5,727	5,447	5,250	280	5.1%

<sup>1)</sup> Impairment losses on non-current assets recognised in 2020, 2019 and 2018 were PLN (23)m, (8)m and (25)m, respectively.

PKN ORLEN S.A. generated revenue of PLN 58,816m, a decrease of 34.0% (y/y). The year-on-year decline in revenue resulted from a 10.3% fall in sales volumes (in the Refining, Petrochemicals and Retail segments) and reflects a 35% decrease in crude oil prices and, consequently, prices of key products. In 2020, gasoline prices fell by 36%, diesel oil prices by 38%, jet fuel prices by 43%, heavy fuel oil prices by 33%, ethylene prices by 21% and propylene prices by 21% relative to the same period in 2019. Revenue of the Corporate Functions increased by 11.1% (y/y).

PKN ORLEN's EBITDA in 2020 was PLN 3,473m. Impairment losses recognised in 2020 were PLN (23)m and EBITDA before the impairment losses was PLN 3,496m.

The effect of crude price movements on the amount of inventories, reflected in EBITDA, was PLN (2,053)m. As a result, PKN ORLEN S.A.'s LIFO-based EBITDA for 2020 before impairment losses was PLN 5,549m, having decreased by PLN (423m) (y/y):

- PLN (179)m (y/y) – negative impact of macroeconomic factors was attributable mainly to a USD (0.2)/bbl decrease in Urals/Brent differential and lower margins on light and middle distillates and olefins. The negative effect of those factors was partly offset by higher margins on heavy fractions, as well as the depreciation of the Polish zloty against foreign currencies. The Company saw a positive effect of feedstock consumption for own energy needs caused by of an over USD (22)/bbl drop in crude oil prices, favourable price relations between electricity and natural gas in the Power Generation segment, and cash flow hedges of crude oil purchases and product sales of PLN 674m (y/y), driven mainly by the measurement and settlement of a CO<sub>2</sub> contract of PLN 700.
- PLN (536)m (y/y) – total sales volumes fell by (15)% (y/y), to 31,232 thousand tonnes, reflecting subdued economic activity after the outbreak of the COVID-19 pandemic.
- PLN 292m (y/y) – positive effect of other factors, including:
  - PLN 47m (y/y) – effect of change in net other income/expenses (after elimination of the net effect of impairment losses and hedging transactions) mainly due to the absence of the negative effect of stock-taking deficits of materials in third-party warehouses recognised in 2019, of PLN 156m (y/y);
  - PLN (606)m (y/y) – negative effect of utilisation of historical inventory layers due to maintenance shutdowns;
  - PLN 851m (y/y) – other factors, including mainly the effect of higher fuel wholesale and retail margins combined with lower non-fuel margins and higher overheads and labour costs.

After depreciation and amortisation expense of PLN (1,923)m, EBIT for 2020 amounted to PLN 1,550m.

In 2020, net finance costs were PLN (3,662)m and mainly included the following items:

- recognition of impairment losses on shares in related entities of PLN (3,202)m, mainly at ORLEN Upstream of PLN (2,195)m, ORLEN Lietuva of PLN (1,107)m, ORLEN Oil of PLN 58m and ORLEN Capital of PLN 42m,
- dividend income of PLN 372m, received chiefly from ORLEN Deutschland, ORLEN Asphalt and Basell ORLEN Polyolefins;
- net settlement and measurement of derivative financial instruments hedging: currency risk exposures to payments of foreign currency invoices for crude oil, and currency risk exposures in liquidity transactions, and interest rates and interest payments on bonds, for a total amount of PLN (234)m. The change in the measurement and settlement of derivative financial instruments in 2020 was caused mainly by the weakening of the Polish zloty against USD and EUR on financial markets;
- currency exchange losses on foreign currency loans and other items of PLN (440)m;
- net interest calculated using the effective interest rate, interest on leases and interest on tax liabilities, totalling PLN (167)m.

After a PLN (235)m tax expense, PKN ORLEN S.A. posted a net loss of PLN (2,356)m for 2020, i.e. the financial result was PLN (7,169)m less (y/y).

As at December 31st 2020, net debt rose by PLN (903)m (y/y), to PLN 7,205m.

As PKN ORLEN S.A. pursues an employment policy focused on ensuring top specialists to deliver day-to-day operational tasks as well as strategic projects across all business areas, headcount at PKN ORLEN S.A. increased by 280, to 5,727 at the end of 2020.

## 2. UNIPETROL GROUP

Item	UoM	2020	2019	2018	change	% change
1	2	3	4	5	6=(3-4)	7=(3-4)/4
Revenue	PLNm	13,979	21,582	21,745	(7,603)	(35.2%)
<b>EBITDA</b>	<b>PLNm</b>	<b>(309)</b>	<b>938</b>	<b>2,079</b>	<b>(1,247)</b>	-
EBITDA before impairment <sup>1</sup>	PLNm	(232)	977	1,338	(1,209)	-
<b>LIFO EBITDA before impairment<sup>1</sup></b>	<b>PLNm</b>	<b>(25)</b>	<b>975</b>	<b>1,454</b>	<b>(1,000)</b>	-
Operating profit (EBIT)	PLNm	(1,138)	174	1,539	(1,312)	-
Net profit	PLNm	(950)	105	1,406	(1,055)	-
Equity	PLNm	9,286	9,867	9,811	(581)	(5.9%)
Total assets	PLNm	14,784	15,696	14,683	(912)	(5.8%)
Headcount as at Dec 31	no. of persons	4,930	4,913	4,835	17	0.3%

<sup>1</sup> Impairment losses on non-current assets recognised in 2020, 2019 and 2018 were PLN (77)m, PLN (39)m and PLN 741m, respectively.

Revenue amounted to PLN 13,979m, having decreased by (35.2)% (y/y) as a result of an (18.6)% fall in sales volume and a (35)% decrease in crude oil prices and, consequently, prices of key products.

EBITDA in 2020 was PLN (309)m. Impairment losses on non-current assets recognised in 2020 were PLN (77)m, having decreased by PLN (38)m (y/y). EBITDA before the impairment losses was PLN (232)m, having decreased by PLN (1,209)m (y/y).

The effect of crude oil price movements on the valuation of inventories, recognised in EBITDA, was PLN (207)m. As a result, the Unipetrol Group's LIFO-based EBITDA for 2020 before impairment losses was PLN (25)m, having decreased by PLN (1,000)m (y/y):

- PLN (13)m (y/y) – negative impact of the macroeconomic conditions, particularly visible in the refining segment, offset by the positive impact of exchange rates and the settlement and measurement of financial instruments.
- PLN (483)m (y/y) – negative effect of lower sales volumes due to COVID-induced market constraints and the scheduled maintenance shutdown of the Litvinov refinery.
- PLN (504)m (y/y) - effect of other factors, including negative effect of the use of historical inventory layers due to maintenance shutdowns of PLN (477)m (y/y), higher overheads and labour costs, partly offset by higher fuel margins in wholesale and retail.

After depreciation and amortisation expense of PLN (829)m, EBIT came in at PLN (1,138)m in 2020.

In 2020, net finance costs were PLN (19)m. After tax expense of PLN (212)m, the net result for 2020 was PLN (950)m, compared with net profit of PLN 105m in 2019.

Net debt as at December 31st 2020 was PLN 395m.

## 3. ORLEN LIETUVA GROUP

Item	UoM	2020	2019	2018	change	% change
1	2	3	4	5	6=(3-4)	7=(3-4)/4
Revenue	PLNm	10,926	19,676	20,093	(8,750)	(44.5%)
<b>EBITDA</b>	<b>PLNm</b>	<b>(660)</b>	<b>427</b>	<b>192</b>	<b>(1,087)</b>	-
EBITDA before impairment <sup>1</sup>	PLNm	(579)	426	192	(1,005)	-
<b>LIFO EBITDA before impairment<sup>1</sup></b>	<b>PLNm</b>	<b>(480)</b>	<b>419</b>	<b>201</b>	<b>(899)</b>	-
Operating profit (EBIT)	PLNm	(808)	276	101	(1,084)	-
Net profit	PLNm	(650)	290	97	(940)	-
Equity	PLNm	1,575	2,233	1,961	(658)	(29.5%)
Total assets	PLNm	3,094	4,078	3,688	(984)	(24.1%)
Headcount as at Dec 31	no. of persons	1,446	1,429	1,631	17	1.2%

<sup>1</sup> Impairment losses on non-current assets recognised in 2020, 2019 and 2018 were PLN (81)m, PLN 1m and PLN 0m, respectively.

Revenue amounted to PLN 10,926, having decreased by (44.5)% (y/y) as a result of an (18.4)% fall in sales volume and a (35)% decrease in crude oil prices and, consequently, prices of key products.

EBITDA in 2020 was PLN (660)m, i.e. PLN (1,087)m less (y/y).

The effect of crude oil price movements on the valuation of inventories, recognised in EBITDA, was PLN (99)m. As a result, the ORLEN Lietuva Group's LIFO-based EBITDA for 2020 before impairment losses was PLN (480)m, having decreased by PLN (899)m (y/y) as a result of:

- PLN (198)m (y/y) – adverse effect of changes in macroeconomic factors, including mainly lower Urals/Brent differential and margins on light and medium distillates and olefins, partially offset by the positive effect of cash flow hedging transactions on crude oil purchases and product sales.
- PLN (111)m (y/y) – negative volume effect, mainly due to lower (y/y) refining volumes.
- PLN (590)m y/y – effect of other factors, including a negative effect of remeasurement of inventories to realisable prices of PLN (126)m y/y, higher overheads and labour costs, and lower (y/y) wholesale margins.

After depreciation and amortisation expense of PLN (148)m, EBIT came in at PLN (808)m in 2020.

In 2020, net finance costs were PLN (6)m. After tax expense of PLN (164)m, the net result for 2020 was PLN (650)m, i.e. PLN (940)m less y/y.

Negative net debt (cash surplus) as at December 31st 2020 was PLN (41)m.

As at December 31st 2020, the headcount was 1,446, having increased by 17 persons y/y.

#### 4. ANWIL

Item	UoM	2020	2019	2018	change	% change
1	2	3	4	5	6=(3-4)	7=(3-4)/4
Revenue	PLNm	2,208	2,234	2,345	(26)	(1.2%)
<b>EBITDA</b>	<b>PLNm</b>	<b>425</b>	<b>470</b>	<b>371</b>	<b>(45)</b>	<b>(9.6%)</b>
<b>EBITDA before impairment</b>	<b>PLNm</b>	<b>425</b>	<b>470</b>	<b>371</b>	<b>(45)</b>	<b>(9.6%)</b>
Operating profit (EBIT)	PLNm	244	325	255	(81)	(24.9%)
Net profit	PLNm	159	257	209	(98)	(38.1%)
Equity	PLNm	1,467	1,318	1,060	149	11.3%
Total assets	PLNm	3,092	2,199	1,521	893	40.6%
Headcount as at Dec 31	no. of persons	1,485	1,364	1,323	121	8.9%

In 2018-2020, no impairment losses on non-current assets were recognised.

Revenue amounted to PLN 2,208m, having decreased by (1.2)% (y/y).

In 2020, EBITDA was PLN 425m, i.e. PLN (45)m less y/y as a result of:

- PLN (30)m (y/y) – negative effect of the macroeconomic conditions, including mainly lower margins on fertilizers and higher electricity prices, with a positive effect of PVC margins, lower natural gas prices, and the weakening the Polish zloty against foreign currencies.
- PLN 181m (y/y) – positive effect of sales volumes, mainly a 17% increase in sales of PVC, a 24% increase in sales of soda lye, and a 10% increase in sales of fertilizers (y/y).
- PLN (196)m (y/y) – mainly due to lower margins and higher overheads and labour costs.

After depreciation and amortisation expense of PLN (181)m, EBIT came in at PLN 244m.

In 2020, net finance costs were PLN (41)m. After tax expense of PLN (44)m, net profit for 2020 was PLN 159m, i.e. PLN (98)m less y/y.

Net debt as at December 31st 2020 was PLN 627m, having increased by PLN (451)m.

As at December 31st 2020, the workforce was 1,485, having increased by 121 persons y/y.

## 5. ORLEN POLUDNIE GROUP

Item	UoM	2020	2019	2018	change	% change
1	2	3	4	5	6=(3-4)	7=(3-4)/4
Revenue	PLNm	1,819	2,155	2,103	(336)	(15.6%)
<b>EBITDA</b>	<b>PLNm</b>	<b>9</b>	<b>81</b>	<b>118</b>	<b>(72)</b>	<b>(88.9%)</b>
<b>EBITDA before impairment<sup>1</sup></b>	<b>PLNm</b>	<b>9</b>	<b>82</b>	<b>118</b>	<b>(73)</b>	<b>(88.9%)</b>
<b>LIFO EBITDA before impairment<sup>1</sup></b>	<b>PLNm</b>	<b>19</b>	<b>73</b>	<b>124</b>	<b>(54)</b>	<b>(74.0%)</b>
Operating profit (EBIT)	PLNm	(28)	46	89	(74)	-
Net profit	PLNm	(24)	38	69	(62)	-
Equity	PLNm	461	486	449	(25)	(5.1%)
Total assets	PLNm	1,557	1,075	810	482	44.8%
Headcount as at Dec 31	no. of persons	686	665	672	21	3.2%

1) Impairment losses on non-current assets recognised in 2020, 2019 and 2018 were PLN 0m, PLN (1)m, and PLN (0)m, respectively.

Revenue was PLN 1,819, having decreased by (15.6)% y/y, reflecting a (7.4)% y/y decrease in sales volumes.

EBITDA in 2020 was PLN 9m.

The effect of crude oil price movements on the valuation of inventories, recognised in EBITDA, was PLN (10)m. As a result, the ORLEN Poludnie Group's LIFO-based EBITDA for 2020 before impairment losses was PLN 19m, having decreased PLN (54)m (y/y) as a result of:

- PLN (56)m (y/y) – negative effect of macroeconomic factors in all operating segments except solvents.
- PLN (15)m (y/y) – negative effect of lower sales volumes of biocomponents, solvents, crude oil and fuels, with higher sales volumes of paraffins.
- PLN 17m (y/y) – mainly the effect of higher margins, with higher overheads and labour costs.

After depreciation and amortisation expense of PLN (37)m, EBIT came in at PLN (28)m in 2020.

Net finance costs were PLN (8)m. After tax expense of PLN (12)m, the net result for 2020 was PLN (24)m, i.e. PLN (62)m less y/y.

Net debt as at December 31st 2020 was PLN 322m, having increased by PLN 198m.

As at December 31st 2020, the headcount was 686, having increased by 21 persons y/y.

## 6. ORLEN PALIWA

Item	UoM	2020	2019	2018	change	% change
1	2	3	4	5	6=(3-4)	7=(3-4)/4
Revenue	PLNm	16,615	21,706	20,496	(5,091)	(23.5%)
<b>EBITDA</b>	<b>PLNm</b>	<b>166</b>	<b>147</b>	<b>12</b>	<b>19</b>	<b>12.9%</b>
<b>EBITDA before impairment<sup>1</sup></b>	<b>PLNm</b>	<b>166</b>	<b>147</b>	<b>12</b>	<b>19</b>	<b>12.9%</b>
Operating profit (EBIT)	PLNm	143	129	(2)	14	10.9%
Net profit	PLNm	119	106	1	13	12.3%
Equity	PLNm	420	301	196	119	39.5%
Total assets	PLNm	1,671	1,747	1,513	(76)	(4.4%)
Headcount as at Dec 31	no. of persons	380	355	358	25	7.0%

In 2018-2020, no impairment losses on non-current assets were recognised.

Revenue was PLN 16,615, having decreased by (23.5)% y/y, reflecting, inter alia, a (9.0)% y/y decrease in sales volumes.

In 2020, EBITDA was PLN 166m, i.e. PLN 19m more y/y as a result of:

- PLN (31)m (y/y) – negative effect of lower sales volumes of liquid fuels.
- PLN 50m y/y – positive effect of higher wholesale margins on fuels and lower costs of transport services, with a slight increase in overheads and labour costs.

After depreciation and amortisation expense of PLN (23)m, EBIT came in at PLN 143m in 2020.

Net finance income was PLN 4m. After tax expense of PLN (28)m, net profit for 2020 was PLN 119m, i.e. PLN 13m more y/y.

Negative net debt (cash surplus) as at December 31st 2020 was PLN (37)m.

As at December 31st 2020, the headcount was 380, having increased by 25 persons y/y.

## 7. ORLEN DEUTSCHLAND GROUP

Item	UoM	2020	2019	2018	change	% change
1	2	3	4	5	6=(3-4)	7=(3-4)/4
Revenue	PLNm	10,766	13,586	13,907	(2,820)	(20.8%)
<b>EBITDA</b>	<b>PLNm</b>	<b>568</b>	<b>457</b>	<b>537</b>	<b>111</b>	<b>24.3%</b>
<b>EBITDA before impairment<sup>1</sup></b>	<b>PLNm</b>	<b>585</b>	<b>457</b>	<b>537</b>	<b>128</b>	<b>28.0%</b>
Operating profit (EBIT)	PLNm	367	283	425	84	29.7%
Net profit	PLNm	266	187	298	79	42.2%
Equity	PLNm	664	560	679	104	18.6%
Total assets	PLNm	2,811	2,800	1,756	11	0.4%
Headcount as at Dec 31	no. of persons	203	167	160	36	21.6%

<sup>1)</sup> Impairment losses on non-current assets recognised in 2020, 2019 and 2018 were PLN (17) m, PLN 0m, PLN 0m, respectively

Revenue was PLN 10,766m, having decreased by (20.8)% y/y, reflecting a (12.6)% y/y decrease in sales volumes.

EBITDA in 2020 amounted to PLN 568m. Impairment losses recognised in 2020 were PLN (17)m. EBITDA before the impairment losses was PLN 585m, having increased by PLN 128m (y/y) as a result of:

- PLN 279m (y/y) – improvement of fuel and non-fuel margins.
- PLN (74)m (y/y) – lower fuel sales volumes.
- PLN (77)m (y/y) – other factors, including mainly the negative effect of PLN (60)m (VAT provisions) on other operating activities and higher overheads and labour costs.

After depreciation and amortisation expense of PLN (201)m, EBIT came in at PLN 367m in 2020.

Net finance costs were PLN (12)m. After tax expense of PLN (106)m, net profit for 2020 was PLN 266.

Negative net debt (cash surplus) as at December 31st 2020 was PLN (12)m.

As at December 31st 2020, the number of employees was 203, having increased by 36 persons.

## 8. ORLEN UPSTREAM GROUP

Item	UoM	2020	2019	2018	change	% change
1	2	3	4	5	6=(3-4)	7=(3-4)/4
Revenue	PLNm	484	609	605	(125)	(20.5%)
<b>EBITDA</b>	<b>PLNm</b>	<b>(1,097)</b>	<b>166</b>	<b>292</b>	<b>(1,263)</b>	<b>-</b>
<b>EBITDA before impairment<sup>1</sup></b>	<b>PLNm</b>	<b>325</b>	<b>297</b>	<b>310</b>	<b>28</b>	<b>9.4%</b>
Operating profit (EBIT)	PLNm	(1,441)	(147)	(6)		
Net loss	PLNm	(1,361)	(150)	(91)	(1,211)	(807.3%)
Equity	PLNm	1,774	3,034	2,953	(1,260)	(41.5%)
Total assets	PLNm	3,317	4,572	4,334	(1,255)	(27.4%)
Headcount as at Dec 31	no. of persons	152	135	147	17	12.6%

<sup>1)</sup> Impairment losses on non-current assets recognised in 2020, 2019 and 2018 were PLN (1,422)m, PLN (131)m and PLN (18) m, respectively.

Revenue amounted to PLN 484m, having decreased by PLN (125)m (y/y), which reflected a (35)% decrease in crude oil price.

EBITDA in 2020 was PLN (1,097)m. Net impairment losses on assets recognised in 2020 amounted to PLN (1,422)m and EBITDA before those impairment losses was PLN 325m, i.e. PLN 28m more (y/y).

- PLN (59)m (y/y) – lower CLS crude and NGL condensate prices, with higher AECO gas prices, and a positive effect of cash flow hedging transactions.
- PLN (7)m (y/y) – negative volume effect, mainly due to a lower share of liquid fractions in total sales.
- PLN 94m (y/y) – positive effect of change in other income (net of the net effect of impairment losses on assets and hedging transactions), including mainly reversal of the provision for tax liabilities resulting from the purchase of FX Energy by ORLEN Upstream, and savings in overheads and labour costs.

After depreciation and amortisation expense of PLN (344)m, EBIT for 2020 was PLN (1,441)m.

Net finance costs were PLN (38)m. After tax expense of PLN (118)m, the net result for 2020 was PLN (1,361)m.

As at December 31st 2020, net debt increased by PLN 39m (y/y), to PLN 1,004m.

As at December 31st 2020, the headcount was 152, having increased by 17 persons y/y.

## **9. OTHER ORLEN GROUP COMPANIES AND CONSOLIDATION ADJUSTMENTS – LIFO-based EBITDA of PLN 524m, including mainly:**

- PLN 149m – share of equity-accounted entities (mainly consolidation of net profit of Basell ORLEN Polyolefins and PPPT).
- PLN 121m – ORLEN Oil,
- PLN 55m – Koltrans,
- PLN 39m – ORLEN Serwis,
- PLN 38m – IKS Solino,
- PLN 25m – ORLEN Asphalt,
- PLN 17m – ORLEN Laboratorium,
- PLN 15m – ORLEN Aviation,
- PLN 65m – other and consolidation adjustments.

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

Property not used in day-to-day operations of PKN ORLEN S.A. (such as land on which closed-down service stations are located, non-operational service stations, petroleum product plants and storage depots) is reviewed on an ongoing basis in terms of its possible sale or lease. Property which, following an in-house analysis, is recognised as unsuitable for the Company's needs, is assigned for sale.

As at December 31st 2020, 120 of PKN ORLEN S.A.'s properties, with a total net carrying amount of PLN 84.97m, were held for sale or lease.

In 2020, the Company sold 4 properties with a carrying amount of PLN 0.136m were sold for a price of PLN 0.448m (VAT exclusive).

Moreover, following the issue of administrative decisions permitting the execution of road construction projects, the Company lost legal titles to 9 properties with a total carrying amount of PLN 1.543m, through expropriation. Net compensation received by the Company was PLN 4.004m.

Properties or parts of properties which are not directly used in the Company's day-to-day operations may be leased or rented. As at the end of 2020, 61 lease or rental contracts were in force, for a total net amount (VAT exclusive) of PLN 3.13m.

At PKN ORLEN S.A., 105 items of non-current assets (including plant and equipment) which are not used in day-to-day operations and are not planned to be used in the future have been identified for potential sale, decommissioning, lease or rental. Their total carrying amount is PLN 4.783m. The assets include one significant item, namely Reforming Unit 1 at the Płock Production Plant, with a total carrying amount of PLN 3.481m.

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

In accordance with Section II.Z.10.2. of the Code of Best Practice for WSE Listed Companies adopted by Resolution No. 26/1413/2015 of the Supervisory Board of the Warsaw Stock Exchange of October 13th 2015 ("Code of Best Practice for WSE Listed Companies"), the Company's Supervisory Board performed self-assessment of its work in 2020.

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

Members of the Supervisory Board have a high level of professional competence required to serve on a supervisory body. Their diverse skills, combined with experience in supervision of commercial law companies, ensure effective and efficient oversight of various areas of PKN ORLEN S.A.'s operations and enable comprehensive assessment of the economic and business plans of the Management Board. The number of the Supervisory Board members is appropriate for the scale of the Company's operations. The requirement concerning the number of independent Supervisory Board members was met, and diversity in terms of gender and age of the members was ensured. In the period from January 1st to December 31st 2020, the Supervisory Board included six members who met the independence criteria.

2020 was another period of active and intensified work for the Supervisory Board. In 2020, the Supervisory Board held 13 meetings, and the Supervisory Board Committees – 33 meetings. During their meetings, the Supervisory Board and its Committees formulated a total of 53 statements for the Company. For detailed information on the scope of work performed by the Supervisory Board and its Committees in 2020, see Sections II and III of this report.

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

Moreover, selected Supervisory Board members were delegated by resolution to individually supervise the Company's compliance with the corporate governance disclosure obligations specified in the Rules of the Warsaw Stock Exchange and with the laws and regulations concerning disclosure of current and periodic information by issuers of securities.

The Supervisory Board actively responded to the expectations of the major shareholder regarding supervision of individual segments or matters.

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

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



The Supervisory Board confirms proper performance of duties by its members in 2020. In the Supervisory Board's opinion, its work during meetings, at the Committees and through direct contacts with the Company's Management Board, was highly efficient, transparent and effective, which ensured professional support and effective supervision.

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

Warsaw, April 2021