MANAGEMENT BOARD REPORT ON THE OPERATIONS OF Polski Koncern Naftowy ORLEN Spółka Akcyjna for the year ended 31 December 2011

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I. BASIS FOR PREPARATION OF THE MANAGEMENT BOARD REPORT ON THE OPERATIONS OF POLSKI KONCERN NAFTOWY ORLEN S.A.

The scope of the Management Board Report on the Operations of Polski Koncern Naftowy ORLEN S.A. („PKN ORLEN", "Company", "Parent Company", "Issuer") is in line with the requirements of:

– the Minister of Finance Regulation of 19 February 2009 on current and periodical information provided by issuers of securities and conditions for recognising as equivalent the information required under the provisions of law of a state not being a member state of the European Union ("Minister of Finance Regulation"),
– the Accounting Act of 29 September 1994 (the "Accounting Act"),
– the Act of 15 September 2000 the Commercial Companies Code
– the Rules and Regulations of the Warsaw Stock Exchange S.A. and relevant resolutions of the Stock Exchange's Management Board.

This foregoing Management Board Report on the operations of PKN ORLEN ("Management Board Report") covers the reporting period from 1 January until 31 December 2011 and the comparable period from 1 January until 31 December 2010.

The Management Board Report was prepared in accordance with the principle of internal integrity of a document and compliance with the separate financial statements and current and periodical reporting.

Contents of the Management Board Report is in line with § 91 sections 5 and 6 of the Minister of Finance Regulation for the issuers carrying out production, construction, commercial or services-related activity.

The provisions stipulated in Article 49 sections 2 and 3 of the Accounting Act shall also apply.

Contents of the Management Board Report is in line with Article 363 § 2 and Article 395 § 2 point 1 of the Commercial Companies Code.

With respect to Regulations of the Warsaw Stock Exchange S.A. § 28 section 2 and § 29 sections 1, 2, 3 and 5 are applicable.

II. OVERVIEW OF THE MOST IMPORTANT EVENTS, AWARDS AND DISTINCTIONS GRANTED

2.1 The most important events in PKN ORLEN in the year 2011

– **Appointment of PKN ORLEN's Management Board for the new term of office**

The PKN ORLEN's Supervisory Board, at the meeting held on 24 March 2011, appointed the following persons for the joint three years' terms of office in the PKN ORLEN's Management Board:

- Mr Dariusz Jacek Krawiec as the Management Board President,
- Mr Sławomir Jędrzejczyk as the Management Board Vice-President,
- Mr Krystian Pater as the Management Board Member,
- Ms Grażyna Piotrowska – Oliwa as the Management Board Member,
- Mr Marek Serafin as the Management Board Member.

Ms Grażyna Piotrowska – Oliwa was appointed at the motion submitted by the State Treasury Minister pursuant to § 9 section 1 item 3 of PKN ORLEN's Articles of Association.
The Management Board's new term of office commenced on the date following the date of the Company's Annual General Meeting approving the financial statements for the year 2010.

– **Expiration of the agreement for storing and maintaining mandatory crude oil reserves**

On 31 March 2011 the agreement for storing and maintaining mandatory crude oil reserves, executed between PKN ORLEN and LAMBOURN Sp. z o.o., with its registered office in Warsaw, expired. Given the foregoing and the implementation of the Act of 16 February 2007 on crude oil, petroleum products and natural gas reserves and the rules of procedure for the cases of threatened fuel security of the state and petroleum market disruptions (Journal of Laws No. 52, item 343), PKN ORLEN purchased crude oil held by LAMBOURN Sp. z o.o. The transaction value amounted to approximately USD 421 million. The price of the raw material was determined on the basis of market quotations. The transfer of funds by PKN ORLEN and at the same time the transfer of the ownership of the raw material to the Company were effected on 1 April 2011. PKN ORLEN hedged the purchase price with a forward contract. Settlement of the hedging transaction reduced the raw material purchase price by approximately USD 122 million. Further, during the term of the agreement for storing and maintaining mandatory crude oil reserves, LAMBOURN Sp. z o.o. paid to PKN ORLEN a fee for guaranteeing the storage of the reserves.

– **Signing of the agreement refinancing the loan facilities**

On 28 April 2011, within the refinancing of loan facilities, PKN ORLEN concluded an agreement with the consortium of fourteen banks. The maximum possible indebtedness due to the concluded agreement amounts to EUR 2,625 million. The agreement enabled the replacement of the following loan facilities maturing in the years 2011-2012 in advance:

- multicurrency loan facility of EUR 1,000 million, granted in December 2005 by the consortium of eleven banks
- revolving loan of EUR 800 million, granted in November 2006 by the consortium of eight banks,
- syndicate loan facility of EUR 300 million, granted in January 2008 by the consortium of six banks,
- multicurrency revolving loan facility of EUR 325 million granted in August 2008 by the consortium of seven banks.

The funds raised from the loan will be used to repay existing debt and to finance activities of PKN ORLEN and other companies from the ORLEN Group.

– **Complaint for the repeal of the arbitration court verdict in the case filed by Agrofert Holding a.s.**

On 3 October 2011 PKN ORLEN received from the court in Prague (Czech Republic) claim which overruled the sentence of arbitration court of the fourth case pending before the Arbitration Tribunal at the Chamber of Commerce of the Czech Republic and the Chamber of Agriculture of the Czech Republic in Prague, filed by Agrofert Holding a.s. ("AGH") against PKN ORLEN. The statement of claim filed by AGH against PKN ORLEN concerned the payment of damages of CZK 19,464 million for the damage that arose due to unfair competition, illegal injury to the reputation of AGH and failure to perform the contractual obligations under the agreements signed in the years 2003-2004 between PKN ORLEN and AGH. With the verdict issued on 21 October 2010 and served on PKN ORLEN on 3 November 2010, the Arbitration Tribunal fully dismissed the claims of AGH in the above case and ordered the same to cover the costs of proceedings incurred by PKN ORLEN. AGH performed the arbitration verdict and reimbursed PKN ORLEN for the costs awarded. Simultaneously, exercising the right arising out of the Code of civil procedure of the Czech Republic, AGH filed with the court of general jurisdiction the complaint for the repeal of the arbitration verdict.PKN ORLEN shall undertake all necessary legal measures in order to uphold the arbitration verdict issued on 21 October

2010. PKN ORLEN take the stance that the resolution contained in the arbitration award issued on 21 October 2010 is fair and there exist no grounds for repealing the same.
On 16 January 2012 PKN ORLEN submitted a response to Agrofert's a.s. claim, in which it appealed to dismiss all Agrofert's a.s. claims and adjudge it with proceeding costs refund.

– **Sale of shares in Polkomtel S.A.**

On 24 October 2011 the Office of Competition and Consumer Protection granted a permission for sale of 100% shares of Polkomtel S.A. to Spartan Capital Holdings Sp. z o.o.
On 9 November 2011 PKN ORLEN transferred the ownership title to 5,000,266 registered ordinary shares in Polkomtel S.A. of the nominal value of PLN 100 per each, representing 24.39% of the share capital of Polkomtel S.A. and 24.39% of the total number of votes at the general meeting of Polkomtel S.A. to Spartan Capital Holdings Sp. z o.o. The shares were transferred on the basis of the signed agreement for the sale of shares in Polkomtel S.A., executed on 30 June 2011 by and among PKN ORLEN, PGE Polska Grupa Energetyczna S.A., KGHM Polska Miedź S.A., Vodafone Americas Inc, Vodafone International Holdings B.V. and WĘGLOKOKS S.A. on one side as the sellers and Spartan Capital Holdings Sp. z o.o. on the other side as the buyer. The price paid to PKN ORLEN for the shares amounted to PLN 3,672 million and was paid in cash.

– **Change in the composition of PKN ORLEN's Management Board**

At its meeting held on 8 December 2011, PKN ORLEN's Supervisory Board resolved on dismissing Mr Marek Serafin from the position of the Company's Management Board Member. At the same time, PKN ORLEN's Supervisory Board delegated – effective from 9 December 2011 – Mr Piotr Wielowieyski, a member of the Company's Supervisory Board, to temporarily perform the duties of a Management Board Member, Petrochemistry.

The composition of the PKN ORLEN's Management Board as at the end of 2011 was presented in section 8.7.1.of the foregoing Management Board Report.

2.2 The events after the end of the reporting period

– **Change in the composition of PKN ORLEN's Supervisory Board and Management Board**

On 12 January 2012, the Extraordinary General Meeting of PKN ORLEN dismissed Mr Krzysztof Kołach from the Supervisory Board. At the same time the Extraordinary General Meeting of PKN ORLEN appointed Mr Michał Gołębiowski as a Supervisory Board Member. Further, the State Treasury Minister, on behalf of the State Treasury, shareholder, pursuant to § 8 section 2 subparagraph 1 of the Company's Articles of Association, dismissed Mr Janusz Zieliński as the PKN ORLEN's Supervisory Board Member effective from 11 January 2012 and appointed Mr Cezary Banasiński as the Company's Supervisory Board Member, effective from 12 January 2012.

At its meeting held on 6 March 2012, PKN ORLEN's Supervisory Board appointed Mr Piotr Chełmiński, hitherto the Management Board President of Unipetrol a.s., as the Management Board Member, Petrochemistry. The new Management Board Member commenced work on the position entrusted on 10 March 2012. At the same time PKN ORLEN's Supervisory Board consented to Piotr Chełmiński's being member of the Management Board of Unipetrol a.s., PKN ORLEN's subsidiary, without the right to receive any remuneration.

On 7 March 2012, Ms Grażyna Piotrowska-Oliwa, Management Board Member, Sales, submitted a statement on resignation from the position of the Company's Management Board Member effective from 18 March 2012. Supervisory Board of PKN ORLEN, at its meeting held on 14 March 2012, appointed Mr Marek Podstawa, as the Member of the Management Board of PKN ORLEN S.A., Sales, effective from 19 March 2012.

On 28 March 2012 Mr Marek Karabuła and Mr Piotr Wielowieyski submitted a statement on resignation from the position of the Company's Supervisory Board Member, effective from 28 March 2012.

The composition of the Management Board as at 19 March 2012 was presented in section 8.7.1. of the foregoing Management Board Report and the composition of the Supervisory Board as at 28 March 2012 was presented in section 8.7.4.

– **Expiration of the agreement for storing and maintaining mandatory crude oil reserves**

On 31 January 2012 the agreement with Maury Sp. z o.o. for storing and maintaining mandatory crude oil reserves, executed on 23 December 2010 by and between PKN ORLEN and Maury Sp. z o.o., with its registered office in Warsaw, expired. Given the foregoing and the implementation of the Act of 16 February 2007 on crude oil, petroleum products and natural gas reserves and the rules of procedure for the cases of threatened fuel security of the state and petroleum market disruptions (Journal of Laws No. 52, item 343, as amended), PKN ORLEN purchased crude oil held by Maury Sp. z o.o. The transaction value amounted to approximately 374 million USD. The price of the raw material was determined on the basis of market quotations. The provision of funds by PKN ORLEN and at the same time the assignment of the ownership of the raw material to the Company were effected on 31 January 2012. On the execution date of the agreement, PKN ORLEN secured the crude oil purchase price by a futures contract. Settlement of the securing transaction reduced the raw material purchase price by approximately 63 million USD. As a result of the above activities, PKN ORLEN will consider in the first quarter of 2012 the purchase of crude oil of the value of approximately 311 million USD. Furthermore, during the term of the agreement for storing and maintaining mandatory crude oil reserves, Maury Sp. z o.o. paid to PKN ORLEN a fee for guaranteeing the storage of the reserves.

– **Debt securities repurchase and new issue**

On 27 February 2012, based on the agreement concluded in 2006, PKN ORLEN repurchased the debt securities of PLN 750,000 thousand. On the same day, within the scope of the above agreement, new debt securities of PLN 1,000,000 thousand were issued.

– **Agreement regarding gathering and keeping crude oil reserves**

On 28 March 2012 within the process of changing the formula of mandatory reserves of crude oil maintenance by PKN ORLEN, the Company has signed the contract for sale of part of mandatory reserves and the contract for gathering and keeping of crude oil reserves with Ashby Sp. z o.o., with its registered office in Warsaw.
Based on the sale agreement PKN ORLEN has sold crude oil to Ashby Sp. z o.o. The value of crude oil sold was approximately PLN 1,250,000 thousand translated with exchange rate as at 28 March 2012 (approximately USD 403,000 thousand).
The price of raw material was determined based on market quotations.
Based on the agreement regarding gathering and keeping of crude oil reserves Ashby Sp. z o.o. will render service of maintaining mandatory reserves of crude oil on behalf of PKN ORLEN, while PKN ORLEN will guarantee storing of inventories at the current location. The agreement regarding gathering and keeping of crude oil reserves has been concluded for a period of 1 year, whereby the Company takes into account the possibility of its renewal for another period.

2.3 Awards and distinctions granted

January	Similarly to the previous year, the ORLEN Group met very high project requirements and criteria, thus it remained amongst the companies listed under RESPECT Index for the 2nd term.
February	Awarding PKN ORLEN the title of the “Polish Ecology Partner”.
April	In the WarsawScan 2011 survey, the analysts and asset managers evaluated PKN ORLEN to be the best in terms of quality of the information policy applied and compliance with the corporate governance rules. PKN ORLEN once again took the first place among the largest Polish enterprises on the “500 list” of “Rzeczpospolita” daily. The FLOTA (FLEET) card was for the fifth time recognised as the Fleet Product of the Year in the all-Poland Fleet Awards 2011 plebiscite.
May	PKN ORLEN was awarded the title of the best managed company in Poland in the ranking of the “Best Managed Companies in CEE 2010”, organised by the British finance magazine - Euromoney. PKN ORLEN was awarded for the tenth time the title of the Brand Worth Trusting in the category of a “Fuel Station” in the largest European consumer opinion poll, organised by “Reader’s Digest” monthly magazine. PKN ORLEN was also top rated as a brand having the best reputation in terms of ecology, obtaining the Certificate of the Most Environmental-Friendly Brand.
June	PKN ORLEN was awarded in the contest of “Polish Business Eagles in Germany”, confirming its strong position among investors and enterprises operating in the territory of Germany.
July	The prestigious monthly magazine, IR Magazine, granted to PKN ORLEN for the third time the award of the “Best investor relations by a Polish company 2011”. Representatives of the international capital market appreciated PKN ORLEN’s open and transparent information policy, frequently going beyond the standards applicable for the companies listed in the Warsaw Stock Exchange.
August	PKN ORLEN received the golden Client Laurel 2011 in the category of "Fuel stations – offer for a corporate client". PKN ORLEN’s fleet programme was appreciated for the third time in a row.

October	PKN ORLEN's Online Annual Report received the award of the Accounting and Tax Institute. In the fifth edition of the prestigious competition of the "Philantrophy Leaders" organised by the Donors Forum under the auspices of the Warsaw Stock Exchange, PKN ORLEN was granted the Special Award for long-term and consistent support of social activities.
November	Company Platts published its "Top 250 Global Energy Company" ranking, where PKN ORLEN was in the lead, retaining position number 8 in the global classification in the category of "Refining&Marketing". During the all-Poland Fleet Market 2011 fleet fair, PKN ORLEN received the Fleet Leader award and the distinction for the employees of PKN ORLEN – People of the Decade of the Fleet Industry 2001-2011.
December	PKN ORLEN became the main prize winner of the contest: "Social Reports 2011", which received the distinction for the best reports concerning the social responsibility of a business. The contest jury noticed in particular the maintained continuity and high level of reporting. For the fifth time in a row, PKN ORLEN became the prize winner of the contest: "The Most Valuable Polish Brands Ranking 2011", organised annually by "Rzeczpospolita" daily. BLISKA, a brand of economical stations ranks 13th in this year's ranking. According to professionals, PKN ORLEN took position number 7 in the Ideal Employers ranking in the Engineering category.

III. PROFILE OF THE PKN ORLEN AND ITS OPERATIONS

3.1 Capital and organisational relations in the PKN ORLEN

PKN ORLEN, seated in Płock, 7 Chemików Street is a Parent Company of Polski Koncern Naftowy ORLEN S.A. Capital Group („ORLEN Group").

Polski Koncern Naftowy ORLEN S.A. was established through transformation of a state-owned enterprise into a joint stock company, on the basis of the Public Notary Act of 29 June 1993. The Company was registered as Mazowieckie Zakłady Rafineryjne i Petrochemiczne "Petrochemia Płock" S.A. in the District Court in Płock. Effective 20 May 1999, the Company changed its business name to Polski Koncern Naftowy Spółka Akcyjna.

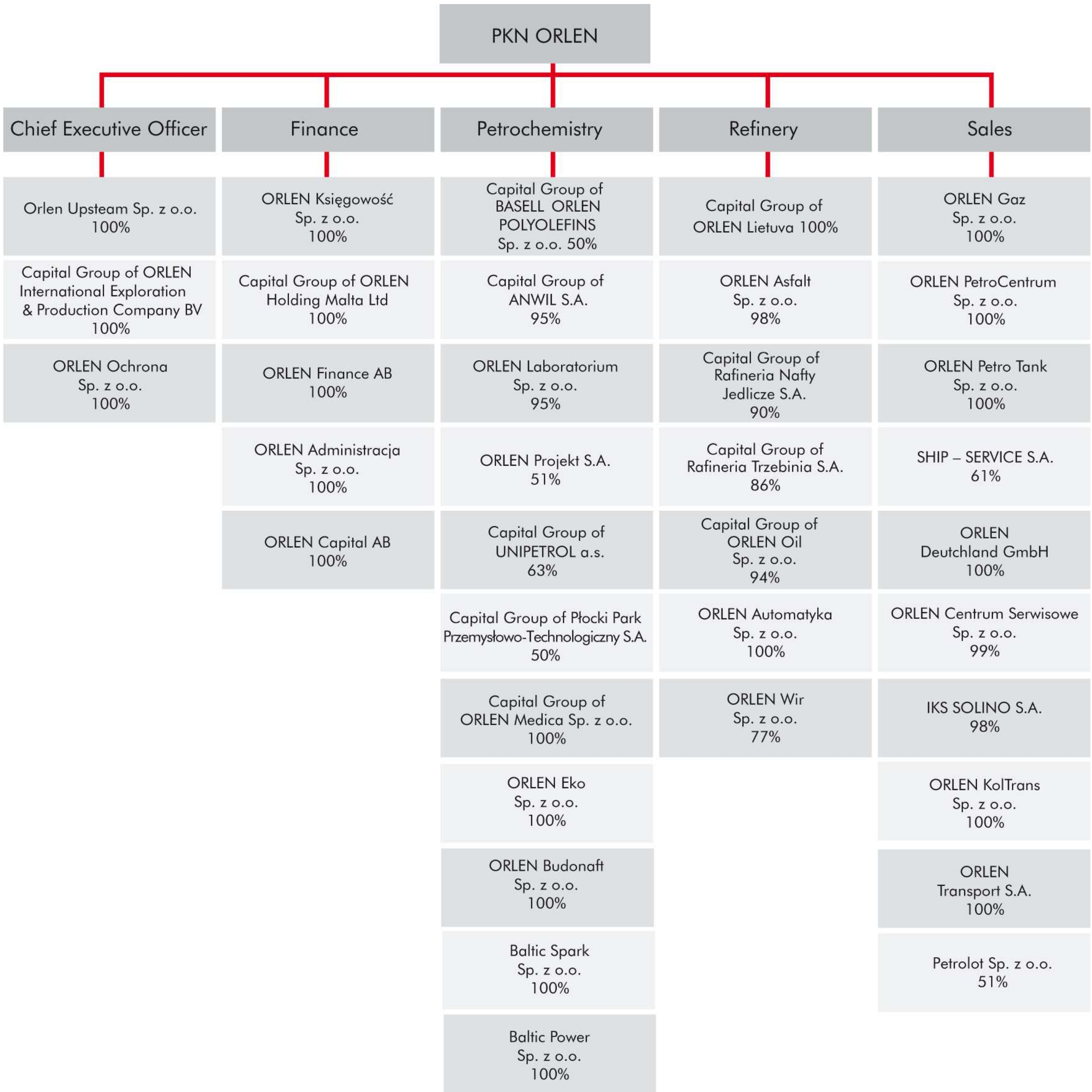
On 7 September 1999, Centrala Produktów Naftowych ("CPN") Spółka Akcyjna was incorporated, thus CPN was removed from the commercial register. Effective 12 April 2000, the Company changed its business name to Polski Koncern Naftowy ORLEN Spółka Akcyjna

According to Warsaw Stock Exchange classification PKN ORLEN belongs to oil and gas sector.

Principal activity of the Company includes:
- processing of crude oil and manufacturing of oil-derivative products and semi finished products (refinery and petrochemical);
- manufacture of basic chemicals, fertilizers and nitrogen compounds, plastics and synthetic rubber;
- purchase, processing and trade of used lubricant oils and other chemical waste;
- manufacturing, transfer and trade in heating energy and electricity;
- domestic and foreign trade on own account, on a commission and as a consignee, including in particular: the trade in crude oil, oil-derivative and other fuel, sale of industrial and consumer goods;
- research and development activity, project work, construction and production activities on own account and as a consignee, in the areas of processing, storage, packaging and trade in solid, liquid and gaseous oil fuels, derivative chemical products as well as transportation: road, rail, water and by pipeline;
- storage of crude oil and liquid fuels, creation and management of oil stock in accordance with appropriate regulations;
- services connected to the principal activity, in particular: sea and land reloading, refining of gas and oil including ethylization, dyeing and blending of components;
- overhaul of appliances used in principle activities, especially refinery and petrochemical installations, oil storage appliances, petrol stations and means of transportation;
- operation of petrol stations, bars, restaurants and hotels as well as catering activities;
- financial holding activities, brokerage and other financial activities;
- natural gas and crude oil exploration and extraction.

The companies being members of the ORLEN Group are assigned to particular divisions operating in PKN ORLEN and to business segments.

Scheme 1. Assignment of the ORLEN Group companies to the organisational divisions of PKN ORLEN.



The ORLEN Group comprises PKN ORLEN as the Parent Company and the entities located mainly in Poland, Germany, Czech Republic and Lithuania.

As at 31 December 2011, the Parent Company held, directly or indirectly, shares in 92 companies, of which in:
- 81 subsidiaries,
- 5 jointly controlled companies,
- 6 associated companies.

As compared to the end of 2010 the number of subsidiaries, jointly controlled companies, as well as associated companies of the ORLEN Group has decreased by three.

PKN ORLEN strengthens its position in the companies operating in the area of the core business, coordinates their operations by segment management and carries out restructurings and consolidations of strategic assets held. Simultaneously, the divestment processes aimed to further limit the number of companies and increase the management efficiency are conducted.

The most significant changes in respect of organizational and capital relations in 2011 include:

– purchase on 20 April 2011 by PKN ORLEN from the State Treasury of a block of 781 000 shares in Rafineria Nafty Jedlicze S.A., representing 10.01% of the company's share capital. After the transaction, the PKN ORLEN's stake of in the company's share capital amounted to 85.01%.
– purchase on 21 April 2011 by ORLEN Automatyka Sp. z o.o. of 2 284 own shares from minority shareholders for voluntary redemption. After the transaction the PKN ORLEN's stake in the company's share capital increased from 52.42% to 100.00%.
– transfer of ownership of 801 shares in ORLEN Wir Sp. z o.o. from 65 minority shareholders to PKN ORLEN on 13 May 2011. After the transaction the PKN ORLEN's stake in the company's share capital increased from 51.00% to 76.03%.
– merger of ORLEN Eko Sp. z o.o. and ORLEN Prewencja Sp. z o.o. on 31 May 2011.
– purchase, on 1 July 2011, by PKN ORLEN from Polimex – Mostostal S.A. of 18 shares in ORLEN Wir Sp. z o.o. After the transaction the PKN ORLEN's stake in the company's share capital amounted to 76.59%.
– purchase, on 5 July 2011, by PKN ORLEN from the State Treasury of a block of 482 527 shares of IKS Solino S.A., representing 25.20% of the company's share capital. After the transaction the stake of PKN ORLEN in the company's share capital amounted to 95.74%.
– performance, on 29 July 2011, by CDM Pekao S.A. of an order to buy a block of 559 569 shares in Anwil S.A., as a result whereof PKN ORLEN purchased 4.15% of the company's shares, increasing its capital participation up to 94.5%.
– foundation, on 18 October 2011, of the following companies: Baltic Power Sp. z o.o. and Baltic Spark Sp. z o.o. operating in the area of production, transfer, distribution, and trading in electrical energy.
– execution, on 9 November 2011, of the agreement for the sale of all shares in Polkomtel S.A. between PKN ORLEN, PGE Polska Grupa Energetyczna S.A., KGHM Polska Miedź S.A., Vodafone Americas Inc, Vodafone International Holdings B.V. and WĘGLOKOKS S.A. as the sellers and Spartan Capital Holdings Sp. z o.o. as the buyer.
– settlement, on 22 December 2011, of the transaction involving the purchase by PKN ORLEN of shares from minority shareholders. As a result of the transaction, PKN ORLEN purchased:
  – 86 906 of shares in Anwil S.A., increasing its share by 0.64% up to 95.14%,
  – 46 400 of shares in IKS Solino S.A., increasing its share by 2.42% up to 98.17%,
  – 384 811 shares in Rafineria Nafty Jedlicze S.A., increasing its share by 4.93% up to 89.95%.
– increase in the capital of ORLEN Insurance Limited on 23 September and 28 November 2011. The new shares were acquired in whole by ORLEN Holding Malta Limited.

3.2 Change in the rules for management of the PKN ORLEN in 2011

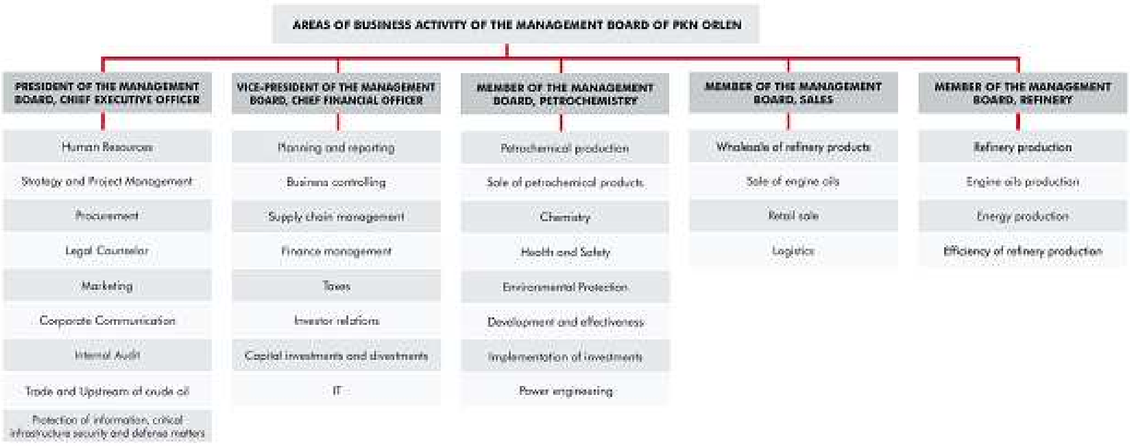
At its meeting held on 24 March 2011, PKN ORLEN's Supervisory Board appointed the following persons as PKN ORLEN's Management Board Members for the three years' term of office:
– Dariusz Jacek Krawiec as the Management Board President,
– Sławomir Jędrzejczyk as the Management Board Vice-President,
– Krystian Pater as the Management Board Member,
– Grażyna Piotrowska – Oliwa as the Management Board Member,
– Marek Serafin as the Management Board Member.

The new term of office of the Management Board commenced on the date following the date when the Annual General Meeting of the Company was held, i.e. 29 June 2011.

The changes in respect of powers of individual Members of PKN ORLEN's Management Board, implemented throughout the year 2011, included a marketing area having been taken over by the Management Board President from the Management Board Member, Sales, effective from 29 March 2011, and supervision over critical infrastructure and defence affairs effective from 2 August 2011 and controlling functions managed in refinery,

petrochemistry and sales division having been taken over by the Vice-President of the Management Board President, effective from 31 May 2011.
At its meeting held on 8 December 2011, PKN ORLEN's Supervisory Board resolved on dismissing Mr Marek Serafin from the position of the Management Board Member, Petrochemistry, and at the same time, it was resolved to delegate Mr Piotr Wielowieyski, PKN ORLEN's Supervisory Board Member, to temporarily perform the activities of the PKN ORLEN's Management Board Member, Petrochemistry. In connection with the foregoing changes, on 9 December 2011, a distribution of powers was adopted, which was effective at the end of 2011, in accordance with the following diagram.

Diagram 2. Diagram showing distribution of responsibilities of PKN ORLEN's Management Board Members as at the end of 2011.



The composition of the Management Board as at the end of 2011 was presented in section 8.7.1. of the foregoing Management Board Report.

As part of restructuring activities in 2011, organisational changes were carried out relating to the Refinery Products Wholesale Trade Executive Director of PKN ORLEN. The changes resulted in a liquidation of the Wholesale Trade Regions and appointment of regional sales teams instead. The implemented changes allowed for the centralisation of certain sales support functions, introduction of clear division of sales channels' responsibility for approaching identified clients and separation of a dedicated sales channel for key clients.

As regards PKN ORLEN's HR Executive Director, processes relating to performance of HR functions for PKN ORLEN's employees have been centralised, in particular the processes of employment, remunerating, social and medical benefits, by transferring the same to the shared services centre forming part of ORLEN Księgowość Sp. z o.o.

3.3 Employment in PKN ORLEN

As at the end of 2011 in PKN ORLEN the total employment amounted to 4,445 persons, in comparison to 4,513 persons in 2010. The decrease in employment by 1.5% (y/y) in 2011 in comparison to 2010 is a result of restructuring process in the area of Refinery Products Wholesale Trade Executive Director and Refinery Production Executive Director and HR Executive Director.

Table 1. Employment structure in PKN ORLEN in professional groups divided by education, gender and type of work.

Employment structure in professional groups	2011	2010
- by education		
University	52.0%	50.6%
Secondary	40.1%	41.0%
Vocational	6.9%	7.1%

Primary	1.0%	1.3%
- by gender		
Women	19.3%	19.6%
Men	80.7%	80.4%
- by type of work		
Blue collars	45.0%	45.0%
White collars	55.0%	55.0%

In the employment structure of PKN ORLEN in 2011, just as in 2010, the majority were represented white collar workers. There were no changes in employment structure by education among total employed persons in 2011. The biggest group represented employees with university degree. In 2011 the main group represented men, totaling 80.7% of the total employed.

3.4 HR policy and implemented programmes

Recruitment policy

In 2011, the recruitment policy of PKN ORLEN was focused on acquiring high-class specialists, whose knowledge and competences, together with experience of current employees, will allow to ensure continuity and highest level of business processes carried out by the PKN ORLEN.
In 2011 the Adaptation Programme for newly hired employees was continued to be implemented and the individualized Adaptation Programme, dedicated to the management. As part of performed activities, newly hired employees participate in a workshops, during which experts and specialists from various business areas outline the specifics of the ORLEN Group's operations. Furthermore, the employees participate in e-learning training dedicated to them, outlining the history through organizational and employees-related issues.

Development and trainings

In 2011, the activities were focused on strengthening employees' competences in respect of securing business goals and shaping the desirable organisational culture. More than 9 thousand employees were trained due to a rich training and development offer.
One of key development undertakings in 2011 was the preparation of the development programme titled ORLEN EkstraKlasa. It aims at selecting employees who distinguish themselves not only with high competences level but also the willingness and exceptional motivation to work and gain the additional business experience.

Internship programme

In 2011, 336 persons participated in the Student Traineeship Programme, of which 27 persons as part of individual traineeships and 309 persons as part of group traineeships (293 pupils and students from the local market and 16 students from other universities and schools).
Consequently, since 2002 PKN ORLEN has been implementing the Internship Programme, providing the opportunity to acquire the practical professional experience. In 2011, internships were focused on the production area, and upon completion of the same the interns joined the PKN ORLEN's employees' group.
In 2011, PKN ORLEN for the first time ever participated in the all-Poland competition: "Win internship at …" and funded paid traineeships for 5 competition winners, out of which one person became the ORLEN Group's employee.

Social dialogue and benefits

The rules of social dialogue applicable in PKN ORLEN are based on the internal regulations and on commonly applicable provisions of law. The role of an open social dialogue and its basic institutional forms is important in the course of the complex HR processes in the ORLEN Group companies, enabling to build constructive and firm solutions in cooperation with the employees' representatives.
Being a responsible employer, PKN ORLEN provides its employees with social support in the form of various benefits and allowances, e.g. granting additional funds for holiday or stay in health resorts, rehabilitation, child care, recreation and sport activities, and offering cultural and educational activities, non-reimbursable allowances, returnable housing loans, and purchase of Christmas food and toys or gift retail certificates for the employees' kids.

3.5 Remuneration of PKN ORLEN management and supervisory bodies

Table 2. Remuneration paid to the Company's Management Board Members fulfilling their function in 2011 and in previous years (in PLN thousand)

	2011	2010
Remuneration of Members of the Company's Management Board, including:		
- remuneration and other benefits	**6,498**	**6,040**
Krawiec Dariusz	1,524	1,524
Jędrzejczyk Sławomir	1,404	1,404
Kotlarek Wojciech	549 1)	979
Pater Krystian	1,015	924
Piotrowska-Oliwa Grażyna	555 2)	-
Serafin Marek	1,381	1,209
Wielowieyski Piotr 3)	70	-
- bonuses for prior year	**5,454**	**5,454**
Krawiec Dariusz	1,440	1,440
Jędrzejczyk Sławomir	1,320	1,320
Kotlarek Wojciech	756	756
Pater Krystian	798	798
Serafin Marek	1,140	1,140
Remuneration of Members of the Company's Management Board holding functions in prior years, including:		
- remuneration and other benefits	**-**	**646**
Wiśniewski Janusz	-	646 4)
Total:	**11,952**	**12,140**

1) refers to the period of performing the function from 1 January until 29 June 2011 and the non-competition clause
2) for the period of performing the function from 30 June 2011
3) delegated for temporary performance of the activities of a Management Board Member from 9 December 2011
4) payment under the court settlement agreement concerning remuneration for the year 2005

Table 3. Bonuses potentially due to the Company's Management Board Members for a given year to be paid in the succeeding year (PLN thousands)

	2011	2010
Krawiec Dariusz	1,440	1,440
Jędrzejczyk Sławomir	1,320	1,320
Kotlarek Wojciech	374	756
Pater Krystian	910	798
Piotrowska-Oliwa Grażyna	516	-
Serafin Marek	900	1,140
Total:	**5,460**	**5,454**

The amount of bonuses was estimated assuming full accomplishment of the bonus goals by the Management Board Members.

Remuneration due to severance pay and non-competition clause of the Management Board Member Mr. Marek Serafin, that is to be paid in 2012 of 1,140 thousand PLN.

Table 4. Remuneration of other key executive personnel of Company (PLN thousands).

	2011	2010
Remuneration and other benefits of members of other key executive personnel of the Company	32,762	31,522

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

In 2011 PKN ORLEN key executive personnel was subject to the annual MBO bonus system (management by objectives). The regulations applicable to PKN ORLEN Management Board, management boards of the ORLEN Group companies and other key positions in the ORLEN Group have certain basic common features. The persons subject to the above mentioned systems are remunerated for the accomplishment of individual goals set at the beginning of the bonus period by the Supervisory Board for the Management Board Members and, by the Management Boards for the key executive personnel members. The Bonus Systems are structured in such a way so as to promote the cooperation between individual employees in view to achieve the best possible results for the ORLEN Group.

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

Members of PKN ORLEN Management Board who in 2011 and 2010 held functions on Management and Supervisory Boards of the subsidiaries, companies under joint control and associated companies belonging to the ORLEN Group did not collect any remuneration in this respect, except Unipetrol a.s., where the remunerations due for holding the function were transferred to the ORLEN's Foundation Dar Serca (Gift of the Heart). Three PKN ORLEN Management Board Members sat on the AB ORLEN Lietuva and Unipetrol a.s. Management Boards.

Table 5. Remuneration of the Members of the Supervisory Board of PKN ORLEN (PLN thousands).

	2011	2010
Remuneration of the Company's Supervisory Board Members, including:		
Borowiec Grzegorz	143	137
Gabor Artur	143	70 1)
Karabuła Marek	143	137
Kołach Krzysztof	143	137
Mataczyński Maciej	184	176
Michniewicz Grzegorz	-	8
Pawłowicz Leszek	146	71 1)
Rocławski Jarosław	-	66 2)
Sarota Angelina	143	137
Wielowieyski Piotr	133 3)	137
Zieliński Janusz	144	137
Total:	**1,322**	**1,213**

1) for the period of performing the function from 25 June 2010
2) for the period of performing the function until 25 June 2010
3) for the period until 8 December 2011, from 9 December 2011 delegated to temporarily perform the activities of a Management Board Member

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

According to agreements with Members of PKN ORLEN Management Board, Management Board Members are obliged to obey a non-competition clause for 6 or 12 months, starting from the date of termination or expiration of the contract. In the period Members of the Management Board are entitled to receive remuneration in amount of six or twelve basic monthly remuneration, paid in equal monthly installments. Furthermore, contracts include remuneration payments in case of dissolution of the contract because of dismission from the position held. Remuneration amounts to six or twelve basic monthly remuneration.

Remuneration policy for PKN ORLEN's Board Members was described in section 8.7.10 of the foregoing Management Board Report.

3.6 Shareholding structure in PKN ORLEN

The share capital of PKN ORLEN is divided into 427,709,061 ordinary bearer shares with a par value of PLN 1.25 each.

The ownership rights of PKN ORLEN's shares are fully transferable.

Throughout 2011 and until the date of publication of this report, there were no changes in the structure of shareholders with a stake of more than 5% in the Company's share capital.

Table 6. Shareholding structure in PKN ORLEN as at 31 December 2011.

Shareholders	Number of shares	Number of votes at a General Meeting of PKN ORLEN	Share in total number of votes at a General Meeting of PKN ORLEN	Share in share capital of PKN ORLEN
State Treasury	117,710,196	117,710,196	27.52%	27.52%
Aviva OFE*	21,744,036	21,744,036	5.08%	5.08%
Others	288,254,829	288,254,829	67.40%	67.40%
Total	**427,709,061**	**427,709,061**	**100.00%**	**100.00%**

*) according to the information received from by the Company on 9 February 2010.

3.7 Number of shares in PKN ORLEN and other entities of the ORLEN Group held by the management and supervisory personnel in PKN ORLEN

Table 7. Number of shares in PKN ORLEN and other entities of the ORLEN Group held by the management and supervisory personnel in PKN ORLEN.

	Number of shares and options as at the date of submission of consolidated quarterly report for the IV quarter 2011 1)	Increase	Decreases	Number of shares and options as at the date of submission of this Management Board Report 1)
Supervisory Board	**3,707**			**3,300**
Grzegorz Borowiec	100			100
Artur Gabor	3,200			3,200
Janusz Zieliński	407	-	-407	0

1) According to the information held by the Company as at 31 January 2012.

Decreases in shareholding in the Company result from the changes in the Supervisory Board - they involve Mr Janusz Zieliński, who ceased to perform the function of the Supervisory Board Member on 11 January 2012.

3.8 Information on the employee stock option scheme monitoring system

In 2011 no employee stock option scheme was implemented in PKN ORLEN.

3.9 Information on own shares purchase

In 2011 PKN ORLEN did not purchase its own shares.

3.10 PKN ORLEN on the capital market

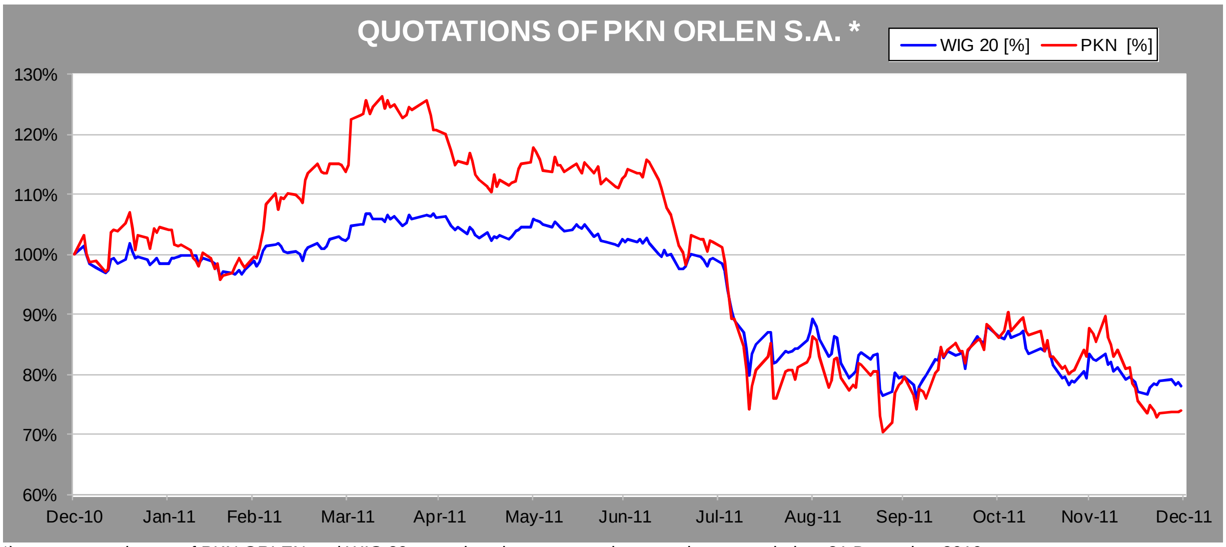
The shares of PKN ORLEN are listed on the Warsaw Stock Exchange (Warszawska Giełda Papierów Wartościowych w Warszawie S.A.) and in the form of Global Depositary Receipts (GDRs) on the London Stock Exchange. On the London Stock Exchange the traded unit is 1 GDR, which represents 2 PKN ORLEN's shares. GDRs are also traded in the United States on the OTC (Over The Counter) market in the form of American Deposit Receipts (ADRs). The depository for PKN ORLEN deposit receipts is The Bank of New York Mellon.
PKN ORLEN shares are listed on the main market of the Warsaw Stock Exchange in the continuous listing system and are comprised by WIG, WIG20 and WIG-paliwa (WIG-fuels) – the industry index. Since 19 October 2009 PKN ORLEN maintaines its position amongst the elite of companies engaged in social responsibility listed in Respect Index.

In 2011, WIG20, the largest companies stock market index, lost its value by 21.9% (y/y). In the same period the price of ORLEN's shares fell by 26% (y/y). In the continuous listing system, 322 million of shares changed their holders, i.e. 75.4% of number of shares issued.

Table 8. PKN ORLEN's shares key data.

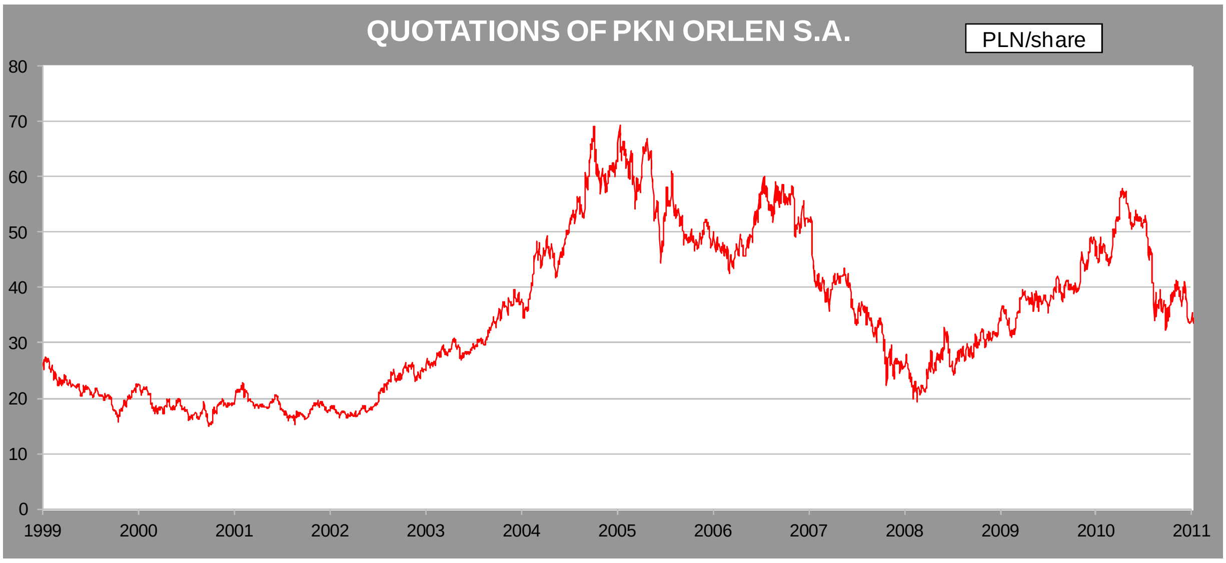
Key data	unit	2011	2010	Change %
1	2	3	4	5=(3-4)/4
ORLEN's Group net profit	'000 PLN	2,015,003	2,455,467	-17.9%
Highest share price	PLN	58.85	49.55	18.8%
Lowest share price	PLN	30.33	30.90	-1.8%
Share price at year end	PLN	33.90	45.80	-26.0%
P/E ratio at year end		7.20	7.98	-9.8%
Number of shares traded	No.	427,709,061	427,709,061	0.0%
Capitalization at year end	'000 PLN	14,499,337	19,589,075	-26.0%
Average daily trading volume	No.	1,284,292	1,193,320	7.6%

Chart 1. Quotations of PKN ORLEN and WIG20 on the Warsaw Stock Exchange. *



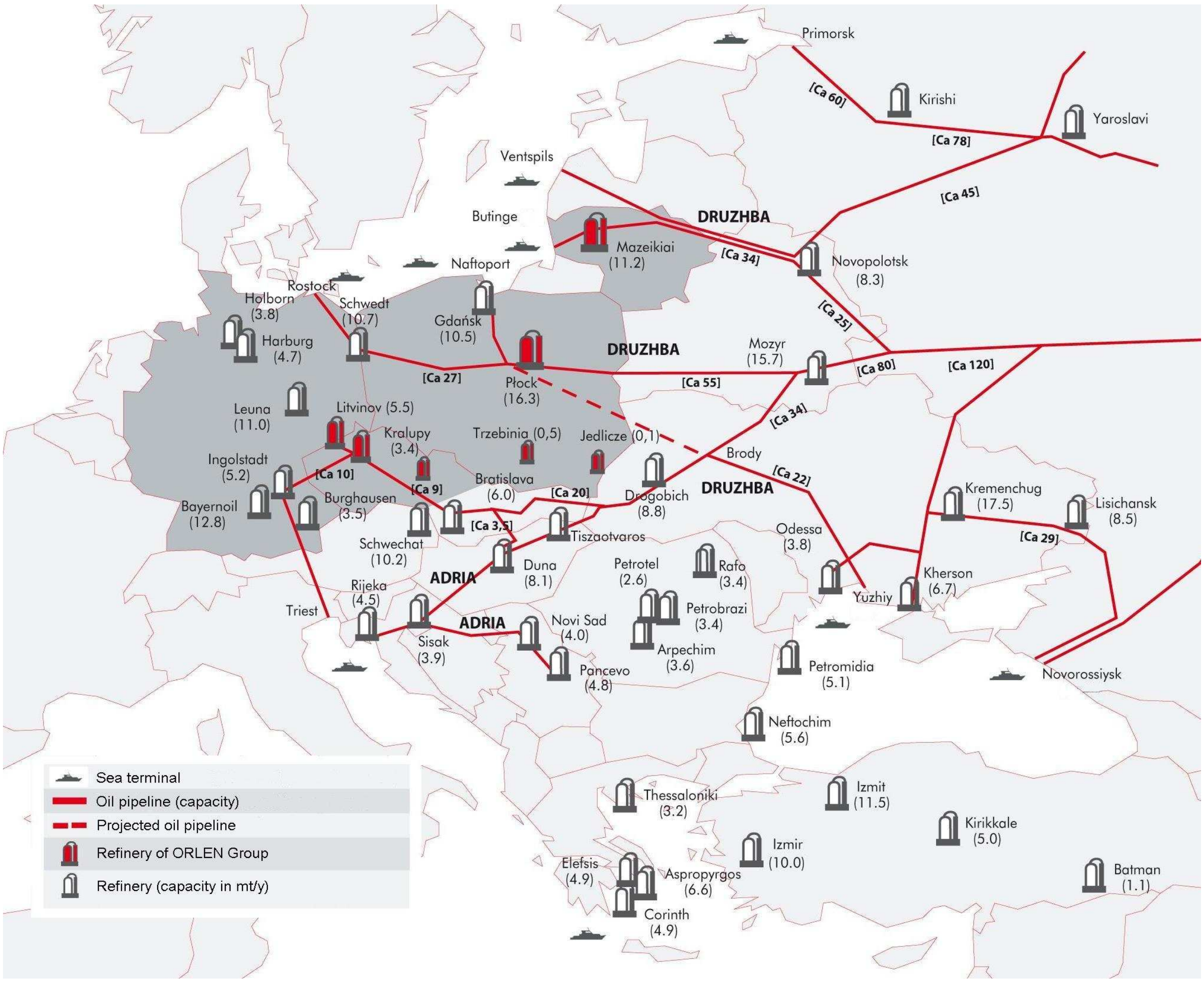
*) percentage change of PKN ORLEN and WIG 20 quotations in respect to the quotations recorded on 31 December 2010

Chart 2. Quotations of PKN ORLEN during 1999-2011.



IV. CHARACTERISTICS OF THE INDUSTRY AND COMPETITION

Scheme 3. Core refinery assets in the region.



PKN ORLEN owns the biggest refinery and petrochemical complex in Poland, that is considered to be one of the most modern integrated manufacturing plants in the Central and Eastern Europe. In 2011 in the Płock refinery, a crude oil processing volume reached the level of 14.5 million tons. Other refineries belonging to PKN ORLEN (Trzebinia, Jedlicze) operating on Polish Market specialise in providing services related to fuel storage and distribution, bio-component production, oil bases, fuel oils and waste oil regeneration.

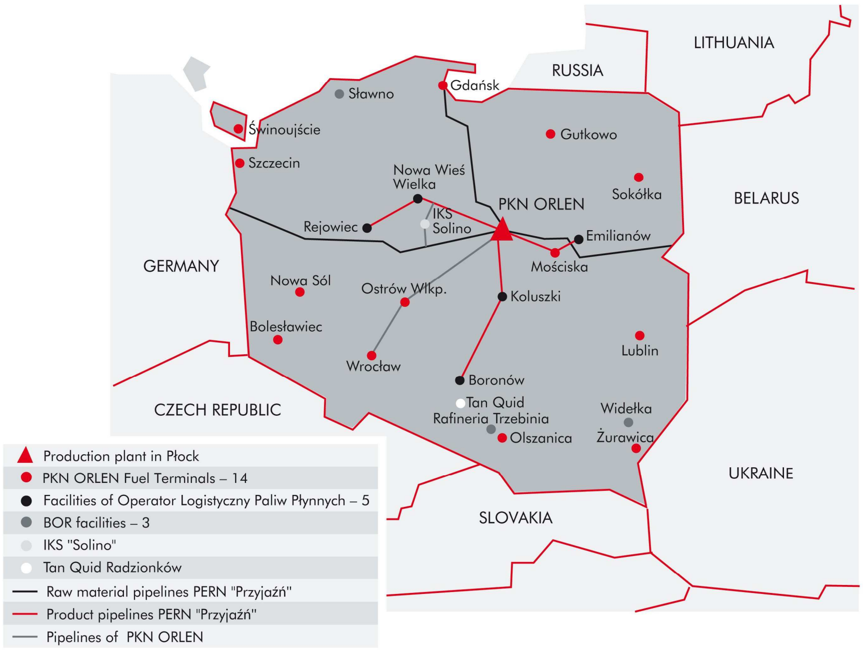
Trends in fuel consumption on the Polish market were presented in section 7.2.3. of the foregoing Management Board Report.

The biggest competitor of PKN ORLEN on Polish market is refinery belonging to Lotos Group located in Gdańsk at the Baltic coast, that is the second Polish refinery in terms of size. The Gdańsk Refinery's processing capacity is 10.5 million tons of crude oil per year.

Its developed logistics infrastructure provides PKN ORLEN with a significant competitive advantage. In its pursue of maximum storage efficiency and liquidity of transmissions of raw materials and products, PKN ORLEN uses fuel terminals, land and sea loading and storage centres, raw material and product pipelines network and railway and road transport.

In 2011 a product pipeline Ostrów Wielkopolski - Wrocław of 105 km was delivered for use. On the Polish market PKN ORLEN used the transportation infrastructure containing 274 km of own pipelines and 570 km of pipelines owned by Przedsiębiorstwo Eksploatacji Rurociągów Naftowych "Druhzba".

Scheme 4. Logistics infrastructure used by the ORLEN Group in Poland.



The gasoline stations, belonging to PKN ORLEN operating under the ORLEN brand in the Premium segment and under the BLISKA brand in the economic segment. PKN ORLEN managed a developed network of 1 756 gasoline stations at the end of 2011 on Polish market. Loyalty programs and successful and effective management of store sales contributed to the Company's more than 32% share in the retail market. Significant market players include also international companies like BP, Shell and Statoil as well as the Lotos Group.
In 2011 the Company achieved increased fuel and non-fuel sales volume. Concurrently, the works were performed to maintain the lowest possible operating costs despite the growth of energy and labour costs. PKN ORLEN was the first of fuel concerns In Poland to launch on the market a new natural fuel called BIO-85 and was consistently developing its non-fuel offer by putting in operation the first ever in Poland "Meeting Point", which offers, apart from a standard fuel stations' offer, extended motor car services, e.g. modern car wash, broad gastronomic offer, inside car cleaning and business meetings place.

The key installation of the PKN ORLEN's petrochemical segment is the Olefins Installation showing the maximum production capacities of approx. 700 thousand tons of ethylene and 380 thousand tons of propylene yearly. A full integration of refinery installations and petrochemical installations in PKN ORLEN and an effective pipeline infrastructure joining PKN ORLEN with the Anwil Group and BOP is a material element of the competitive advantage in this segment. Monomers produced by PKN ORLEN are used to supply polymers installations in Basell Orlen Polyolefins Sp. z o.o. and a PVC installation in the Anwil Group. In 2011, at PKN ORLEN, a paraxylene and terephthalic acid production installation (PX/PTA complex) was launched, that is the second in size and, concurrently, the most modern unit of this type in Europe. The PTA plant's capacity amounted to 600 thousand tons of terephthalic acid per year, which represents approx. 20% of the European production. The remaining products are addressed to both domestic market and export (the Czech Republic, Denmark, Germany, Lithuania).

V. ACHIEVEMENTS IN RESEARCH AND DEVELOPMENT

In 2011, PKN ORLEN performed a number of works relating to the development and improvement of production technology, enhancement of operations efficiency, products quality improvement and limitation of negative environmental impact. The works were carried out by the Company itself and also commissioned to the institutions and research centres, universities and companies conducting research and development activity.

5.1 Refinery segment

The research and development activity in PKN ORLEN was mainly conducted in cooperation with institutes and research centres and universities. In 2011, 63 new contracts were executed and 9 contracts were amended for the total amount of PLN 9,906 thousand. The most important studies developed as part of the research and development works includes a quality assessment of the effectiveness of additives to gasoline with the aim to identify the most effective pack of additives improving fuel performance, the assessment of compatibility of electric energy identification correlated with the heat production in PKN ORLEN and a verification of annual reports on emission of carbon dioxide from the fuel combustion installation.
In 2011, the new Diesel Oils Hydrodesulphurisation installation VII (HON VII) commenced its operation at PKN ORLEN. The installation improved the ORLEN Group’s potential as regards the production of diesel oil with the sulphur content below 10 ppm by approx. 1 million tons per year and ensured that the growing market demand for this product be satisfied. Diesel oils produced on the new installation have higher cetane number, which translates into the better use of car engine power for the drivers. Concurrently, they are characterized with a lower sulphur content, which results in reduced SO_2 emission.
As regards PKN ORLEN’s logistics, in 2011 the fuel pipeline construction was completed to connect Fuel Terminals in Ostrów Wielkopolski and in Wrocław. An over one hundred - kilometre section of the pipeline was equipped with the most modern leakage monitoring system enabling a remote switch-off of individual sections of the pipeline. In December 2011 the works were completed in relation to the construction of additional fuel storage tanks, which, once accepted, allowed to improve the release capacities and to adopt the fuel terminal in Wrocław to accept fuels delivered via a newly constructed pipeline.

In 2011, the PKN ORLEN satisfied the requirements of the REACH (Registration, Evaluation and Authorisation of Chemicals) Programme as according to resolution (UE) 1907/2006 of European Parliament and European Union Council, which is designated to replace selected chemical substance with their safer substitutes. As a part of a programme, producers of chemical substances are obliged to register chemicals used in the production process and to present the information on their characteristics. As at the end of 2011, the base of the European Chemicals Agency contained 79 substances for which the PKN ORLEN submitted the registry documents.

5.2 Petrochemical segment

In 2011, at PKN ORLEN, a paraxylene and terephthalic acid production installation (PX/PTA complex) was launched. The PX/PTA complex is the second in size and, concurrently, the most modern unit of this type in Europe. The PTA plant’s capacity to 600 thousand tons of terephthalic acid per year, which represents approx. 20% of the European production. The Project was realized in cooperation with the key suppliers of technology and equipment, among others, with Mitsubishi Chemical Engineering Corporation, Mitsubishi Heavy Industries, Fluor and Universal Oil Product.

5.3 Upstream and power area

In 2011, at PKN ORLEN preparatory works were continued to construct a gas and steam power plant in Włocławek of the capacity of up to 500 MWe, which is expected to be delivered for use in 2015. In 2011, PKN ORLEN obtained a permit to build a power plant, executed an agreement for the construction of a gas connecting pipeline and continued process in respect to selection of the unit manufacturer.
The main advantages of the gas and steam power plants (CCGT) include the high efficiency as well as flexibility of operation regime. This technology enables also keeping emissions of harmful substances, such as NOx, SO_2 and greenhouse gases at low level without constructing any additional installations covering flue gas reduction. Also a short time of the unit construction is of significance, which is approx. 3 years and the capital expenditures, which are lower than in carbon technology in terms of MWe energy units. The technology of gas and steam units represents a new generation of power sources and in recent years, due to its advantages, has become an inseparable element of power systems in many European and other countries.

In PKN ORLEN, the Power and Environmental Investment Program was continued.
In accordance with a directive of European Parliament and European Council 2010/75/UE of 24 November 2010 on industrial emissions, starting from 1 January 2016 a volume of concentration emission coming from the combustion process for energy generating purposes (SO_2, NO_x and dusts) from boilers of the energy and heating plant must be

reduced by approx. 90%. Such a significant emission reduction will be practicable due to the construction of new facilities including a wet flue gas desulphurisation plant, catalytic flue gas denitriding plant and coverage of electro-filters enabling the Heat and Power Plant to meet new standards.
In order to satisfy the increasing demand of the Płock Production Plant for power utilities a steam boiler K8 of the capacity of 300 MWt is being constructed. The new boiler will meet the most rigorous environmental requirements in respect of the sulphur dioxide, nitrogen oxides and dust emissions.The new unit is planned to be started up in the second half of 2012. In the second half of 2015 all boilers in the Heat and Power Plant will be switched to a newly-constructed flue gas desulphurisation plant. The year 2011 saw tender procedures having been continued in relation to the selection of a contractor for investments including a construction of the Catalicit Flue Gas Denitriding Plant and the Flue Gas Desulphurisation Plant.

In 2011, as a part of the upstream area of activity, the first one out of two reconnaissance boreholes projected for the years 2011-2012 by ORLEN Upstream Sp. z o.o. and PGNiG S.A. to be performed in the Sieraków vicinity was completed. The works were performed with the aim to obtain further information on potential crude oil resources in this area. The well is located in Niecka Szczecińska, to the east from the biggest, discovered in recent years, crude oil and natural gas resource Lubiatów – Międzychód – Grotów.
As part of the Lublin Shale Project related to the unconventional resources, the ORLEN Upstream Sp z o.o. continued its works to get new data from new seismic profiles on the concession blocks Garwolin, Lubartów and Wierzbica. After having selected contractors for the drilling in October 2011, the drilling works for the well Syczyn OU-1 started, and, immediately after it had been completed, in December 2011 the drilling for the well Berejów OU-1 started. The rock material, including core samples, collected during the drilling, is undergoing the laboratory analysis, the outcome of which will determine further activities in this area.

5.4 Environmental protection

The year 2011 was another year to witness the PKN ORLEN's integrated activities for environmental protection in the area of production as well as storage and distribution processes. Proecological image of the company is an important element in building the market position, it also witnesses the responsibility for the environment. As part of the above initiatives, the ORLEN Group undertook many activities in terms of education, investment and organization dedicated to protect the environment and engaged plenty of employees to participate therein.

In 2011, the decisions and permits were obtained permitting for further operation of production plants. The most significant of them included:
- new water permit for disposal of sewage from the Production Plant in Płock,
- decisions approving the way of land and groundwater reclamation,
- permit for the emission of greenhouse gases regarding chemical plants to be covered by CO_2 trading system from 2013.

One of the material ecological projects completed in 2011 was a selective municipal waste collection system implemented for all office and administration facilities in PKN ORLEN as well as an IT facility monitoring CO_2 emission from the sources covered by the emission trading system.

In 2011, PKN ORLEN obtained a Certificate of implementation of the Frame Management System Responsible Care, that officially finalised a process of implementing the Frame Management System. The awarded Certificate, in accordance with the guidelines of the European Chemical Industry Council CEFIC, confirms that PKN ORLEN meets the highest international standards for management in the area of the so-called HSE (Health, Safety and Environment).

The environmental activities carried on by PKN ORLEN were verified and assessed by the jury of environmental contests. The awards and titles obtained, among others "Ekostrateg" or "Ekoodpowiedzialni w biznesie" prove that the PKN ORLEN is highly responsible in terms of the issues related to the current and future environmental impact of production processes.

5.5 Air protection

In 2011, as compared to year 2010, the gas emission was reduced. Significant influence on this reduction had the Heat and Power Plant - the biggest emitter in the production plant. In 2011 Heat and Power Plant, as compared to 2010, used more than twice gas, while the usage of gudron was by 25% lower.
The year 2011 was the first year of operation of the terephthalic acid production installation (PX/PTA complex) in Włocławek. The exhaust gas emission in 2011 was within the limit set in the integrated permission.

5.6 Health and Safety

The main purpose of the Occupational Health and Safety (OHS) in the ORLEN Group is the development of appropriate working conditions and the continuous identification and elimination of hazards. The system includes all organizational units of PKN ORLEN. Safety issues are a priority action for the Management Board and executive personnel, which result is the improvement of accident rates in the ORLEN Group. In 2011 the number of accidents at work dropped by nearly 46% compared to prior year.

VI. PRESENT OPERATIONAL AND FINANCE POSITION OF PKN ORLEN

6.1 Information about core products, merchandise, services and sales markets of PKN ORLEN

The basic products of PKN ORLEN comprise:
- refinery and retail segment products: gasoline, diesel oil, light heating oil, Jet A-1 fuel, liquid gas, heavy heating oil,
- petrochemical segment products: ethylene, propylene, terephthalic acid, benzene, butadiene, acetone, phenol, glycols, toluene, orthoxylene, paraxylene.

6.1.1 Sales volume of PKN ORLEN

Sales volume of PKN ORLEN in 2011 achieved the level of 15,395 thousand tons and was higher by 3.2% in comparison to prior year.

Table 9. Structure of volume sales of PKN ORLEN (in thousands of tons).

Sales	2011	2010	Change	Change %
1	2	3	4=(2-3)	5=(2-3)/3
Refinery Segment				
Gasoline	1,329	1,554	-225	-14.5%
Diesel Oil	3,804	3,974	-170	-4.3%
Light heating oil	648	792	-144	-18.2%
Jet A1 fuel	407	394	13	3.3%
LPG	186	242	-56	-23.1%
Heavy heating oil	1,241	943	298	31.6%
Other	1,421	1,278	143	11.2%
Total	**9,036**	**9,177**	**-141**	**-1.5%**
Retail Segment				
Gasoline	1,296	1,295	1	0.1%
Diesel Oil	2,932	2,689	243	9.0%
LPG	301	376	-75	-19.9%
Total	**4,529**	**4,360**	**169**	**3.9%**
(Refinery + Retail) Segment	**13,565**	**13,537**	**28**	**0.2%**
Petrochemical Segment				
Monomers	825	782	43	5.5%
PTA	336	0	336	-
Benzene	159	71	88	123.9%
Butadiene	67	63	4	6.3%
Acetone	26	23	3	13.0%
Ethylene oxide	27	18	9	50.0%
Phenol	41	34	7	20.6%
Glycol	80	64	16	25.0%
Toluene	40	85	-45	-52.9%
Orthoxylene	12	6	6	100.0%
Other	217	240	-23	-9.6%
Total	**1,830**	**1,386**	**444**	**32.0%**
PKN ORLEN in total	**15,395**	**14,923**	**472**	**3.2%**

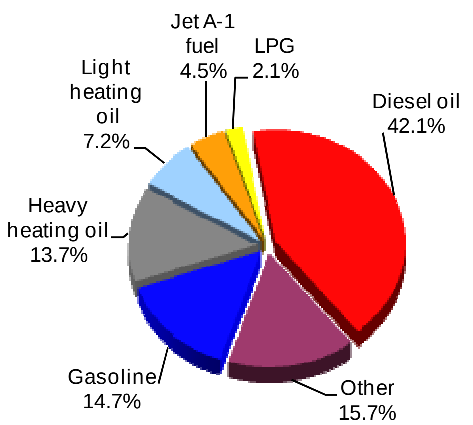
6.1.2 Refinery Segment (wholesale)

Heavy competition on the wholesale market in Poland in 2011 has forced the need to adjust the market offer to the current demand and competitors' prices.

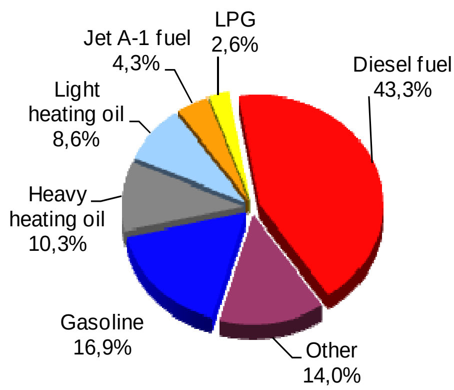
The major fuel in terms of the sales volume and the share in the sales structure was diesel oil. The second fuel in terms of the sales volume was heavy heating oil whose share in the total refinery sales increased in 2011 as compared to 2010, mostly due to the maintenance works being carried out in production installations in 2011 such as Hydrocracking, Gudron Hydrodesulphurisation and Hydrogen Producing Plant I and II installations. The drop in the gasoline sales was the consequence of existing trends in the consumption of this fuel. The decreasing demand for light heating oil resulted in a reduction of the volume sales of this fuel (y/y).

Diagram 3. Structure of fuel sales in 2011 and 2010 in Refinery Segment of PKN ORLEN.

2011



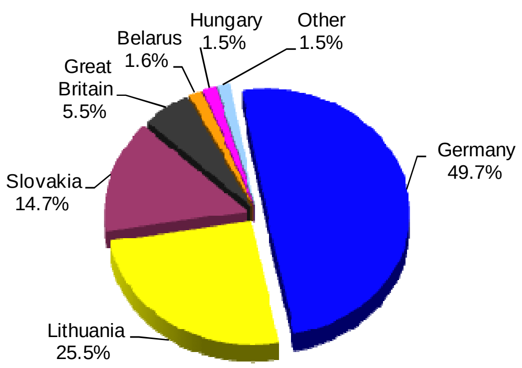
2010



The domestic market, in addition to the internal production, was also supplied by imports. Imports were made by domestic fuel producers, foreign concerns and groups of wholesalers. Given the geographic location and prices of offered fuels, the main suppliers of imported fuels were refineries located around our borders, i.e. German, Czech, Slovak, Russian and Belarusian refineries. Imports from Scandinavian countries through the ports located in the Gdańsk Bay also played an important role. Imported fuels are mostly provided to the markets in the Southern (Upper and Lower Silesia), Western (area from Szczecin to Wrocław) and North-Eastern and Eastern Poland.
The total volume of fuels imported to Poland in 2011 decreased by (-) 1.4% (y/y) as compared to the previous year and amounted to 2,442 thousand tons, whereas diesel oil accounted for 78% and gasoline accounted for 22% of the total volume of fuels imported from abroad.

Diagram 4. Structure of import/intra-Community purchases of diesel oil to Poland in 2010-2011.

2011



2010

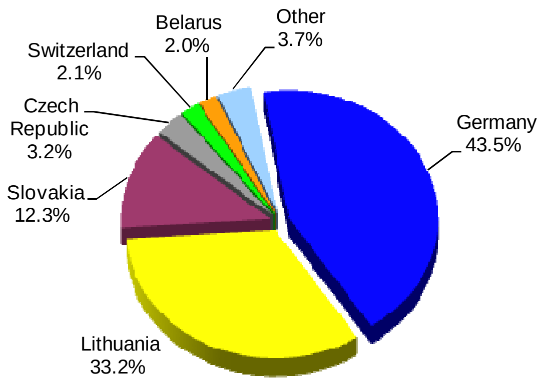
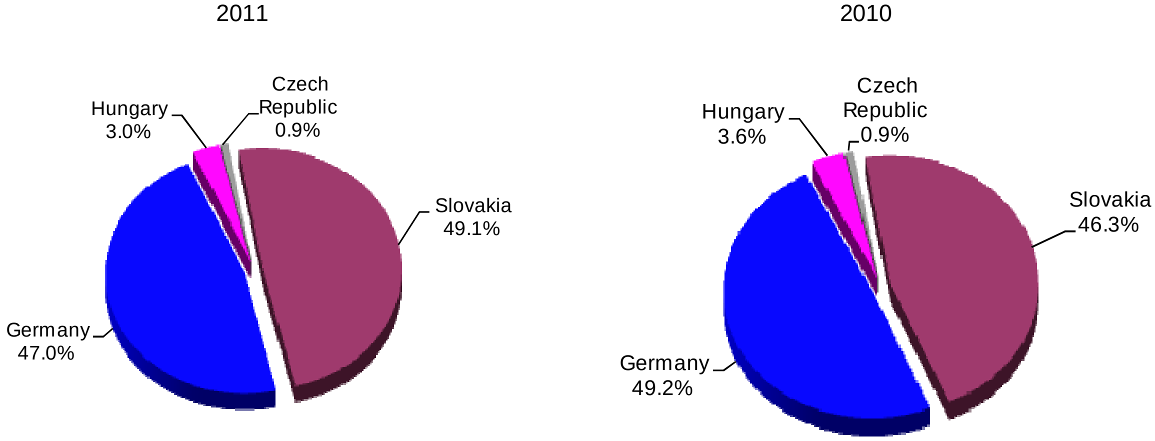


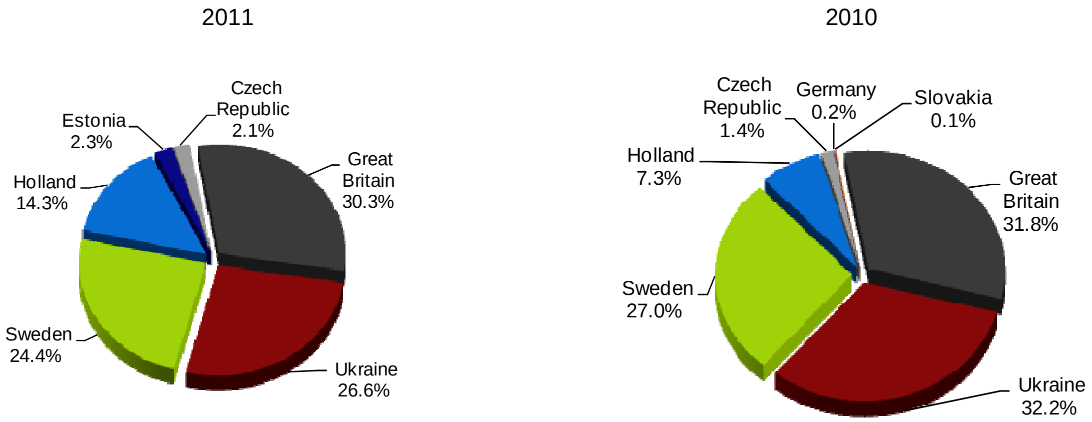
Diagram 5. Structure of import/intra-Community acquisition of gasoline to Poland in 2010-2011.



In 2011, 1,905 thousand tons of diesel oil were imported, which is a drop by (-) 7.0% as compared to 2010. The decrease in the volume of diesel oil imported to Poland was partially compensated by a larger volume of imported gasolines by 27.7% (y/y), that in 2011 amounted to 530 thousand tons.

The foreign volume sales of foreign gasoline amounted to 518 thousand tons in 2011 and was nearly 12% (y/y) higher as compared to year 2010.

Diagram 6. Structure of export/ intra-Community sales of gasoline from Poland in 2010-2011



Apart from gasoline export, Poland also sells abroad small quantities of diesel oil. In 2011, the foreign sales volume was 112 thousand tons. Most of it was sold to the United Kingdom (42 thousand tons), France (33 thousand tons) and Spain (20 thousand tons). The above mentioned supplies were incidental. In 2010 no diesel oil was supplied to these countries.

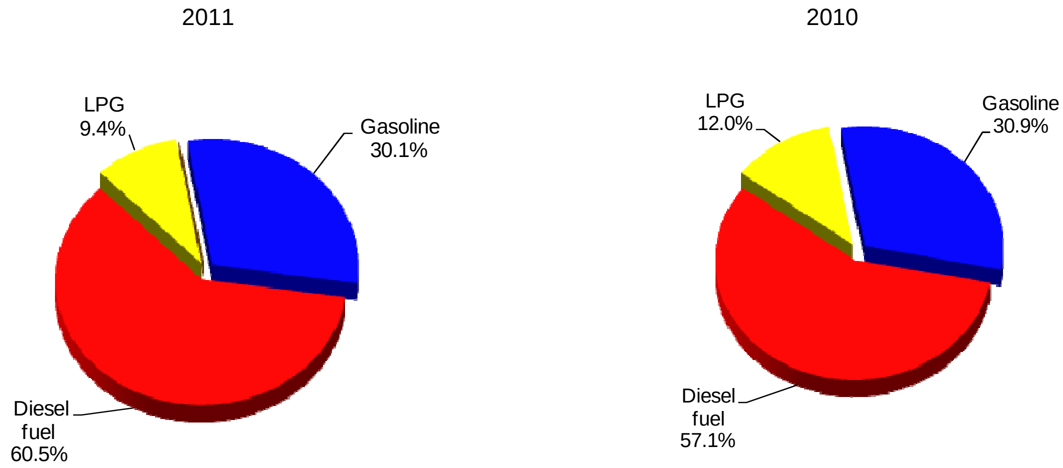
6.1.3 Retail Segment

Over the entire year 2011, PKN ORLEN's retail network in Poland has increased by 42 new stations and as at 31 December 2011 amounted to 1,756 stationsof which 1,337 were owned by PKN ORLEN, whereas 419 were franchise stations. As at 31 December 2011, 985 stations in PKN ORLEN'S own network operated under the ORLEN brand in premium segments, while 340 stations used the BLISKA brand in economic segment. The remaining 12 stations operated under the Petrochemia and CPN brand and the ORLEN logo.

The sale of fuels at PKN ORLEN'S stations in Poland once again reached a historical record level again and was higher by 2.8% (y/y) than in 2010 due to the higher sales volume of diesel oil achieved under the FLOTA programme addressed to institutional clients. PKN ORLEN'S fleet programmes were distinguished on several occasions in 2011 as the best offer for business recipients on the market. Through the consistent implementation of its retail network

development strategy PKN ORLEN managed to increase its share in the Polish retail market by approx. 1 pp. (y/y), up to over 32%.
Growth rate of the non-fuel sales revenues amounted to 6.0% (y/y). At the end of 2011, the number of food outlets Stop Cafe cafeteries and Stop Cafe Bistro reached 431 and 222, respectively.

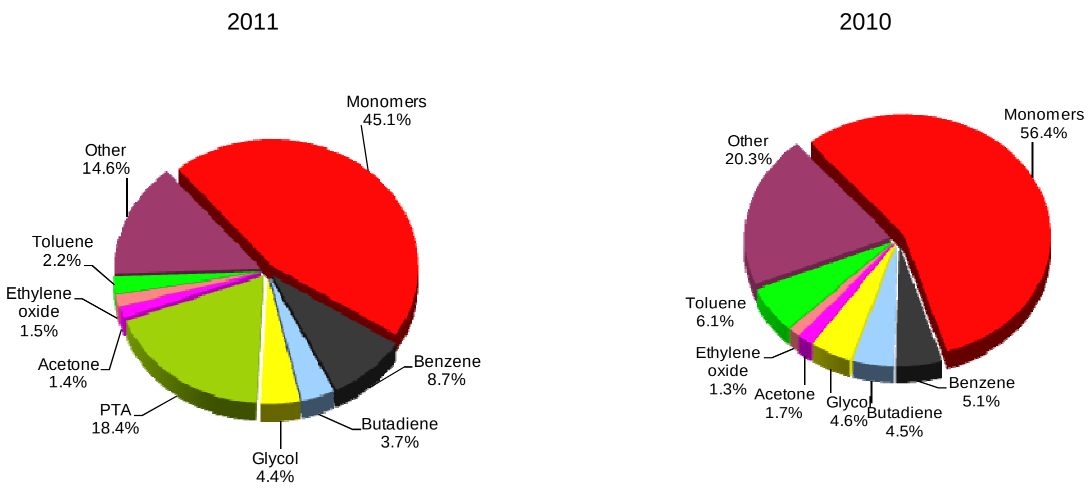
Diagram 7. Structure of PKN ORLEN's sales volume on Polish market in 2011 and 2010.



6.1.4 Petrochemical Segment

The petrochemical volume sales of PKN ORLEN in 2011 increased by 32.0% (y/y), primarily due to commission of the PX/PTA Complex and the launch of terephthalic acid (PTA) sale at a level of 336 thousand tons. Introducing new product for sale caused significant changes in the sale structure of the petrochemical segment, and the share of terephthalic acid in the total sales volume achieved the level of 18.4% in 2011. The share of monomers sales in total sales decreased by (-) 11.3 pp. (y/y), but at the same time the volume sales of monomers achieved the higher level than in 2010 and amounted to of 825 thousand tons.
The volume sales of benzene increased, mostly as a result of additional product volumes being obtained from a new paraxylene installation and due to the full operation of installation in 2011, without technological standstill which took place in the turn of April and May in 2010.

Diagram 8. Assortment structure of sales volume in petrochemical segment of PKN ORLEN in 2011 and 2010.



6.2 Information regarding supply sources of production materials

In 2011 three contracts to supply crude oil to the refinery in Płock (executed with Petraco Oil Company Ltd., Mercuria Energy Trading S.A. and Souz Petrolium S.A.) were in force. Each contract provides for the possibility to re-negotiate prices annually; in case of no agreement on this matter, the contract may be terminated. The contracts are fixed-term contracts which ensures safety and continuity of raw material supply to the refinery plant and contain supply guarantee clauses based on financial guarantees.

Additionally, PKN ORLEN supplies crude oil to three ORLEN Group refineries: 2 in the Czech Republic (Litvinov, Kralupy) and 1 in Lithuania (Mazeikiu). In 2011 crude oil supplies to all destinations were performed as scheduled.

Under the contracts signed in 2011 raw material was mainly supplied to the Płock refinery by companies operating on the Russian oil market and traders operating on the international oil market. Consequently, the REBCO crude oil, which PKN ORLEN acquired in 2011, was supplied to Płock mostly from Russia and additionally from Norway and the United Kingdom.

6.3 Specification of material agreements in regulatory announcements published until the day of issuance of Management Board Report

Contracts for the supply of raw materials	**For PKN ORLEN:**
	1. On 28 September 2011 a spot agreement was executed between PKN ORLEN and Souz Petrolium S.A., Geneva, Switzerland for the supply of REBCO crude oil via ‘Druzhba’ pipeline to PKN ORLEN in September 2011. The estimated net value of the agreement amounts to approx. USD 120 million.
	2. On 22 December 2011 an agreement was executed between PKN ORLEN and Souz Petrolium SA with its seat in Geneva for the supply via ‘Druzhba’ pipeline to PKN ORLEN of 2.4 million tons of crude oil REBCO type annually in the period from 1 January 2012 to 31 December 2014. In the situations stipulated in the agreement, crude oil may also be supplied by sea to Gdańsk. As at the agreement signing day, the estimated value of supplies by 31 December 2014 amounts to approx. USD 5.7 billion.
	for ORLEN Lietuva:
	1. On 10 January 2011 PKN ORLEN executed a spot agreement with Shell International Trading and Shipping Company Limited, London, Great Britain for the supply of crude oil to AB ORLEN Lietuva. The estimated net value of the agreement amounts to approx. USD 67 million.
	2. On 7 February 2011 PKN ORLEN executed a spot agreement with Vitol S.A., Geneva, Switzerland for the supply of crude oil to AB ORLEN Lietuva. The estimated net value of the agreement amounts to approx. USD 68 million.
	3. On 21 March 2011 PKN ORLEN executed a spot agreement with Gunvor International B.V. Amsterdam, Geneva Branch for the supply of crude oil to AB ORLEN Lietuva. The estimated net value of the agreement amounts to approx. USD 79 million.
	4. On 24 June 2011 a spot agreement was executed between PKN ORLEN and Shell International Trading and Shipping Company Limited, London, Great Britain for the supply of crude oil to ORLEN Lietuva. The estimated net value of the agreement amounts to approx. USD 82 million.
	5. On 12 July 2011 a spot agreement was executed between PKN ORLEN and Glencore Energy UK Ltd, London, Great Britain, for the supply of crude oil to AB ORLEN Lietuva. The estimated net value of the agreement amounts to approx. USD 82 million.
	6. On 1 September 2011 a spot agreement was executed between PKN ORLEN and Shell International Trading and Shipping Company Limited, London, Great Britain, for the supply of crude oil to AB ORLEN Lietuva. The estimated net value of the agreement amounts to approx. USD 80 million.
	7. On 21 November 2011 a spot agreement was executed between PKN ORLEN and Statoil ASA, Stavanger, Norway for the supplies of crude oil to AB ORLEN Lietuva. The estimated net value of the agreement amounts to approx. USD 81 million.
	8. On 23 January 2012 a spot agreement was executed between PKN ORLEN and Shell

	International Trading and Shipping Company Limited, London, Great Britain for the supply of crude oil to AB ORLEN Lietuva. The estimated net value of the agreement amounts to approx. USD 80 million. 9. On 31 January 2012 a spot agreement was executed between PKN ORLEN and Gunvor S.A. for the supply of crude oil to AB ORLEN Lietuva. The estimated net value of the agreement amounts to approx. USD 80 million. **for Unipetrol Group:** 1. On 20 June 2011 a spot agreement was executed between PKN ORLEN and Star Oil FZE, United Arab Emirates for the supply of crude oil REBCO via "Druzhba" pipeline to the Unipetrol Group in July 2011. The estimated net value of the agreement amounts to approx. USD 85 million. 2. On 26 October 2011 a spot agreement was executed between PKN ORLEN and Socar Trading S.A., Geneva, Switzerland, for the supply of crude oil to the Unipetrol Group. The estimated net value of the agreement amounts to approx. USD 67 million. 3. On 22 November 2011 a spot agreement was executed between PKN ORLEN and Glencore Energy UK Ltd, London, Great Britain for the supply of crude oil to the Unipetrol Group. The estimated net value of the agreement amounts to approx. USD 83 million.
Contracts for the sale of products	1. On 4 January 2011 PKN ORLEN executed an annual agreement with Statoil Poland Sp. z o.o. for the sale by PKN ORLEN of gasoline, diesel oil and heating diesel oil in a period from 1 January 2011 to 31 December 2011. The estimated net value of the agreement amounts to PLN 783 million. 2. On 4 January 2011 PKN ORLEN executed an annual agreement with Lukoil Polska Sp. z o.o., for the sale by PKN ORLEN of gasoline and diesel oil in a period from 1 January 2011 to 31 December 2011. The estimated net value of the agreement amounts to PLN 1,601 million. 3. On 13 January 2011 PKN ORLEN executed an annual agreement with BP Europa S.E. for the sales by PKN ORLEN of gasoline and diesel oil in the period from 1 January 2011 to 31 December 2011. The estimated net value of the agreement amounts to PLN 5,482 million. 4. On 23 February 2011 PKN ORLEN executed an indefinite-term agreement with SK EUROCHEM with its seat in Włocławek for the supply to SK EUROCHEM of terephtalic acid. The executed agreement supersedes agreement executed on 31 May 2006 with SK EUROCHEM for the sale of PTA and, concurrently, it terminates that agreement. The estimated value of the agreement during the first five years amounts to approx. PLN 1,802 million. 5. On 3 January 2012 PKN ORLEN executed an annual agreement with BP Europa S.E. for the sales by PKN ORLEN of gasoline and diesel oil in the period from 1 January 2012 to 31 December 2012. The estimated net value of the agreement amounts to PLN 6,645 million. 6. On 5 January 2012 PKN ORLEN executed an annual agreement with Lukoil Polska Sp. z o.o. for the sales by PKN ORLEN of gasoline and diesel oil in the period from 1 January 2012 to 31 December 2012. The estimated net value of the agreement amounts to PLN 2,129 million.
Financing agreements	1. On 28 April 2011, PKN ORLEN executed a loan facility agreement with a consortium of 14 banks to refund its credit lines. The maximum debt amount under the agreements is EUR 2,625 million.
Other agreements	1. On 30 June 2011 a preliminary agreement was executed between PKN ORLEN, PGE Polska Grupa Energetyczna S.A., KGHM Polska Miedź S.A., Vodafone Americas Inc, Vodafone International Holdings B.V. and Węglokoks S.A. and Spartan Capital Holdings Sp. z o.o. for the sale of 100% of shares in Polkomtel S.A. Under the agreement, PKN ORLEN sold 5 000 266 ordinary registered shares in Polkomtel S.A., of the nominal value of PLN 100 per share, representing 24.39% of Polkomtel S.A.'s share capital for the total price of PLN 3 672 million. 2. On 9 November 2011 PKN ORLEN transferred the ownership of 5,000,266 ordinary

registered shares in Polkomtel S.A., of the nominal value of PLN 100 PLN each, representing 24.39% of Polkomtel S.A.'s share capital and 24.39% of the overall number of votes at the general meeting of Polkomtel S.A. to Spartan Capital Holdings Sp. z.o.o. The shares were transferred under the Polkomtel S.A. share sale agreement signed on 30 June 2011 between PKN ORLEN S.A., PGE Polska Grupa Energetyczna S.A., KGHM Polska Miedź S.A., Vodafone Americas Inc, Vodafone International Holdings B.V. i WĘGLOKOKS S.A. and Spartan Capital Holdings Sp. z o.o. as the sellers and the buyer, respectively. The price paid to PKN ORLEN in exchange for the shares amounted to PLN 3,672 million and was paid in cash.

"Material agreement" according to the Regulation of the Minister of Finance is an agreement or sum of agreements with the total value for 12 months exceeding 10% of PKN ORLEN's equity.

6.4 Information on the agreement with the entity authorized to conduct audit of financial statements of PKN ORLEN

The entity authorized to conduct audit of financial statements of PKN ORLEN for 2011 was KPMG Audyt Sp. z o.o. For further details on the agreement signed with the entity authorized to conduct audit of financial statements see note 38 to the Separate Financial Statements for the year 2011.

6.5 Description of main economic and financial values and assessment of factors and extraordinary events materially affecting the generated financial result

6.5.1 Revenues

Table 10. Separate statement of comprehensive income

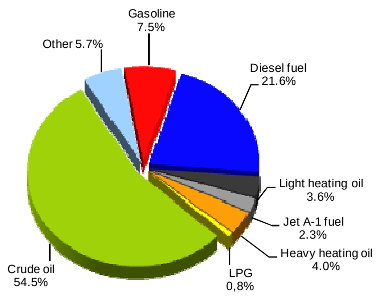
ITEM (PLN thousand)	2011	2010	change	change %
1	2	3	4=(2-3)	5=(2-3)/3
Sales revenues	79,037,121	62,215,581	16,821,540	27.0%
Cost of sales	-73,327,619	-57,045,562	-16,282,057	28.5%
Gross profit on sales	**5,709,502**	**5,170,019**	**539,483**	**10.4%**
Distribution expenses	-1,947,915	-1,824,472	-123,443	6.8%
General and administrative expenses	-671,186	-584,243	-86,943	14.9%
Other operating revenues	435,158	303,637	131,521	43.3%
Other operating expenses	-351,621	-308,114	-43,507	14.1%
Profit from operations	**3,173,938**	**2,756,827**	**417,111**	**15.1%**
Financial revenues	2,999,717	527,993	2,471,724	468.1%
Financial expenses	-3,777,208	-458,496	-3,318,712	723.8%
Financial revenues and expenses	**-777,491**	**69,497**	**-846,988**	**-**
Profit before tax	**2,396,447**	**2,826,324**	**-429,877**	**-15.2%**
Income tax	-1,010,281	-469,197	-541,084	115.3%
Net profit	**1,386,166**	**2,357,127**	**-970,961**	**-41.2%**

In 2011 PKN ORLEN generated higher sales revenues by PLN 16,821,540 thousand (y/y) (by 27%) to the level of PLN 79,037,121 thousand.
The increase in the sales value in 2011 is a result of an increase in the sales revenues in the refinery segment by PLN 10,548,624 thousand (y/y) mainly due to increase of the quotations for the segment's as a consequence of rising oil prices. As compared to 2010, quotations of gasolines increased by 33.0% (y/y), diesel oil by 38.4% (y/y), light fuel oil by 38.6% (y/y) and Jet A-1 fuel by 40.2% (y/y).

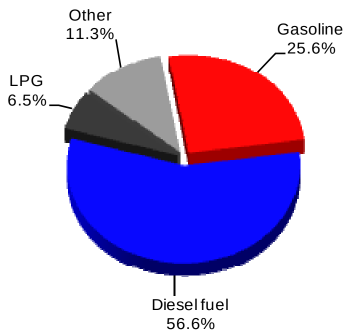
Retail segment revenues increased by PLN 3,706,705 (26.5%) (y/y), primarily as an effect of higher sales volume by 3.9% (y/y) and fuel prices which increased due to rising oil quotations, as well as growing non-fuel revenues from sales of merchandise and services.
Petrochemical segment's revenues increased by PLN 2,559,730 thousand (65.7%) (y/y) owing to an increase in the volume sales by 32.0% (y/y), which was mainly due to the terephthalic acid (PTA) being introduced to the offer and higher sales volume monomers, glycols and benzene. The petrochemical segment sales revenues were also positively affected by an increase in the quotations of core products in this segment, i.e. polyethylene by 15.7% (y/y), polypropylene by 9.5% (y/y), ethylene by 19.2% (y/y) and propylene by 18.8% (y/y).

Diagram 9. Assortment structure of sales revenues by operating segments in 2011.

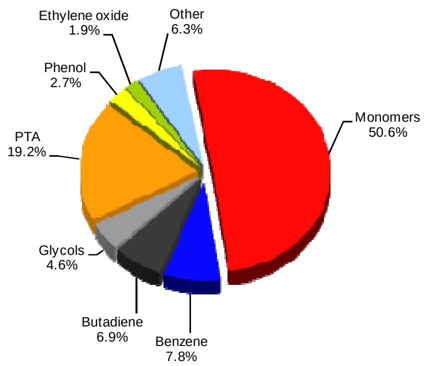
Refinery segment



Retail segment

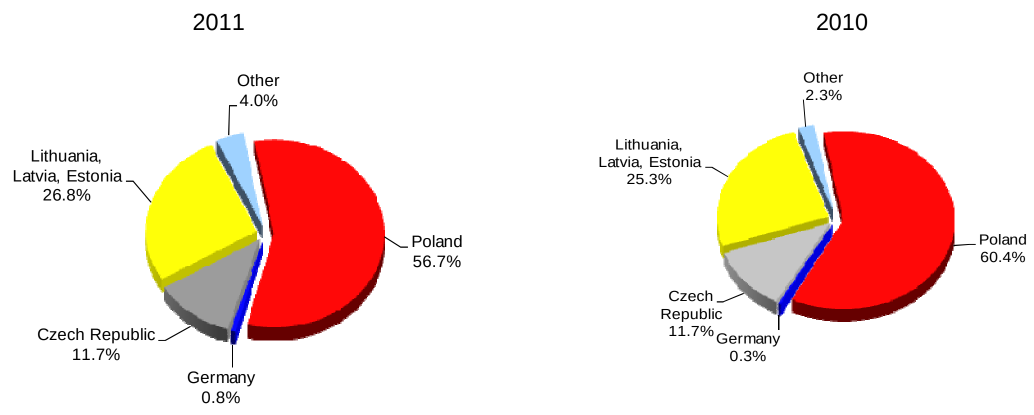


Petrochemical segment



The revenues generated by PKN ORLEN, broken down into core products and services, are presented in section 5.3 to the Separate Financial Statements for 2011.

Diagram 10. Structure of sales revenues in by geographical segments.



The geographic distribution of sales revenues is also presented in section 5.2.3 to the Separate Financial Statements for 2011.

6.5.2 Operating result

The operating profit reported by PKN ORLEN for 2011 amounted to PLN 3,173,938 thousand as compared to PLN 2,756,827 thousand in previous year.

PKN ORLEN valuates stock in its financial statements in accordance with International Financial Reporting Standards at weighted production costs or purchase price. Mentioned valuation method causes deferment in recognising of the impact of an oil price increase or reduction on the prices of finished goods. Consequently, a growing trend in the oil prices has a positive effect on the reported results, whereas the impact of a declining trend on them is negative.
The positive effect of the growing crude oil prices on the stock valuation of the entire PKN ORLEN amounted to PLN 2,105,842 thousand (y/y) in 2011 and was by PLN 1,029,654 thousand higher (y/y).

The negative impact of changing macroeconomic factors, especially visible in the refinery segment, negatively affected the operating profit results of PKN ORLEN for 2011 by approx. PLN (-) 392,000 thousand.

The positive effect of increased sales volume in the retail and petrochemical segments was higher than the adverse effect of the change in the refinery segment production and sales structure as a result of maintenance standstills, contributing to the increase in the operating result reported by the PKN ORLEN by approx. PLN 284,000 thousand (y/y).

The continuously high oil quotations resulted in an increase of fuel prices and a reduction of retail margins applied. The total impact of lower retail margins and the increased costs of the station operation due to higher volume sales, with higher margins obtained from non-fuel sales lead to a reduction of the result from operations by PLN (-) 375,000 (y/y).

The impact of other operating items, including mainly legislative changes regarding the taxation of bio-components in fuels amounted to PLN (-) 428,557 thousand (y/y).

In the II quarter of 2011 PKN ORLEN bought the first tranche of mandatory reserves sold in March 2010 from LAMBOURN Sp. z o.o. The oil purchase price was hedged with a forward contract and was effectively similar to the price charged last year, and thus lower than the current market quotations at the time of purchase. Generally, the positive impact of the above mentioned transaction on the operating result in 2011 was equal to PLN 211,000 thousand (y/y).

The positive impact of changes in the balance of other operating activities amounted to PLN 88,014 thousand (y/y) and resulted mainly from higher by PLN (-) 79,803 thousand (y/y) impairment allowances on non-current non-financial

assets as well as higher net revenues from penalties, fines and compensations earned by PLN 41,384 thousand (y/y) and other by PLN 126,433 PLN (y/y).
Impairment allowances of assets recognized in 2011 were mainly related to retail segment assets. The compensation received in this period included return of fine of PLN 75,879 thousand from ENERGA – OPERATOR S.A. as a reimbursement of previously paid amount.

In 2011 the EBITDA (operating profit increased by depreciation and amortisation) amounted to PLN 4,165,343 thousand as compared to PLN 3,627,344 thousand in 2010.

6.5.3 Operating segments

- **Refinery segment**

Table 11. Basic financial figures for refinery segment

Refinery Segment (PLN thousand)	2011	2010	change	change%
1	2	3	4=(2-3)	5=(2-3)/3
Segment revenues	**76,198,395**	**59,672,262**	**16,526,133**	**27.7%**
Sales to external customers	54,823,726	44,275,102	10,548,624	23.8%
Transactions with other segments	21,374,669	15,397,160	5,977,509	38.8%
Segment expenses	**-73,857,147**	**-57,333,084**	**-16,524,063**	**28.8%**
Other operating revenues/expenses, net	112,477	45,487	66,990	147.3%
Profit from operations	**2,453,725**	**2,384,665**	**69,060**	**2.9%**
Profit from operations plus depreciation and amortisation (EBITDA)	**2,881,194**	**2,824,985**	**56,209**	**2.0%**
Capital expenditures on non-current non-financial assets and intangible assets (CAPEX)	515,493	591,012	-75,519	-12.8%
CAPEX / EBITDA	17.9%	20.9%	-3.0p.p.	-3.0p.p.

In 2011, the profit from operations generated by PKN ORLEN's refinery segment amounted to PLN 2,453,725 thousand (y/y) as compared to PLN 2,384,665 thousand in 2010.

The positive impact of changes in the oil prices on the stock valuation was higher by PLN 957,719 thousand as compared to 2010 (y/y).

The overall negative effect of the changes in the Ural/Brent differential, margins on refinery products and changes in foreign exchange rates amounted to app. PLN (-) 696,000 thousand (y/y).

Maintenance standstills of manufacturing installations that took place in 2011 in PKN ORLEN (Hydrocracking, Gudron Hydrodesulphurisation, Hydrogen Recovery installation and Fluid Catalytic Cracking II) influenced the increase of heavy fractions in the sales structure, which contributed to a negative volume effect of the segment of PLN (-) 345,000 thousand (y/y).

The impact of other operating items, which are mainly legislative changes regarding the taxation of bio-components in fuels, higher balance of other operating activity and lower depreciation costs amounted to PLN (-) 58,659 thousand (y/y).

In the II quarter of 2011 PKN ORLEN repurchased the first tranche of mandatory reserves sold in March 2010 from LAMBOURN Sp. z o.o. The oil purchase price was hedged with a forward contract and was effectively similar to the sales price charged last year, and thus lower than the current market quotations at the time of repurchase. Generally, the positive impact of the above mentioned transaction on the operating result in 2011 amounted to PLN 211,000 thousand (y/y).

In 2011 the capital expenditure ("CAPEX") in the segment was decreased in comparison to 2010 by PLN (-) 75,519 thousand (y/y) up to PLN 515,493 thousand.

Major investment tasks implemented in 2011 included: construction of the new K8 boiler in the Heat and Power Plant, construction of Claus II installation together with infrastructure, upgrade and intensification of the Alkylation installation, completion of the start-up of the Diesel Oil Hydrodesulphurisation VII along with the infrastructure, replacement of high-pressure elements in the Hydrocracking installation, modernisation works in the Hydrogen Production installation I, reconstruction of Water and Refinery Blocks nos. 1, 3, 4 and extension of the Storing Base in Wrocław.

- **Retail segment**

Table 12. Basic financial figures for retail segment.

Retail Segment (PLN thousand)	2011	2010	change	change %
1	2	3	4=(2-3)	5=(2-3)/3
Segment revenues	**17,695,991**	**13,989,286**	**3,706,705**	**26.5%**
Sales to external customers	17,695,991	13,989,286	3,706,705	26.5%
Transactions with other segments	0	0	-	-
Segment expenses	**-17,328,409**	**-13,337,433**	**-3,990,976**	**29.9%**
Other operating revenues/expenses, net	-115,694	-8,152	-107,542	1319.2%
Profit from operations	**251,888**	**643,701**	**-391,813**	**-60.9%**
Profit from operations plus depreciation and amortisation (EBITDA)	**438,878**	**835,705**	**-396,827**	**-47.5%**
Capital expenditures on non-current non-financial assets and intangible assets (CAPEX)	228,303	193,112	35,191	18.2%
CAPEX / EBITDA	52.0%	23.1%	28.9p.p.	28.9p.p.

In 2011 the profit from operations generated by PKN ORLEN's retail segment amounted to PLN 251,888 thousand as compared to PLN 643,701 thousand in 2010.

An increase in the fuel sales by 3.9% (y/y) resulted in an improved result from operations in the segment by PLN 77,000 thousand (y/y).

Continuing high quotations caused an increase of fuel prices and consequently, lead to a reduction of retail margins. Lower fuel margins along with growing non-fuel margins decreased the operating result in the segment by PLN (-) 318,000 thousand (y/y). Higher costs of the operation of fuel stations, connected mostly with higher volume sales, lead to a reduction of the result from operations in the segment by PLN (-) 57,000 thousand (y/y).

The negative effect of other factors amounted to PLN (-) 93,813 thousand (y/y) and involved mainly the negative impact of a change in the balance of other operations in the amount of PLN (-) 107,542 (y/y) as a result of impairment losses on property, plant and equipment in the segment.

The capital expenditure ("CAPEX") in the segment was increased in 2011 as compared to 2010 by PLN 35,191 thousand (y/y) up to PLN 228,303 thousand. In 2011 PKN ORLEN launched 6 new fuel stations, modernised 39 fuel statations and opened 43 new fuel stations in franchise system.

- **Petrochemical segment**

Table 13. Basic financial figures for petrochemical segment

Petrochemical Segment (PLN thousand)	2011	2010	change	change %
1	2	3	4=(2-3)	5=(2-3)/3
Segment revenues	**9,355,458**	**6,224,249**	**3,131,209**	**50.3%**
Sales to external customers	6,454,132	3,894,402	2,559,730	65.7%
Transactions with other segments	2,901,326	2,329,847	571,479	24.5%

Segment expenses	**-8,409,004**	**-5,950,203**	**-2,458,801**	**41.3%**
Other operating revenues/expenses, net	18,878	13,098	5,780	44.1%
Profit from operations	**965,332**	**287,144**	**678,188**	**236.2%**
Profit from operations plus depreciation and amortisation (EBITDA)	**1,274,420**	**453,016**	**821,404**	**181.3%**
Capital expenditures on non-current non-financial assets and intangible assets (CAPEX)	184,614	1,412,933	-1,228,319	-86.9%
CAPEX / EBITDA	14.5%	311.9%	-297.4p.p.	-297.4p.p.

In 2011, the profit from operations in the segment amounted to PLN 965,332 thousand as compared to PLN 287,144 thousand in 2010.

The positive impact of changes in prices of petrochemical products on the stock valuation was larger by PLN 71,934 thousand (y/y) as compared to 2010.

The effect of the macroeconomic factors concerning an increase in the margins on petrochemical products and the change in the foreign exchange rate resulted in an increase in the operating profit by PLN 304,000 thousand (y/y).

An increase in the volume sales mainly due to the introduction of the PTA to the offer and higher sales volume of monomers, increased the result from operations in the segment by PLN 552,000 thousand (y/y).

Other factors, which were primarily higher (y/y) depreciation costs in connection with the PX/PTA complex being started up reduced the result from operations by PLN (-) 249,746 thousand (y/y).

The capital expenditure (“CAPEX”) in the segment was reduced in 2011 against 2010 by PLN (-) 1,228,319 thousand (y/y) to PLN 184,614 thousand.

Major investment tasks implemented in 2011 included final works related to the PX/PTA Complex.

- **Corporate functions**

Table 14. Basic financial figures for corporate functions.

Corporate Functions (PLN thousand)	2011	2010	change	change %
1	2	3	4=(2-3)	5=(2-3)/3
Segment revenues	**125,407**	**122,653**	**2,754**	**2.2%**
Sales to external customers	63,272	56,791	6,481	11.4%
Transactions with other segments	62,135	65,862	-3,727	-5.7%
Segment expenses	**-690,290**	**-626,426**	**-63,864**	**10.2%**
Other operating revenues/expenses, net	67,876	-54,910	122,786	-
Profit from operations	**-497,007**	**-558,683**	**61,676**	**-11.0%**
Profit from operations plus depreciation and amortisation (EBITDA)	**-429,149**	**-486,362**	**57,213**	**-11.8%**
Capital expenditures on non-current non-financial assets and intangible assets (CAPEX)	82,323	59,311	23,012	38.8%
CAPEX / EBITDA	-19.2%	-12.2%	-7.0p.p.	-7.0p.p.

In 2011 the corporate function cost policy was designed to optimise them in view of current needs and market conditions. Additional amounts were allocated mostly to implement development strategic projects, mostly in the field of upstream and power generation.

Higher by PLN 122,786 thousand (y/y) other operating activities result, was primarily related to the reimbursement of the fine paid to ENERGA-OPERATOR S.A. as a result of the Supreme Court having cancelled a court decision unfavourable to PKN ORLEN.

Consequently, the costs of corporate functions in 2011 amounted to PLN (-) 497,007 thousand and were lower by PLN 61,676 thousand as compared to the previous year.

The capital expenditure ("CAPEX") in 2011, which amounted to PLN 82,323 thousand, were mostly related to IT and upstream investments.

6.5.4 Financial costs and net result

Net financial costs in 2011 amounted to PLN (-) 777,491 thousand, of which PLN 2,506,611 thousand represented the profit related to the sale of shares in Polkomtel S.A., PLN 400,702 thousand related to dividends received, negative foreign exchange differences balance on loans, borrowings and on other items in foreign currencies of (-) 1,583,487 thousand PLN and net interest and financial instrument valuation of PLN (-) 553,132 thousand and increase in impairment allowance of investment of PLN (-) 1,553,667 thousand.
The increase of the impairment on investments in 2011 was related mainly to an impairment on AB ORLEN Lietuva's shares in the amount of PLN 1,552,852.

Having taken into account tax charges, the PKN ORLEN's net profit for 2011 amounted to PLN 1,386,166 thousand and was lower by PLN (-) 970,961 thousand higher as compared to the prior year.

6.5.5 Financial instruments

Financial assets as at 31 December 2011 amounted to PLN 12,090,955 thousand, which was an increase by PLN 4,686,253 thousand as compared to the end of 2010. Main items of financial assets were trade receivables of PLN 6,738,417 thousand and cash and cash equivalents of PLN 4,291,187 thousand.
Financial liabilities as at 31 December 2011 amounted to PLN 21,666,803 thousand, which was an increase by PLN 4,139,282thousand as compared to the end of 2010. The main items of financial assets were loans and borrowings of PLN 10,324,349 thousand and debt securities of PLN 1,342,715 thousand and trade liabilities of PLN 8,558,341 thousand.

PKN ORLEN uses financial instruments to minimise the negative impact of risks to which the Company is exposed during its operations, i.e. credit risk, liquidity risk and market risks (including currency risk, interest rate risk, risk of changes in prices of products, CO_2 emission rights prices). PKN ORLEN also examines fluctuations of such factors like exchange rates, interest rates and crude oil and main product prices affect the financial results achieved by the PKN ORLEN.

Financial instruments are specified in Note 31 to the Separate Financial Statements for 2011.

6.5.6 Information about related parties – significant transactions concluded on other than arms-length terms

There were no significant transactions in PKN ORLEN concluded with related parties on other than arm's length terms in 2011.

Information about significant transactions concluded by PKN ORLEN or its subsidiaries with related parties were described in Note 36 to Separate Financial Statements for 2011.

6.5.7 Information concerning significant proceedings in front of court, body appropriate for arbitration proceedings or in front of public administration bodies

Significant proceedings which in total are worth more than 10% of PKN ORLEN□s equity include an action brought by Agrofert Holding a.s. against PKN ORLEN in connection with the purchase of shares in Unipetrol a.s. by PKN ORLEN.
On 21 October 2010 the Court of Arbitration in Prague overruled the entire claim of Agrofert Holding a.s. against PKN ORLEN regarding the payment of CZK 19,464,473 thousand (PLN 3,330,371 thousand translated using exchange rate as at 31 December 2011) with interest and obliged Agrofert Holding a.s. to cover the cost of proceedings born by PKN ORLEN. The claim regarded the payment of a compensation for losses related among others to unfair competition and illegal violation of reputation of Agrofert Holding a.s.
The Court of Arbitration ruling dated 21 October 2010 ended the last of four arbitration proceedings initiated by Agrofert Holding a.s. related to purchase of Unipetrol a.s. shares by PKN ORLEN S.A.

On 3 October 2011 PKN ORLEN received from the court in Prague (Czech Republic) claim which overruled the sentence of arbitration court of the above mentioned case.
In the opinion of PKN ORLEN the decision included in judgment of the arbitration court dated 21 October 2010 is correct and there is no ground for its reverse.
On 16 January 2012 PKN ORLEN submitted a response to Agrofert□s claim. In its response PKN ORLEN appealed to dismiss all Agrofert□s claim and adjudge it with proceeding costs refund.

Other significant proceedings which are in total worth less than 10% of PKN ORLEN□s equity were described in note 40 to the Consolidated Financial Statements for 2011.

6.5.8 Statement of financial position

Table 15. Separate statement of financial position – assets

ITEMS (PLN thousand)	31.12.2011	31.12.2010	change	change%
1	2	3	4=(2-3)	5=(2-3)/3
ASSETS				
Property. plant and equipment	12,190,347	12,379,779	-189,432	-1.5%
Intangible assets	362,791	383,190	-20,399	-5.3%
Perpetual usufruct of land	89,692	90,812	-1,120	-1.2%
Shares in related entities	9,051,706	11,529,773	-2,478,067	-21.5%
Financial assets available for sale	40,328	40,828	-500	-1.2%
Deferred tax assets	11,280	198,686	-187,406	-94.3%
Other non-current assets	683,127	40,803	642,324	1574.2%
Total non-current assets	**22,429,271**	**24,663,871**	**-2,234,600**	**-9.1%**
Inventories	11,549,043	7,450,787	4,098,256	55.0%
Trade and other receivables	7,271,441	5,853,469	1,417,972	24.2%
Other short-term financial assets	320,480	506,067	-185,587	-36.7%
Income tax receivable	1,142	15,568	-14,426	-92.7%
Cash and cash equivalents	4,291,187	1,396,060	2,895,127	207.4%
Non-current assets classified as held for sale	6,519	8,236	-1,717	-20.8%
Total current assets	**23,439,812**	**15,230,187**	**8,209,625**	**53.9%**
Total assets	**45,869,083**	**39,894,058**	**5,975,025**	**15.0%**

As at 31 December 2011 the statement on financial position totalled to PLN 45,869,083 thousand, which was by PLN 5,975,025 thousand (by 15.0%) (y/y) more than that recorded as at 31 December 2010.

The non-current assets' value decreased by PLN (-) 2,234,00 thousand (by 9.1%) (y/y) as compared to the situation as at 31 December 2010 and amounted to PLN 22,429,271 thousand. This change was mainly due to a loss in value of shares in related entities by PLN (-) 2,478,067 thousand (primarily in connection impairment allowance for AB ORLEN Lietuva shares and with the sale of Polkomtel S.A.'s shares) and increase of long-term loans by PLN 642,324 thousand due to the loan granted in 2011 to AB ORLEN Lietuva.

As at 31 December 2011, the current assets' value increased by PLN 8,209,625 thousand (by 53.9%) (y/y) up to PLN 23,439,812 thousand. The value of inventory increased by PLN 4,098,256 thousand (by 55.0%) (y/y), primarily due to an increase in the prices of crude oil and products and the purchase of the first batch of mandatory crude oil reserves sold in March 2010 from LAMBOURN Sp. z o.o.
The increase in receivables by PLN 1,417,972 thousand (by 24.2%) (y/y) was primarily the consequence of higher volume sales of the company and rising product prices.
The cash balance increased by PLN 2,895,127 thousand (by 207.4%) (y/y), mainly due to the proceeds from the sale of Polkomtel S.A.'s shares.

Table 16. Separate statement of financial position – equity and liabilities

ITEMS (PLN thousand)	31.12.2011	31.12.2010	change	change%
1	2	3	4=(2-3)	5=(2-3)/3
SHAREHOLDERS' EQUITY AND LIABILITIES				
Share capital	1,057,635	1,057,635	-	-
Share premium	1,227,253	1,227,253	-	-
Hedging reserve	-14,617	63,874	-78,491	-
Retained earnings	18,576,453	17,190,287	1,386,166	8.1%
Total equity	**20,846,724**	**19,539,049**	**1,307,675**	**6.7%**
Interest-bearing loans and borrowings	9,346,203	7,937,850	1,408,353	17.7%
Provisions	327,747	363,053	-35,306	-9.7%
Other long-term liabilities	170,434	49,958	120,476	241.2%
Total long-term liabilities	**9,844,384**	**8,350,861**	**1,493,523**	**17.9%**
Trade and other liabilities	10,998,036	10,038,858	959,178	9.6%
Interest-bearing loans and borrowings	2,320,861	1,164,699	1,156,162	99.3%
Income tax liability	613,182	0	613,182	-
Provisions	442,181	512,570	-70,389	-13.7%
Deferred income	118,423	64,609	53,814	83.3%
Other financial liabilities	685,292	223,412	461,880	206.7%
Total short-term liabilities	**15,177,975**	**12,004,148**	**3,173,827**	**26.4%**
Total liabilities	**25,022,359**	**20,355,009**	**4,667,350**	**22.9%**
Total shareholders' equity and liabilities	**45,869,083**	**39,894,058**	**5,975,025**	**15.0%**

As at 31 December 2011 the equity amounted to PLN 20,846,724 thousand, i.e., it increased by PLN 1,307,675 thousand (by 6.7%) (y/y) as compared to the equity recorded as at 31 December 2010, mainly due to the net profit for 2011 of PLN 1,386,166 thousand and a decrease in hedge accounting by PLN (-) 78,491 thousand.

The net indebtedness of PKN ORLEN, as at 31 December 2011, amounted to PLN 7,375,877 thousand and was lower by PLN (-) 330,612 (y/y) as compared to the end of 2010. The above resulted from taking out bank loans and borrowings as well as the change in the cash balance and the indebtedness valuation in the value of PLN (-) 1,553,000 thousand and an increase of negative foreign exchange differences as regards the revaluation of foreign exchange loans by PLN 1,222,000 thousand.

Table 17. Sources of finance.

ITEMS (PLN thousand)	2011	2010	change	change%
1	2	3	4=(2-3)	5=(2-3)/3
Bank loans	9,823,323	8,089,346	1,733,977	21.4%
Borrowings	501,026	312	500,714	160485.3%
Debt securities	1,342,715	1,012,891	329,824	32.6%
Financial indebtedness	**11,667,064**	**9,102,549**	**2,564,515**	**28.2%**
By maturity:				
Long-term	9,346,203	7,937,850	1,408,353	17.7%
Short-term	2,320,861	1,164,699	1,156,162	99.3%
Cash and Cash equivalents	**4,291,187**	**1,396,060**	**2,895,127**	**207.4%**
Net financial indebtedness	**7,375,877**	**7,706,489**	**-330,612**	**-4.3%**

A decrease in net financial indebtedness as at 31 December 2011 enhanced financial safety and the level of financial indicators assessed by the banks - lenders funding PKN ORLEN's operations.

Under most loan agreements PKN ORLEN is obliged to maintain selected financial indices at a level specified in the agreements. In 2011 the financial indices assessed by the banks granting loans were not exceeded and PKN ORLEN managed to keep a safe debt ratio. Consequently, it was declared fully capable of fulfilling its payment obligations under loan agreements and other agreements executed with banks and financial institutions.

In 2011 PKN ORLEN used loans and borrowings both in PLN and foreign currencies, mostly at variable interest rates. For the purpose of liquidity management, the ORLEN Group has a cash pooling system in PLN and foreign currencies, which is kept at a foreign bank for PKN ORLEN and foreign companies of the ORLEN Group (ORLEN Finance AB, AB ORLEN Lietuva, ORLEN Deutschland GmbH, Unipetrol Deutschland GmbH). PKN ORLEN's cash-pooling system enables optimisation of financial costs and effective management of current financial liquidity.

For the purpose of its ongoing operations, PKN ORLEN uses comprehensive services of reputable banks with high equity and strong market position, which have extensive experience in the field of finance management on the Polish and foreign markets. Consequently, the bank costs may be reduced while the high standard of services provided is ensured.

The crucial loans used in 2011 at PKN ORLEN include:

– long-term syndicated facility of EUR 2,625 million signed in April 2011. The facility is a longterm, multi-currency revolving credit line extended by a consortium of 14 banks. The loan period is 5 years with two extension options, each for one year. PKN ORLEN may allocate the funds obtained for general corporate purposes and for financing the ORLEN Group members. The loan may be used in four currencies: EUR, USD, CZK and PLN. The loan was designated to refund the debt under four already existing syndicated facility agreements, that were terminated on the day of their definite pay-off, in May 2011.

– two bilateral loan facility agreements dedicated for financing investments, signed in 2007 and 2011 with the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD). The amount of EUR 210 million was allocated to EIB for an investment in the scope of the development of gasoline station network and environmental protection. Under this loan, available currencies are: EUR, USD, GBP and PLN and the loan facility offers a 9-year repayment period with the option of a 3-year grace period. The amount of EUR 250 million was granted by EBRD for investments in the area of development and modernization of the Power and Heating Plant in Płock as well as for general corporate purposes and for working capital purposes. The loan period is 7 years. The amount of the awarded loan will be reduced down to EUR 167 million on the fifth anniversary of signing the loan facility agreement and to EUR 83 million on the sixth anniversary. The available currencies are: EUR, USD and PLN.

– the other 8 bilateral agreements concern short-term loan securing PKN ORLEN's current liquidity.

For detailed information on the debt structure see note 19 to the Separate Financial Statements for 2011.
Under a bond issue program agreement, PKN ORLEN issues unsecured bearer's bonds. The offer is addressed to institutional investors and not to the public. The banks chose a group of entities from amongst the investors they know

to which they address a bond purchase proposal. The proposal may not be addressed to more than 99 entities. Under the programme, the issue of both non-interest bearing (zero-coupon) and interest bearing (coupon) bonds is admissible. The non-interest bearing bonds are issued with a discount for a period from 7 days to 1 year. On interest bearing bonds interest is accrued at a fixed or variable interest rate. These bonds are issued for a period of 1 to 7 years. The issues may be effected in four currencies: PLN, EUR, USD and CZK. Consequently, the bonds may be addressed to foreign companies belonging to the ORLEN Group.
The total value of the securities issued by PKN ORLEN, as at 31 December 2011, amounted to PLN 1,342,715 thousand as compared to PLN 1,012,891 thousand in 2010.

In February 2012 PKN ORLEN issued 7 year coupon bonds worth PLN 1 billion under non-public offering. The new issue complies with the new PKN ORLEN policy designed to diversify the sources of finance, extend the average maturity of debt and its refinancing. PKN ORLEN is planning to launch the bonds on the organised Catalyst market of the Warsaw Stock Exchange.

In 2011 PKN ORLEN granted following borrowing agreements as a lender:

- long-term borrowing agreement executed in the second half of 2005 with ORLEN Transport Kraków Sp. z o.o. for PLN 2,700 thousand. As at 31 December 2011 the borrowed amount to be repaid was PLN 122 thousand.
- long-term borrowing agreement executed with an AB ORLEN Lietuva for USD 200 million, with the final repayment date on 6 June 2014.

In September 2011 Basell ORLEN Polyolefins Sp. z o.o. prematurely repaid a EUR 10 million loan plus interest due. The contractually scheduled repayment date was 31 December 2013.

As at 31 December 2011 the value of the guarantees and sureties granted by PKN ORLEN was PLN 3,193,037 thousand. This amount includes:

- PLN 2,132,512 thousand for subsidiaries' liabilities, out of which PLN 940,778 thousand are corporate guarantees granted to ORLEN Finance AB;
- PLN 102,114 thousand for third party liabilities issued in its day-to-day operations;
- PLN 958,411 thousand for excise tax guarantees and excise tax on goods and merchandise under the excise tax suspension procedure.

The total amount of contingent liabilities as at 31 December 2011 decreased as compared to 31 December 2010 by PLN (-) 10,672 thousand for disputable issues handled in court and anti-trust proceedings and was PLN 27,778 thousand as at 31 December 2011.

A detailed description of contingent liabilities is to be found in Note 34 to the Separate Financial Statements for 2011.

6.5.9 Cash flow statement

Table 18. Separate statement of cash flows.

ITEM (PLN thousand)	2011	2010	change	change %
1	2	3	4=(2-3)	5=(2-3)/3
Cash flows- operating activities				
Net profit	**1,386,166**	**2,357,127**	**-970,961**	**-41.2%**
Adjustments for:				
Depreciation and amortisation	991,405	870,517	120,888	13.9%
Foreign exchange loss	1,063,096	69,798	993,298	1423.1%
Interest, net	299,764	258,794	40,970	15.8%
Dividend received	-400,702	-384,731	-15,971	4.2%
(Profit) on investing activities	-579,191	-18,150	-561,041	3091.1%
Change in receivables	-1,358,678	-1,397,106	38,428	-2.8%
Change in inventories	-4,083,934	-133,105	-3,950,829	2968.2%
Change in liabilities	1,160,070	2,208,249	-1,048,179	-47.5%
Change in provisions	248,509	396,274	-147,765	-37.3%
Income tax expense	1,010,281	469,197	541,084	115.3%

Income tax (paid)	-176,856	-413,375	236,519	-57.2%
Other adjustments	-353,265	-388,062	34,797	-9.0%
Net cash provided by / (used in) operating activities	**-793,335**	**3,895,427**	**-4,688,762**	**-**
Cash flows - investing activities				
Acquisition of property, plant and equipment and intangible assets	-1,249,218	-2,683,839	1,434,621	-53.5%
Disposal of property, plant and equipment and intangible assets	254,970	218,600	36,370	16.6%
Disposal of shares	3,672,247	13,828	3,658,419	26456.6%
Acquisition of shares	-111,094	-116,145	5,051	-4.3%
Additional payments to subsidiaries' equity	0	-2,450	2,450	-
Disposal of other securities	0	1,000	-1,000	-
Interest received	28,417	5,027	23,390	465.3%
Dividends received	403,602	384,373	19,229	5.0%
Additional repayable payments to subsidiaries' equity	-135,334	-89,042	-46,292	52.0%
Proceeds from additional repayable payments to subsidiaries' equity	19,080	11,000	8,080	73.5%
Long-term loans granted	-561,380	-301,673	-259,707	86.1%
Proceeds from repayments of short-terms loans granted	314,249	0	314,249	-
(Outflows) from cash pool facility	-81,046	-7,983	-73,063	915.2%
Other	-63,815	-1,673	-62,142	3714.4%
Net cash provided by / (used in) investing activities	**2,490,678**	**-2,568,977**	**5,059,655**	**-**
Cash flows - financing activities				
Proceeds from loans and borrowings received	13,773,529	7,319,135	6,454,394	88.2%
Debt securities issued	5,550,239	6,574,070	-1,023,831	-15.6%
Repayment of loans and borrowings	-12,713,195	-8,866,468	-3,846,727	43.4%
Redemption of debt securities	-5,223,918	-6,492,076	1,268,158	-19.5%
Interest paid	-396,983	-402,739	5,756	-1.4%
Payment of liabilities under finance lease agreements	-6,647	-2,961	-3,686	124.5%
Proceeds/ (outflows) from cash pool facility	214,798	-10,333	225,131	-
Net cash provided by / (used in) financing activities	**1,197,823**	**-1,881,372**	**3,079,195**	**-**
Net increase/(increase) in cash and cash equivalents	**2,895,166**	**-554,922**	**3,450,088**	**-**
Effect of exchange rate changes on cash and cash equivalents	-39	-13,421	13,382	-99.7%
Cash, beginning of the period	**1,396,060**	**1,964,403**	**-568,343**	**-28.9%**
Cash and cash equivalents, end of the period	**4,291,187**	**1,396,060**	**2,895,127**	**207.4%**

In 2011 the net cash flow from operating activities amounted to PLN (-) 793,335 thousand and was lower by PLN (-) 4,688,762 thousand than that recorded in 2010.
The level of cash generated from operating activities was mainly determined by an increased need for the working capital due to growing oil prices and PKN ORLEN's products, higher volume sales and purchase of the first tranche of mandatory provisions sold in March 2010 from Lambourn Sp. z o.o.

Net cash in investing activities in 2011 amounted to PLN 2,490,678 thousand as compared to PLN (-) 2,568,977 thousand in 2010. Net cash from investing activities were mainly revenues from share sales in the amount of PLN 3,672,247 thousand (mostly sale of shares in Polkomtel S.A.) and net expenses for the purchase of property, plant and equipment and intangible assets in the amount of PLN (-) 994,248 thousand in connection with the implemented investment programme. Net expenses for the repayable payments to subsidiaries' equity and loans granted amounted to (-) PLN 363,385 thousand. Dividends received amounted to PLN 403,602 thousand.

In 2011 the net cash flow from financing activity amounted to PLN 1,197,823 thousand as compared to PLN (-) 1,881,372 thousand in 2010. Proceeds from loans and borrowings taken in 2011 as well as securities amounted to PLN 1,386,655 thousand, while the debt service costs were PLN (-) 396,983 thousand.

Consequently, the cash and cash equivalents as at 31 December 2011 increased by PLN 2,895,127 thousand as compared to 31 December 2010 and amounted to PLN 4,291,187 thousand.

6.5.10 Selected financial ratios

Table 19. List of financial ratios

Items	unit	2011	2010
Liquidity, equity and debt ratios			
Current liquidity	x	1.5	1.3
Quick liquidity	x	0.8	0.6
Working capital	m PLN	9,729	5,458
Turnover ratios			
Receivables turnover	days	28	27
Liabilities turnover	days	40	41
Inventory turnover	days	44	43
Assets turnover	X	1.8	1.6
Profitability ratios			
Net sales profitability	%	1.8	3.8
Equity profitability	%	7.1	13.7
Return on Equity (ROE)	%	6.6	12.1
Return on Assets (ROA)	%	3.0	5.9
Return on Capital Employed (ROACE)	%	9.3	8.4
Debt service coverage ratio			
Financial leverage	%	37.3	44.3

The methodology of calculating ratios in the report was presented in the Financial Glossary at the end of this Management Board Report.

6.6 Summary

In 2011 PKN ORLEN consequently conducted strategic, investment and operating activities accompanied by systematic indebtedness reduction. In 2011, sales volumes of PKN ORLEN increased by 3.2% (y/y) and reached the record level of 15,395 thousand tons. As a result of increased sales volumes and high crude price affecting products prices, sales revenues increased by PLN 16,821,540 thousand and amounted to PLN 79,037,121 thousand.

In 2011 PKN ORLEN was operating in a difficult external environment that significantly influenced the operating result. Negative impact of macroeconomic factors including: refinery and petrochemical margin, Ural/Brent differential, Polish zloty exchange rates fluctuations against foreign currencies amounting to approximately PLN (-) 392,000 thousand (y/y) was partially compensated by positive effect of increased sale volumes of PLN 284,000 thousand (y/y).

Negative impact of the fuel margins due to high fuel price was partially compensated by high sales volume of the retail segment.

In 2011, as a part of the investment activities, HON VII installation and PX/PTA Complex were put into use, which increased the crude oil processing capacities as well as enriched the trade offer of the petrochemical segment by another product - PTA.

Long facility agreements were signed to refinance the total indebtedness of PKN ORLEN by approx. EUR 3 billion. Additionally the extremely complex sale process of Polkomtel S.A.'s shares for PLN 3.7 billion was accomplished. The net indebtedness was reduced to 7.4 billion and the net financial leverage decreased to 37.3%. Significant decrease in the level of indebtedness and sustainable operating results improved PKN ORLEN's credibility on the financial market and contributed to the rating perspective of PKN ORLEN being changed by Fitch and Moody's from negative to stable.

PKN ORLEN also continued to implement development projects in the upstream area. In 2011 one reconnaissance borehole was conducted under conventional and one under unconventional crude oil and gas extraction projects.
As regards investments in the power segment, PKN ORLEN is well advanced with preparations for the works on the construction of a gas power plant with the capacity of up to 500 MWe in Włocławek. The decision in the tender for the power block is scheduled for the I half of 2012.

6.7 Explanations of differences between the financial results shown in the annual report and the previously published forecast results for a given year

PKN ORLEN did not publish forecasts of the financial results for 2011.

The most material change in the financial statements of the Company for 2011, as compared to results published on 9 February 2012 in the consolidated quarterly report for IV quarter of 2011, is the recognition of impairment losses on AB ORLEN Lietuva's shares of PLN 1,552,852 thousand.

Detailed information is also to be found in section 4 of the Separate Financial Statements for 2011.

VII. PKN ORLEN STRATEGY AND DEVELOPMENT PLANS

7.1 Development directions in line with the implemented PKN ORLEN strategy

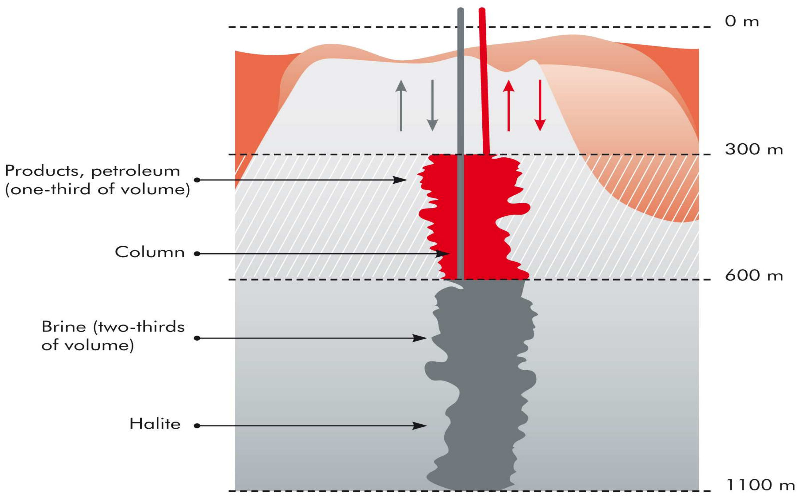
In line with the adopted strategy, PKN Group consistently implements the initiatives aimed at increasing its value. The activities are focused in three areas relating to:

– increase in the efficiency and further development of the main segments of the activity,
– development of the upstream segment and the building of the power segment,
– divestment of non-core assets.

Activities concerning the improved efficiency are focused on maintaining operational efficiency, assets integration and segment management, which brings measurable benefits and allows for further development of the PKN Group in the area of its core business, extending the value chain and taking advantage of new areas of activity as the leverage of dynamic increase.

Further development and strengthening of the efficiency of key operating segments will be possible thanks to the continuation of the commenced investments. Claus II sulphur recovery installation in PKN ORLEN will enable smooth increase of the level of processed oil. The project relating to upgrade and stimulation of the Alkylation installation is being implemented, aiming to increase the productive capacity of alkylate from 150 to 280 tonnes/year and reduce the threat created by AHF technological process for the environment and the surroundings. The construction of the new K8 boiler in the Heat and Power Plant in Płock will strengthen the potential in respect of the steam and electrical power production. The development project for the Heat and Power Plant involves also the construction of installation of wet desulphurisation and catalytic denitrogeneation of exhaust gases and covering electro-filters, which will contribute in the following years to meeting the rigorous requirements in respect of reduction of industrial emissions from the beginning of the year 2016.
Within the area of logistics the cavern strategy is implemented, relating to securing own and commercial storage needs in respect of crude oil and petroleum products.

Scheme 5. Underground storage chamber of IKS Solino S.A.

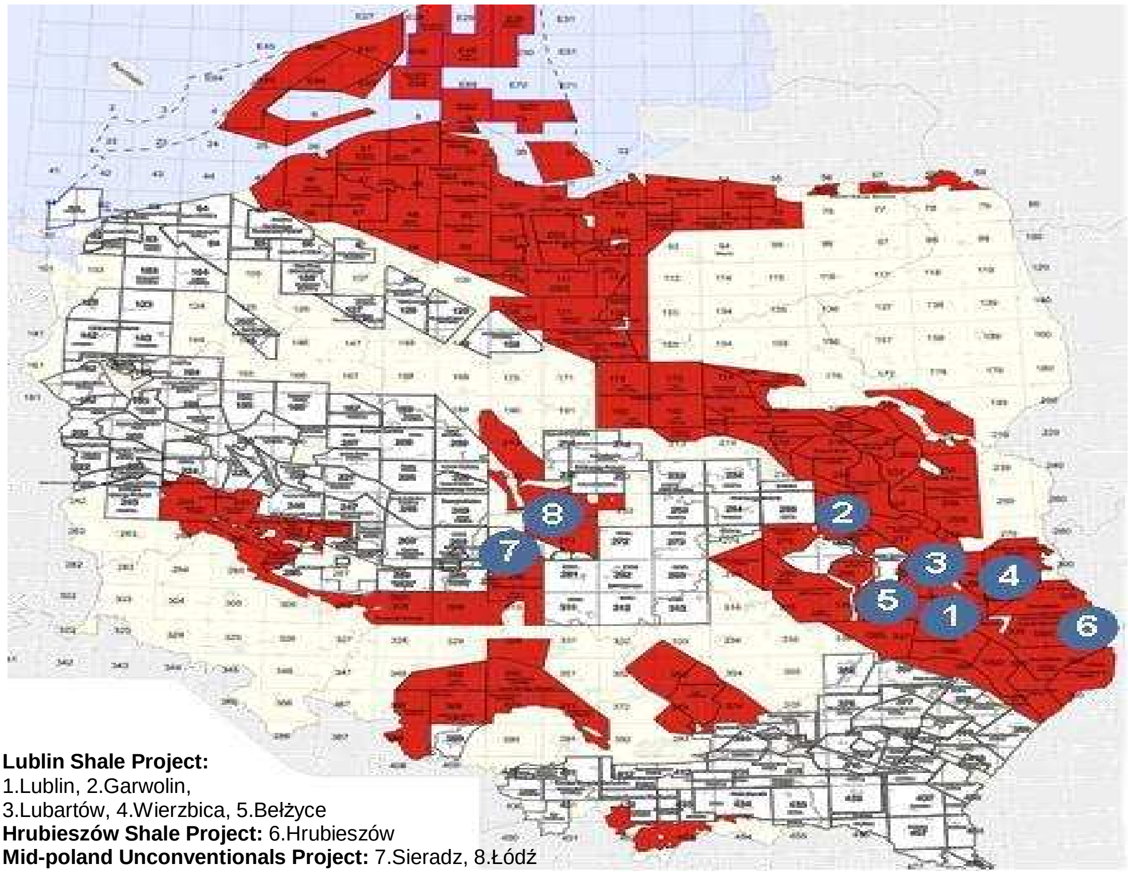


Raising the efficiency of the main segments of operating in the following years will also be possible due to maintenance works performed on production installations. The overhaul standstills of Hydrocracking and Gudron Hydrodesulphurisation installations and Hydrogen Production Plant I and II in PKN ORLEN thorough upgrade of production installations aimed at increasing the yield and reliability.

The implementation of the initiatives under the second pillar of the ORLEN Group's strategy aims to create an integrated, multi-segment fuel and power entity with the diversified structure of assets (Multi-Utility model). Investments in this area are focused on prospecting for and exploration of hydrocarbons and the electricity production. In respect of the exploration segment development, there will be continued the works commenced by the ORLEN Group relating to:

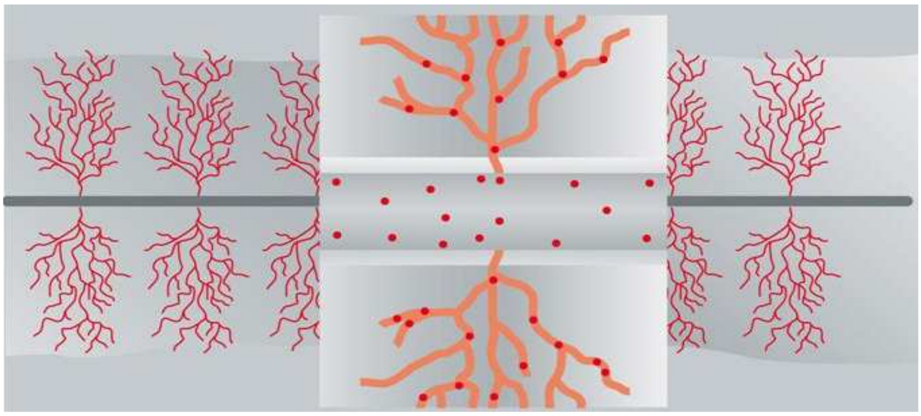
– three conventional oil and gas related projects: in the Latvian zone of the Baltic Sea shelf in co-operation with Kuwait Energy Company, near Sieraków with Polskie Górnictwo Naftowe i Gazownictwo (PGNiG) and independently in the Lublin region.
– three projects involving prospecting for unconventional gas: Lublin Shale, Hrubieszów Shale and Mid-Poland Unconventionals implemented in the area of 8 concessions held by the ORLEN Group. Lublin Shale project is a great example of synergy with another goal of the ORLEN Group's development strategy, i.e. the power sector development. Should this project succeed, it will generate the source of fuels for future gas power plants.

Scheme 6. Potential areas of shale gas presence.



Lublin Shale Project:
1.Lublin, 2.Garwolin,
3.Lubartów, 4.Wierzbica, 5.Bełżyce
Hrubieszów Shale Project: 6.Hrubieszów
Mid-poland Unconventionals Project: 7.Sieradz, 8.Łódź

Scheme 7. Shale rock section.



Another area of new segments development is the building of the power sector. PKN ORLEN systematically carries out the preparatory works in respect of the construction of the gas power plant in Włocławek of the nominal capacity of up to 500 MWe. In the first half of 2012 the process of selecting a contractor for the power plant will be completed. The construction of the power unit is planned to commence in 2012 and the power unit is planned to be put into operation at the turn of the year 2014 and 2015. The value of estimated investment-related expenditures amounts to PLN 1.5 billion. The second out of key projects in the power segment involves the upgrade of the heat and power plant in Płock. The aim of the scheme is to meet the environmental norms concerning reduction in emission and increase in power and heating steam generating capacities. The value of the investment scheme is estimated to amount to PLN 1 billion within the next 2-3 years.

In line with the adopted power strategy, PKN ORLEN also plans to engage in investments in renewable energy sources besides conventional power engineering. As part of this project, the possibilities of investing in marine wind farms are being analysed. Due to a limited availability of locations for prospective wind farms in Polish sea areas, PKN ORLEN, through its newly established special purpose vehicles, filed two applications with the Ministry of Transport, Construction and Maritime Economy for obtaining permits for constructing and using artificial islands, structures and devices in the Polish marine areas. The locations, for which the applications were filed, represent in total the area of approximately 200 sq. km., which potentially grants the opportunity to construct the marine wind farms of the capacity of approximately 2000 MWe. Obtaining the permit will enable to commence the research necessary to assess the investment possibilities, which research will include windiness measurements, geological and geotechnical research as well as the environment monitoring. The time horizon for obtaining the reliable research results will be approximately 4 years. PKN ORLEN sees the high development potential in the wind power industry. Marine wind farms will in the future play the key role in supplying energy and meeting the European Union requirements concerning the climate policy.

PKN ORLEN consistently implements also the initiatives under the third pillar of the strategy, aiming for ordering the capital group structure in accordance with the adopted segment management model.
In 2011 the sale of 24.39% of shares of Polkomtel S.A. held by PKN ORLEN as part of joint transaction of sale by the previous shareholders was completed. The value of Polkomtel S.A. amounted to PLN 18.1 billion and, upon deduction of debt ascribed to Polkomtel S.A., the net transaction value amounted to PLN 15.1 billion. For the package of shares PKN ORLEN received PLN 3.7 billion.
PKN ORLEN continues also the activities relating to possible divestment of Anwil S.A. or its part. In the previous year the analytical works were resumed as regards separation of two business units – fertilisers and PVC. The above can influence the increased interest of prospective investors in the offer in the following years. In December 2011 PKN ORLEN increased its share in the share capital of Anwil up to 95% and further buyout of Anwil S.A.'s shares will be continued in 2012, which should facilitate its future sale.

7.2 Business risks

7.2.1 Credit risk

PKN ORLEN, when conducting commercial activity sells products and services to business entities with deferred payment dates. Consequently, a credit risk may arise to PKN ORLEN that its business partners will fail to pay for the products and services delivered.

To mitigate the credit risk and keep the working capital as low as possible, PKN ORLEN has a procedure to grant a trade credit limit to its business partners who acquire products and services with a deferred payment date. The procedure involves an individual assessment of the business partner in terms of the credit risk and determines how to secure the trade credit limit.

The level of trade receivables of business partners of PKN ORLEN is regularly monitored and if any overdue accounts receivable are identified in accordance with applicable procedures, the sale is suspended and debt collection procedures are launched. Additionally, some accounts receivable are insured under organised programmes of trade credit insurance.

The credit risk associated with assets resulting from the positive valuation of derivative instruments is assessed by PKN ORLEN as low due to the fact that all transactions are concluded with banks with a high credit rating. One of the major bank selection criteria is rating of no less than A.

Detailed information on credit risk was presented in section 31.6 of the Separate Financial Statement for the year 2011.

7.2.2 Liquidity risk

PKN ORLEN is exposed to a liquidity risk related to the ability to timely pay the amounts due.

In order to monitor its liquidity, PKN ORLEN applies the current liquidity ratio, calculated as a current assets to short-term liabilities ratio. As at 31 December 2011 the current liquidity ratio amounted to 1.5 as compared to 1.3 as at 31 December 2010.

In order minimise the liquidity ratio, PKN ORLEN uses external sources of finance in the form of available credit lines. As at 31 December 2011 the maximum debt limit under executed loan facility agreements was PLN 16,089,813 and PLN 5,697,530 were still to be used.
An additional source of funds needed to secure the Company's financial liquidity is the Bond Issue Programme launched in 2007 which enables the Company to go beyond the traditional bank market and obtain funds from other financial institutions, corporate or natural persons. Bond Issue Programme is also used to manage liquidity within the ORLEN Group entities on domestic and foreign market. In 2011 only bonds' issue on the domestic market took place.

In order to support the liquidity management processes, PKN ORLEN set up cash pooling systems: a PLN cash pool system and an international EUR, USD and PLN cash pool system operated by a foreign bank for PKN ORLEN.

Detailed information on liquidity risk was presented in section 31.6 of the Separate Financial Statement for the year 2011.

7.2.3 Market risks

PKN ORLEN, when running its business activity, is exposed to a number of market risks related to its macroeconomic environment.

PKN ORLEN manages the market risks under its adopted market risk management policy, which determines the rules for measuring individual exposures, parameters and time for securing the given risk and the hedging instruments. The implementation of procedures required under the market risk management policy set is the responsibility of designated organisational units supervised by the Financial Risk Committee, Management Board and Supervisory Board of PKN ORLEN.

The process of market risk management in PKN ORLEN aims at mitigating undesirable effects of changes of market risk factors on cash flows and performance in short- and medium-term perspective.

PKN ORLEN implements the risk management objectives under derivative hedging strategies. The derivatives are solely used to limit the risk of changes in fair value and the risk of changes in cash flows. PKN ORLEN uses only these instruments that can be internally valued under standard valuation models set for specific instruments. When obtaining the market valuation of instruments, PKN ORLEN relies on information obtained from banks and brokerage companies or information services leading on a specific market. Transactions are concluded with reliable partners only, who are qualified for transactions under special procedures and upon signing the relevant documents.

The major market risks arising for PKN ORLEN are as follows:

– **risk of changes in the prices of raw materials and oil derivative products**

The operating activity of the ORLEN Group includes the following risks:
– changes of prices of crude oil processed
– the obligation to maintain reserves of crude oil and fuels
– Ural/Brent differential fluctuations,
– changes of prices of refining and petrochemical products, which depend from the quotations of crude oil and products on international markets

As at 31 December 2011 there were instruments hedging changes of raw materials and product prices resulting from cash flow hedges in connection with the sale/purchase of crude oil, gasoline and diesel fuel.

Detailed information regarding risk of changes in the prices of raw materials and oil derivative products was presented in section 31.6 of the Separate Financial Statement for the year 2011.

– **currency risk**

PKN ORLEN is exposed to the currency risk arising out of the current accounts receivable and current accounts payable, cash and cash equivalents, capital expenditures, foreign currency loans and borrowings denominated in foreign currencies, future planned cash flows relating to sale and purchase of goods and refinery and petrochemical products. The currency risk exposure is hedged with such instruments as forwards or swaps.

The USD/PLN exchange rate is partially hedged naturally to a certain extent, since the revenues from the sales of products which value depends on the USD exchange rate, are balanced with the costs of crude oil purchases in the same currency. In the case of EUR/PLN exchange rate, in this currency the revenues from the sale of petrochemical products are denominated. For this group the natural hedging applies to a limited extent (i.e., interest on the loans denominated in EUR, some investment purchases).

Detailed information on currency risk was presented in section 31.6 of the Separate Financial Statement for the year 2011.

– **interest rate risk**

The risk of cash flow fluctuations due to changes of interest rates results from extended loans, bank deposits held and fluctuating interest rate loans and borrowings. PKN ORLEN holds derivative transactions (interest rate swaps) which partially hedge the cash flow risk due to the interest rate payments for which the cash flow hedge accounting is applied.

The interest rate is hedged by identifying financial flows exposed to fluctuating interest rates as shown on PKN ORLEN's current exposure map.

Detailed information on interest rate risk was presented in section 31.6 of the Separate Financial Statement for the year 2011.

– **risk related to the procurement of raw materials**

Raw materials are mostly supplied within PKN ORLEN via a pipeline system, by land and sea transport. The risk related to the procurement of raw materials arises due to the necessity to timely provide raw materials for production purposes.

Factors which significantly affect the procurement of raw materials for the ORLEN Group companies are mostly related to current political situation in the states exporting crude oil, efficiency of piping system and railways as well as weather conditions.

The strategy adopted by PKN ORLEN is aimed at preventing any disturbances in the raw materials procurement, mainly due to the diversification of sources and adaptation of the production installation to process various types of raw materials. Additionally, PKN ORLEN implements investment projects to acquire its own gas and crude oil sources.

– **risk of changes in legislation**

The risk arising out of changes in legislation concerns mainly the implementation of the National Indicative Target (NIT) and the quantity limits relating to the rights to CO_2 emission and regulations on building up and storing mandatory reserves.

In accordance with the Council of Ministers' Ordinance of 2007, as part of the adjustment to the community law regulation as regards the share of energy from renewable sources, improvement of power efficiency and reduction in greenhouse gas emission – the so called 3x20 package, since 2008 the obligation to satisfy the National Indicative Target (NIT) has been imposed on fuel producers. NIT determines the minimum share of bio-components and other renewable fuels calculated at the heating value in the general quantity of liquid fuels and biofuels used up in transport during the calendar year.

Table 20. NIT value 2008-2011

Item	Measuring unit	2008	2009	2010	2011
NIT value	%	3.45	4.60	5.75	6.20

From 1 May 2011 tax reliefs relating to the use of bio-components and biofuels were lifted, which resulted in an increase in the costs of implementation of the target NIT set.

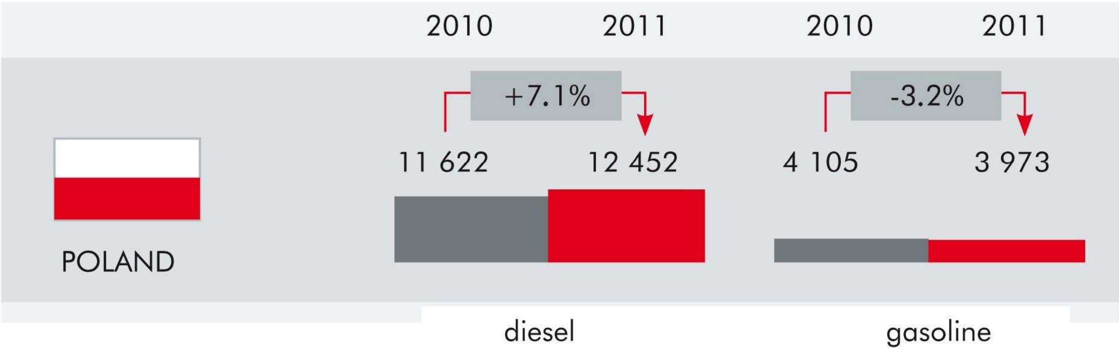
A significant risk of changes in legislation is also related to the limits on the number of the CO_2 emission rights granted. Under the applicable legal regulations arising out of the Kyoto Protocol to the United Nations Framework Convention on Climate Change adopted by the European Union, business entities are allocated rights which determine the maximum CO_2 emission volume resulting from the type of business run. Once the limits set have been exceeded, a fine is imposed on the business entity.
Consequently, PKN ORLEN verifies the number of such rights and determines the way of systematic balancing of the discovered deficits/surpluses as intra-group or futures and spot transactions every year. In 2011, PKN ORLEN sold its surpluses of CO_2 emission rights and entered into forward transactions for the purchase of such rights.

A major risk also arises in the context of the business operations in connection with the mandatory reserve system implemented in Poland. The mandatory reserves are regulated in the Act dated 16 February 2007 on mandatory reserves of crude oil, petroleum products and natural gas and how to proceed in case of national fuel emergency and disruptions on the oil market. It sets an obligation for all the companies operating on the fuel market to build up oil reserves in proportion to their turnover. At the end of 2011 the value of mandatory reserves of PKN ORLEN exceeded the level of PLN 7.5 billion, and may vary depending on changes in crude oil prices or sales volume.

– **risk of changes in trends in fuel consumption and import**

A change in the trends in the fuel consumption and import can materially affect the volume of sales and the level of prices of products of PKN ORLEN that are possible to be achieved and, consequently, on PKN ORLEN's financial standing.
The changes in diesel oil and gasoline consumption on the main markets of PKN ORLEN are presented below.

Diagram 11. Gasoline and diesel oil consumption on the Polish market.



Based on the data of ARE (Energy Market Authority), the total fuel consumption in Poland in 2011 decreased by 35 thousand tons (i.e. 1.4%) to the level of 2,442 thousand tons. Gasoline import increased by almost 28% and achieved the level of 530 thousand ton, that is 22% of total fuel import. The greatest observed gasoline import in 2011 was from Slovakia (app. 49%) and Germany (app. 47%). It is estimated that in 2011 about 1,905 thousand tons of diesel oil was imported to Poland, i.e. nearly by (-) 7% less than in 2010. The import of that fuel constituted app. 78% of the total volume of fuels imported to Poland. The greatest amount of diesel oil came from Germany (50%), Lithuania (26%) and Slovakia (15%).

– **risk related to the global economic crisis, change in the economic growth and unemployment rates**

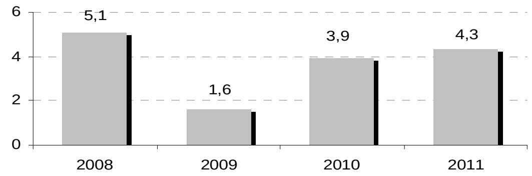
In 2011 PKN ORLEN was operating under difficult market conditions as a result of the second wave of financial crisis. The negative impact of the crisis was mainly visible through the weak position of the Polish zloty against foreign currencies, decrease in the demand for fuels and margins for refinery and petrochemical products. This was directly reflected in the financial standing of PKN ORLEN impacting sales revenues, operating profit and net profit as well as settlement and debt in foreign currencies.
Gross domestic product (GDP) plays an important role in describing the economic growth as well as current trends and business cycle that the economy is currently in. Adverse changes in GDP indicate the economic slowdown and result in reduction of consumption, including products and services offered by PKN ORLEN.
An economic index that is important for the business operations of PKN ORLEN is also the unemployment rate. Its increase may be tantamount to the demand for the products and services offered by PKN ORLEN being reduced due to a decreasing purchasing power of clients on the market.

7.3 Influence of macroeconomic factors on generated financial results and sensitivity analysis

The macroeconomic situation, characterised by high fluctuation and high uncertainty level, exerts material impact on the results achieved by the ORLEN Group.

Situation in the job market and macroeconomic tendencies exert material impact on the level of sales and of PKN ORLEN products and achieved results. The main index reflecting the economic situation is the GDP, which determined by consumption, capital expenditure and exports allows to assess which development stage the economy is on. Changes in the GDP index usually correlate with changes in the unemployment rate. High unemployment rate limits the internal demand and affects the consumers' purchasing power level.

Diagram 12. GDP in Poland (year-on-year increase).*



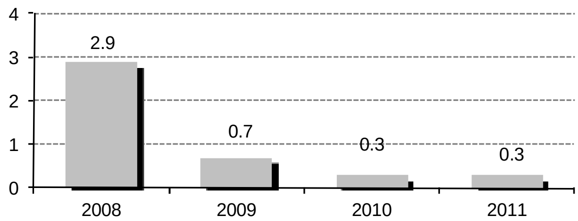
*) According to EUROSTAT data

Changes in interest rates affect the value of financial gains realized on bank deposits, loans granted, as well as costs of servicing debts resulting from variable interest rate loans.

Diagram 13. WIBOR 3M average interest rate (%).

Diagram 14. EURIBOR 3M average interest rate (%).

Diagram 15. LIBOR 3M average interest rate (%).



The fluctuation in exchange rates exerts material impact on the PKN ORLEN's performance. The level of revenues generated by PKN ORLEN largely derives from the value of PLN in relation to other currencies. Fixing of prices of refinery and petrochemical products is based on quotations carried out on commodity markets. The costs of crude oil, raw materials and debt servicing incurred by PKN ORLEN are also denominated in foreign currencies.

Diagram 16. PLN/USD average exchange rate.

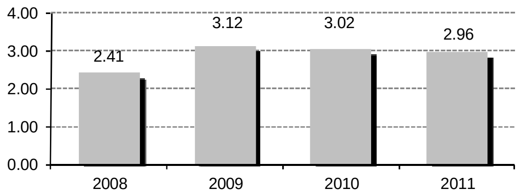


Diagram 17. PLN/EUR average exchange rate.

Consumption tendencies are closely related to macroeconomic factors. The overall market situation affects both individual consumers and investors, who condition their consumption decisions on the current market situation, primarily on the forecast market situation. The world economic crisis did not spare fuel markets, which reduced the sales mainly due to the decreased transportation demand. The exception here is Polish market, where despite the slowdown caused by the situation in the world, the fuel consumption grows year by year, primarily thanks to the year-on-year increase in sales of diesel oil. The increase in consumption of diesel oil with respect to gasoline is the tendency that has been observed in the European market for many years (the so called market dieselisation).

The fluctuating prices of crude oil and the relation of prices of Ural and Brent oils exert material impact on the margins obtained on the products sale and on the costs incurred by PKN ORLEN.

Diagram 18. Brent oil listing (USD/bbl).

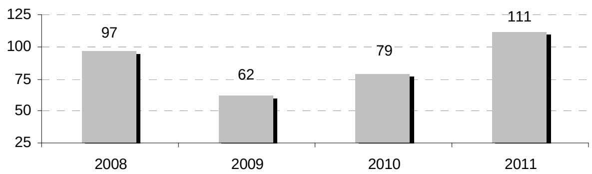


Diagram 19. Model refinery margin * and Ural/Brent differential * (USD/bbl).

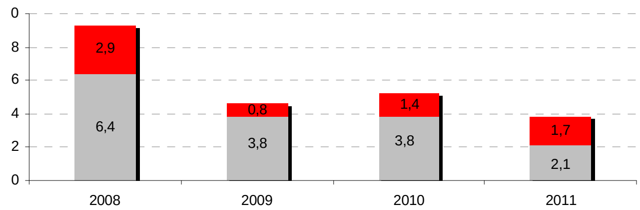
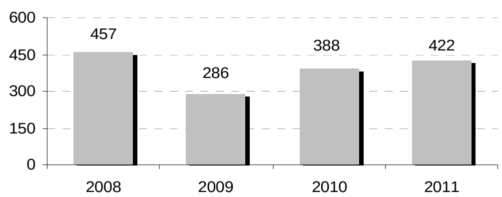


Diagram 20. Olefin margin [3] [EUR/t].



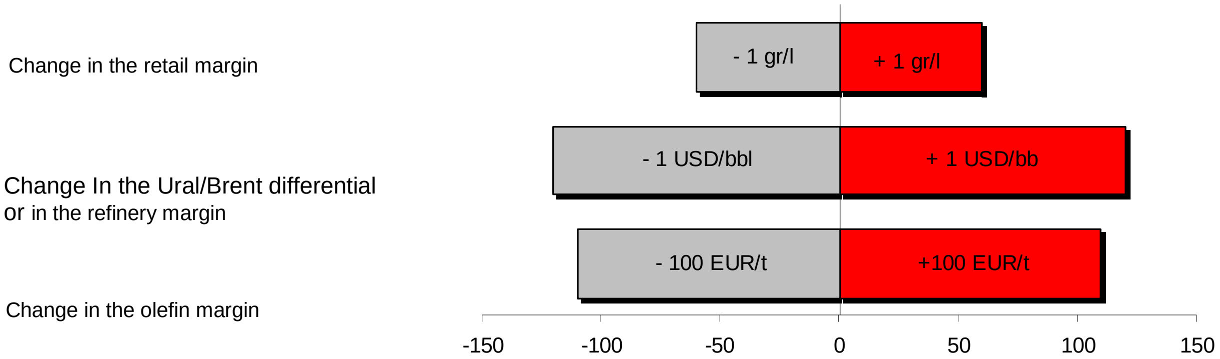
*) The differential, refinery and petrochemical margin calculation methods are presented in the Refinery Glossary at the end of the foregoing Management Board Report

PKN ORLEN carries out an analysis of the impact of key macroeconomic indices on operational gains realized.
It is estimated that the change in the model refinery margin or Ural/Brent differential by +/- 1 USD/bbl, with the use of full capacities that amount to 16.3 million of tons which is approximately 120 million of barrels, increases/decreases the result of PKN ORLEN by approximately +/- USD 120 million.

Decrease/increase in the model olefin margin by +/- 100 EUR/t increases/decreases the result of PKN ORLEN, with sale of monomers and aromas at the level of 1,100 thousand of tons, by approximately +/- EUR 110 million.

Increase/decrease in the retail margin by +/- 0.01 PLN/l, with the sale of approximately 6 billion liters, increases/decreases the operational gains of PKN ORLEN by approximately +/- PLN 60 million.

Diagram 21. Analysis of sensitivity of changes in key macroeconomic parameters – impact on the operating result [in PLN mln; USD mln, EUR mln]



The impact of the above parameters was assessed with the assumption of no dependence between these parameters as well as other parameters determining PKN ORLEN's results. Fluctuations of the macroeconomic factors may additionally influence other elements such as optimization of the structure of products, sales directions or capacity utilization, which may additionally influence the presented results of operations..

7.4 Working capital management

PKN ORLEN, due to the type of conducted activities, is significantly exposed to commodity markets fluctuations. The scale of activities and high exposures to a negative effect of changes in market trends can materially and adversely affect the amount of generated cash flow and operating results.

Since the market environment changes dynamically, PKN ORLEN has at its disposal a number of tools aimed at working capital optimisation.

The most important ones include sales agreements and agreements for gathering and keeping mandatory crude oil reserves. Two agreements of such type were already performed in the year 2010. As part of the abovementioned transactions, PKN ORLEN delegates to external entities the obligation to maintain mandatory crude oil reserves for PKN ORLEN. Upon the lapse of a contractual period, PKN ORLEN can repurchase the crude oil in order to perform the statutory obligations as regards maintenance of mandatory reserves.

Another instrument used to optimise the working capital is factoring without recourse for the receivables of PKN ORLEN's key customers. Full factoring, in which a factor takes over from the seller the risk of the debtor's insolvency, is used additionally by PKN ORLEN, primarily as the liquidity management instrument. At present the factoring programme covers payments resulting from trade agreements, executed with the largest PKN ORLEN's customers.

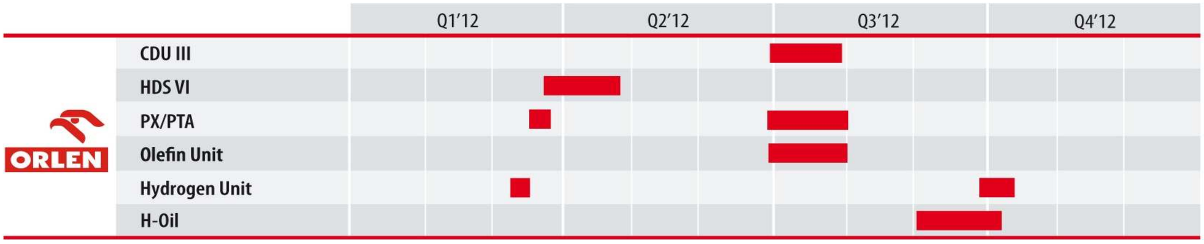
The flexibility in selecting finance sources is also of great importance for assessment of the future financial situation. Issuing in February 2012 coupon bonds maturing in seven years for PLN 1 billion allows for extending the average date for indebtedness maturity and refinancing as well as constitutes a vital element in available financing sources diversification.

PKN ORLEN plans to maintain the main financial ratios on the safe level in 2012. The proceeds on the sale of shares of Polkomtel S.A. received in 2011 and available credit lines secure the ORLEN Group's financial needs and serve as the basis for implementation of new development projects in the following years.

7.5 PKN ORLEN's operating activities

PKN ORLEN assumed to continue efficiency activities aimed at maintaining the operating efficiency. A completion of key development investments carried out in PKN ORLEN in recent years (covering HON VII installation and PX/PTA complex) together with of overhaul standstills of a lesser scope in PKN ORLEN will enable to increase the oil processing volume.

Diagram 22. Schedule of overhaul standstills of the main installations in PKN ORLEN for the year 2012



PKN ORLEN assumes further strengthening of the position of a regional leader in the petrochemical production segment as well as s sustainable production growth. The year 2012 will be the first full year of operation of the PX/PTA complex, which will result in higher PTA production.

PKN ORLEN assumes for the year 2012 the undertaking of the measures aimed at further strengthening the position on the retail market. Activities, aiming at the increase of sales efficiency through the maximization of volume and optimization of operating costs, will be carried out.

7.6 Assessment of the possibility of investment plans implementation

The investment scheme in PKN ORLEN in the year 2012 and the subsequent years is aimed at completing the currently implemented key investment projects and commencing new tasks of great importance for future development and competitiveness of PKN ORLEN, including construction of the Power Plant with the combined cycle gas and steam unit of the electrical capacity of up to 500 MWe in Włocławek and expenditures in the area of extraction.

Implementation of the above investment projects is a priority as regards future operations of PKN ORLEN. Ratios of the financial leverage, liquidity and financial covenants, being the basis for assessing PKN ORLEN's credit worthiness, are on the safe level. The level of current financial ratios has been presented in section 6.5.10 of this report.

With the implementation of strategic goals, the investment projects start-up policy, providing for their verification in respect of the return rate is additionally of great importance for the financial security, together with the assessment of PKN ORLEN current situation and the market environment in order to minimise the risk of no possibility to implement the planned investment projects.

VIII. CORPORATE GOVERNANCE

8.1 A set of Corporate Governance rules followed by PKN ORLEN in 2011

In 2011, PKN ORLEN complied with the “Best Practice for Companies Listed on the Stock Exchange” (further the “Best Practice for WSE Listed Companies”) valid for the Warsaw Stock Exchange. The Code of Best Practice for WSE Listed Companies can be found on the website dedicated to the corporate governance at the Warsaw Stock Exchange: www.corp-gov.gpw.pl and on the corporate website: www.orlen.pl in the “Investor Relations” section dedicated to the Company’s shareholders under “Shareholder services & tools” in the “WSE Best Practice” tab.

In 2011 PKN ORLEN applied all the corporate governance rules set out in Code of Best Practice for WSE Listed Companies.

Communication with the capital market

The Company follows not only mandatory recommendations provided for in the “Code of Best Practice for WSE Listed Companies”, which are not mandatory. Thus, it undertakes a number of activities with a view to improve communication with its environment. In order to reach a wide range of recipients it applies both traditional and modern tools of communication with the capital market representatives. It organizes direct internet transmissions with simultaneous translation into English from media conferences following each significant event in the Company’s life, such as quarterly results publication, announcement of strategies, as well as from the PKN ORLEN General Meeting. Video records from the conference are stored on the Company’s website, thus, it is possible to view a selected past event.

Corporate website www.orlen.pl

PKN ORLEN has its corporate website, which is a reliable and useful source of information about the Company for the capital market representatives. Additionally, for shareholders, investors and stock market analysts, the Company's webpage provides investor relations section (http://www.orlen.pl/EN/InvestorRelations/Pages/default.aspx). The internet service contents are prepared in a transparent, fair and complete way so as to enable the investors and analysts to take decisions based on the information presented by the Company. The investor relations section is maintained both in Polish and in English.

The investor relations section on the corporate website is divided into a few tabs to find all the current and periodical reports published by the Company as well as presentations prepared for significant events in the Company with audio and video recording of such events.

The investor relations section contains a lot of modern tools and information on the Company, in line with the latest market standards. In 2011, for the purpose of the continuous improvement of communication with the representatives of the capital market, the company has implemented few new solutions.

One can find there, among others:

- interactive diagrams and tables fastly comparing the Company’s financial ratios in different time periods.
- interactive diagrams and tables showing PKN ORLEN’s shares quotations with a calculator of the return on investment in the Company’s stock. In 2011 these diagrams were enriched with a tool that enables comparison of stock quotations with the main stock indexes which include the Company’s stock. To a diagram showing PKN ORLEN share quotations a diagram showing the quotation of one of the indexes: WIG, WIG 20 or WIG-PALIWA (WIG-FUELS) can be attached.
- Financial statements, gathered in one place together with the presentations that describe them and that were prepared for the capital market representatives, the records of teleconferences with the stock market investors on the occasion of publication of the financial results and the worksheet with the data from the presentations that simplifies the data analysis.
- special form for contacts with the Company in respect of PKN ORLEN’s General Meetings, in accordance with the most recent amendments to the Commercial Code.
- possibility to subscribe for various types of PKN ORLEN’s newsletters, including the most recent investor relations news.
- an option to sign up for reminders concerning the events from the event’s Calendar- a newness introduced at the turn of the 2011 and 2012. One can enter the selected dates to calendars in his mail programs as well as sign up for the events’ reminders sent by e-mail or SMS. One can decide before which events he wants to receive reminder- it can be one or several of them as well as all events entered to the PKN ORLEN investor relations’ calendar, both in the current and in the next years.

There is also the WSE best practice tab on the website, in the investor relations section. One can find there the Company's annual reports on complying with best practice rules and the "Code of Best Practice for WSE Listed Companies. There is also brief information on best practice applied by the Company, the rules for selecting an entity authorized to audit the financial statements as well as information about the participation of women and men in the Company's Management Board and the Supervisory Board in the last two years.

The General Meeting tab in the investor relations section contains the set of corporate documents and a guide for shareholders "How to participate in General Meeting of PKN ORLEN S.A.", updated according to changes that occur in the commonly applicable provisions of law. The investor relation section provides also the information on the dates of general meetings, draft resolutions and the whole set of documents presented to the shareholders at general meetings. The Company ensures also communication with its shareholders via a special Internet contact form related to general meetings.

Moreover, at the turn of 2011 and 2012 PKN ORLEN launched the corporate website in the mobile version, adapted to browse the website on the mobile phones and other mobile devices. By entering the corporate website at www.orlen.pl via mobile or smartphone one is automatically redirected to the service m.orlen.pl dedicated to these devices. Users of the mobile devices can in an easy and fast way access to the key information concerning PKN ORLEN known from the original version of www.orlen.pl, i.e. stock market reports, stock quotations, financial results or press information. The mobile version m.orlen.pl enables also establishing in a fast way phone connection with the Company via function "click to call".

On the site m.orlen.pl Internet users have also an opportunity to check the wholesale fuel prices, review the list of current bids and search for the brand petrol stations in the selected locations. Via the mobile devices one can also listen to the business audiobook about the history of Polish oil or reach for electronic publications. In the Press centre tab the audio files with the records from the press conferences are available, which do not overload the links and enable fast access to contents presented by PLN ORLEN.

Platform m.orlen.pl is available in Polish and English version.

Direct contacts with capital market representatives

On a regular basis the Company actively participates in the meetings with investors and analysts both in Poland and abroad. Conferences, individual and group meetings, and teleconferences are organized with stakeholders on the capital market. The Company's representatives regularly go for the so-called roadshows – series of meetings with investors at their work place. For the capital market stakeholders interested in the Company's operations also the so-called site visits are organized, i.e. visits of shareholders or analysts in the production plant, which allow them to better acquaint with the Company specifics.

During the meetings with the capital market representatives, the representatives of PKN ORLEN provide information about the Company, however, it is also possible to get feedback for the Company from the shareholders, investors or stock exchange analysts. Thanks to this feedback the Company, being aware of the information needs of its stakeholders, can develop and improve its relations with the capital market.

The Company is striving to broaden and diversify its investors base. Thus, it undertakes activities aimed at active promotion of its business activity amongst prospective shareholders, also in new financial centres worldwide.

With a view to develop the forms and quality of communication with the capital market, the Company publishes on a quarterly basis the so-called "trading statement", i.e. operational and financial estimates and expectations of operating profit (EBIT) trends, taking into account the impact of macroeconomic factors and significant one-offs on the operating profit (EBIT). These estimates are published a few weeks prior to the date of publication of the quarterly report. "Trading statements" allow for a fair building of consensus in respect of the Company's forecasted financial results on the capital market prior to their publication. This report creates new standards in the area of investor relations. Its favourable reception confirms how important for PKN ORLEN is an appropriate and timely communication with the market on the key topics for the investors.

The care for communication with the capital market players was appreciated also in 2011 and reflected through the awards granted to the Company in the area of investor relations:

- „Best investor relations by a Polish Company 2011" - IR Magazine
- First rank in WarsawScan 2011 – best information policy and corporate governance
- First rank in WarsawScan 2011 – best website devoted to investor relations
- Listed Company of the Year in the Investor Relations category – ranking by Puls Biznesu

The Company's reaction to appearing public opinions and information injuring its reputation

In PKN ORLEN, there is an internal regulation in force, concerning the rules of taking actions which create the image of the Company and contacts with the media representatives as well as passing information relevant for the PKN ORLEN's image to the Corporate Communication Department's Director. This regulation obliges to multistage verification of information concerning the company and its representatives before it's made public.

The above instruction regulates also the rules of reaction in a situation, when opinions and information expressed in public by third parties may harm the Company's reputation. The person responsible for the coordination of this process is the Director of the Corporate Communication Department. As such opinions and information appears, the Company verifies their reliability, evaluates the importance and the potential impact and decides about issuing a dementia or closing the case because of the PKN ORLEN's interest or low impact of the misstatements occurred. In case when information/ opinion presented by a third party has serious influence the Company prepares a dementi in order to clarify false information or opinion. Depending on the nature of the matter, the prepared dementi is sent to an institution which delivered information harmful for PKN ORLEN and/or is posted on the corporate website www.orlen.pl in the Press Centre tab or is distributed in form of press release.

Reporting on PKN ORLEN's activity in the responsible business area.

Social reporting is the permanent element of widespread system of communicating the Company's actions to its stakeholders. The Company publishes annual responsible business' reports. In 2011 the seventh such report was issued, also the third report in accordance with the GRI G3.1 Level B Guidelines.

Annual reports presenting the Company's performance in Corporate Social Responsibility are available on the corporate website www.orlen.pl in CSR tab (http://www.orlen.pl/PL/OdpowiedzialnyBiznes/Strony/default.aspx). This tab provides also range of information concerning the Company's activities for the natural environment, society, safety and care for ORLEN Capital Group employees.

8.2 Description of key features of PKN ORLEN's internal audit and risk management systems related to the process of financial reporting

The Company's system of internal control and risk management in the process of drawing up financial statements is implemented through:

- verification whether a single accounting policy is applied by the ORLEN Group companies as regards the recognition, measurement and disclosures in accordance with the International Financial Reporting Standards (IFRS).
- following accounting standards and monitoring compliance with them.
- following uniform separate and consolidated financial reporting standards and periodic verification whether these standards are properly applied in the ORLEN Group companies.
- verification of the ORLEN Group companies' separate financial statements with the ORLEN Group's consolidated financial statement.
- a review, by an independent auditor, of the published financial statements for the 1st quarter, the half-year and the 3rd quarter of the year and the audit of the annual financial statements of PKN ORLEN and the ORLEN Group.
- procedures to authorise and give opinions about financial statements before they are published.
- carrying out an independent and objective evaluation of risk management and internal control systems.

Records of economic events in PKN ORLRN is conducted in an integrated system of financial - accounting, which the configuration is compatible with the Company's accounting policy.

This system is the leading system in the ORLEN Group. Thanks to a uniform IT platform used, the Parent Company has control over the recording of financial – accounting events within the ORLEN Group.
The system has an option enabling the control of access rights of different users in a way that ensures the control over their access to specific objects and transactions.
All actions performed in the system are recorded for individual transactions and users. In order to protect against unauthorized access, the entire system, along with the user data, is stored in a special directory structure of the operating system, which is secured with the appropriate access rights.

Security and availability of information contained in the financial-accounting system are controlled at all levels of the database, applications and presentations as well as at the level of operating system. System integration is ensured by the data entry control systems (validation, authorization, a list of values), and logs of changes. In case of system failure not completed transactions are withdrawn. Logs of changes give the possibility of review.

Users do not have direct access to the operating system and database. Integrated menu of the system includes access paths to all transactions available in the system. Securing the access to individual transactions is based on the authorizations assigned to the user. Security systems are used at the level of hardware and at the level of system.

In order to ensure that unified accounting standards are applied, the ORLEN Group companies have to follow, for the purpose of preparing the consolidated financial statements, the accounting policy adopted by PKN ORLEN, periodically updated to ensure that it complies with the applicable laws, specifically with the IFRS, the Accounting Act dated 29 September 1994 and the Ministry of Finance Regulation dated 19 February 2009 on current and periodic information provided by issuers of securities. The Corporate Accounting Office monitors whether this obligation is fulfilled and conducts comprehensive analytical procedures supplemented with control activities, as well as develops instructions and guidelines on identified issues, requiring detailed explanations to ensure proper and uniform financial reporting principles.

The consolidated financial statements are drawn up based on reporting packages provided by the ORLEN Group companies which are entered into the integrated IT system. The system is designed for financial management and reporting purposes. The system enables the unification of financial information. Results, budgeted and forecasted data, as well as statistics are gathered in one place, what ensures direct control and validity of the entered data.
The data is reviewed in terms of their cohesion, completeness and continuity, which is achieved thanks to controls implemented in the system, which check the compliance of data entered by the companies.
The data is reviewed in terms of their cohesion, completeness and continuity, which is achieved thanks to controls implemented in the system, which check the compliance of data entered by the companies.
Designated users of the system supervise the safety management of the system and established stages of consolidation process management. Granting access rights to individual users is strictly dependent on the security roles defined (assigned) for them. Appropriate security classes have been set up for individual users in order to maintain the control. Access to financial resources is limited by a system of permissions that are granted only to authorized personnel only within the performance of their duties. These authorizations are subject to regular audits and verification. Controlling of the access to applications is carried out at each stage of preparation of financial statements. Starting from data entry ending with the generating of the final information.
Financial information is stored in an IT system, so that they can be used to create transparent reports and forecasts, both for internal needs and external recipients, such as public bodies, financial analysts, shareholders and business partners.
The preparation of consolidated financial statements in a single integrated tool enables to shorten the processes of consolidation and reporting of financial information as well as to obtain high-quality substantive and usable financial information.

In order to reduce the risks relating to the process of drawing up financial statements on a current basis, they are quarterly verified by an auditor, i.e. more often than required under the applicable law. The financial statements for the I quarter, the half-year and the 3rd quarter of the year are reviewed, whereas the annual financial statement is subject to audit. The auditor presents the results of the reviews and audits to the Management Board and the Audit Committee of the Supervisory Board.

The Company has certain procedures to authorise the financial statements under which the periodical reports are submitted to the Management Board and, subsequently, forwarded to the Audit Committee of the Supervisory Board for their opinion. Once the opinion has been obtained from the Audit Committee and once the auditor has ended its review or audit, the financial statements are approved by the Management Board for publication and subsequently forwarded by the Investor Relations Office to the appropriate capital market institutions and made public. Before the publication, the financial statements are treated as confidential by the Company and provided solely to persons involved in the preparation, verification and approval process.

The Company has an Audit Department which has to ensure an independent and objective evaluation of the risk management and internal audit systems, and analyse business processes. The Department operates based on the annual audit plans approved by the Management Board and accepted by the Audit Committee of the Supervisory Board and the Supervisory Board itself. The Audit Department can also carry out *ad hoc* audits as ordered by the Company's Supervisory Board or the Management Board.

In pursuit of the tasks and objectives set, the Audit Department provides recommendations as to the implementation of solutions and standards designed to mitigate the risk of PKN ORLEN not meeting the targets set, to improve the effectiveness of the internal control system and to increase the efficiency of business processes. Additionally, the Audit Department monitors the follow-up on its own recommendations as well as those given by the auditor as to the Company's financial statements.

Twice a year the Audit Department draws up a report for the Management Board and the Audit Committee of the Supervisory Board on monitoring the recommendations, summarising the conclusions regarding the audit tasks performed, identified risks and information about the implementation status of the recommendations given.

8.3 PKN ORLEN's shareholders with a significant stake

PKN ORLEN shares are listed on the main market of the Warsaw Stock Exchange in the continuous listing system and are comprised by WIG, WIG20 and WIG-paliwa (WIG-fuels) – the industry index. Since 19 November 2009 the PKN ORLEN's shares have been included in the index composition of the companies engaged in the social business responsibility – Respect Index.

The shares of PKN ORLEN are also listed on the London Stock Exchange in form of Global Deposit Receipts (GDRs). GDRs are also traded in the United States on the OTC (Over The Counter).

The share capital of PKN ORLEN is divided into 427,709,061 ordinary bearer shares of the nominal value of PLN 1.25 each.
PKN ORLEN depositary receipts are lodged with The Bank of New York Mellon. The transaction unit on the London Stock Exchange is 1 GDR which accounts for two PKN ORLEN shares.

The ownership rights relating to PKN ORLEN shares are fully transferable.

Below is a list of PKN ORLEN's shareholders holding a significant stake is presented, specifying the number of shares held, the percentage of their share in the Company's share capital, the number of votes conferred by the shares held and their percentage share in the total number of votes at PKN ORLEN's General Meeting.

In 2011 and until the date of authorization of this report there were no changes in the structure of shareholders with more than 5% in the Company's share capital.

Table 21. Shareholding structure in PKN ORLEN as at 31 December 2011.

Shareholders	Number of shares	Number of votes at a General Meeting of PKN ORLEN	Share in total number of votes at a General Meeting of PKN ORLEN	Share in share capital of PKN ORLEN
State Treasury	117,710,196	117,710,196	27.52%	27.52%
Aviva OFE*	21,744,036	21,744,036	5.08%	5.08%
Others	288,254,829	288,254,829	67.40%	67.40%
Total	**427,709,061**	**427,709,061**	**100.00%**	**100.00%**

* According to the information received from by the Company on 9 February 2010.

8.4 PKN ORLEN's shareholders vested with special control rights and voting right restrictions

One PKN ORLEN share confers the right to one vote at the Company's General Meeting.

As regards the voting right of particular shareholders, the Articles of Association state as follows:

- The voting right of the Company's shareholders is restricted to the extent that at the General Meeting of Shareholders none of them can exercise more than 10% of the total votes existing in the Company as at the date the General Meeting of Shareholders is held, provided that such a restriction of the voting right does not apply for the purpose of determining the duties of acquirers of significant stakes in accordance with:
    - Competition and Consumer Protection Act of 16 February 2007.
    - Accounting Act of 29 September 1994.
    - Act of 22 September 2006 on Transparency of Financial Relations between Public Authorities and Public Entrepreneurs and on Financial Transparency of Certain Entrepreneurs.
    - Act of 29 July 2005 on Public Offering and Terms for Introducing Financial Instruments to the Organised Trading System and Public Companies.

  The restriction, referred to in the previous sentence, does not apply to the State Treasury and the depository bank which issued depositary receipts in connection with the Company's shares under an agreement with the Company (if the bank exercises the voting right from the Company's shares). The voting right exercised by the subsidiary is deemed to be exercised by the parent company within the meaning of the abovementioned Acts. In order to calculate the number of votes held by a shareholder, the voting rights from the shares is added to the number of votes that the particular shareholder would acquire in the event of converting the depositary receipts held into shares

- A shareholder is deemed to be each person, including the parent company and its subsidiary, that is directly or indirectly entitled to the voting right at the General Meeting under any legal title; that refers also to a person that is not a Company's shareholder, in particular a user, pledgee, a person authorised from the depositary receipt within the meaning of the Act of 29 July 2005 on Trading in Financial Instruments as well as a person authorised to participate in the General Meeting despite the shares held having been disposed of following the day when the right to participate in the General Meeting was established.

- Shareholders, whose votes are cumulated and reduced, are jointly referred to as the Shareholders Grouping. The accumulation of votes involves summing up the votes held by individual shareholders of the Shareholders Grouping. The reduction of the number of votes involves decreasing the overall number of votes in the Company vested in the shareholders being members of the Shareholders Grouping to be exercised at the General Meeting. The number of votes is reduced in accordance with the following rules:
    - the number of votes of a shareholder who has the largest number of votes in the Company among the votes of all shareholders in the Shareholders Grouping, is decreased by the number of votes equal to the surplus votes in excess of 10% of the overall number of votes in the Company held in aggregate by all shareholders in the Grouping,
    - if, despite the reduction mentioned above, the overall number of votes held by the Shareholders Grouping to be exercised at the General Meeting exceeds 10% of the total number of votes in the Company, the number of votes held by the remaining shareholders in the Grouping is subject to further reduction. The number of votes is further reduced in the order established on the basis of the number of votes held by particular shareholders in the Shareholders Grouping (from the highest to the lowest one). The number of votes is being further reduced until the aggregate number of votes held by the Shareholders Grouping does not exceed 10% of the overall number of votes in the Company.
    - in each case, the shareholder whose voting right has been restricted, preserves the right to exercise at least one vote.
    - restriction of the voting right also applies to the shareholder absent during the General Meeting.

- In order to establish the basis for the votes being cumulated and reduced in accordance with the above provisions, the Company's shareholder, the Management Board, the Supervisory Board and individual members of such bodies may request the Company's shareholder to provide information on whether a person is the parent company or the subsidiary of PKN ORLEN.
  The power referred to above includes also the right to request the disclosure of the number of votes held by the Company's shareholder individually or together with other Company shareholders. The person that failed to perform or performed unduly the obligation to provide information referred to in this point, may exercise the voting right from one share exclusively until the breach of such obligation has been remedied and exercising the voting right by such person from other shares is ineffective.

- The restriction of the voting right, which is referred to above, does not apply to entities dependent on the State Treasury.

- For the purpose of the regulations indicated above, the parent company and the subsidiary shall accordingly mean a person:
    - who has the status of the dominant entity, dependent entity or both within the meaning of the Act of 16 February 2007 on Competition and Consumers Protection, or
    - who has the status of the parent company, senior parent company, subsidiary, lower level subsidiary, jointly controlled entity or of both parent company (including senior parent company) and subsidiary (including the lower level subsidiary and jointly controlled entity) within the meaning of the Accounting Act of 29 September 1994, or
    - who exerts (parent company) or is subject to (subsidiary) significant influence within the meaning of the Act of 22 September 2006 on Transparency of Financial Relations between Public Authorities and Public Entrepreneurs and on Financial Transparency of Certain Entrepreneurs, or
    - whose votes from the Company's shares held directly or indirectly are cumulated with the votes of another person or other persons under the rules stipulated in the Act of 29 July 2005 on Public Offering and Terms for Introducing Financial Instruments to the Organised Trading System and Public Companies, in connection with holding, selling or purchasing Company substantial shareholdings.

- In the event of doubts, the provisions of this chapter should be interpreted in accordance with Article 65 § 2 of the Polish Civil Code.

The State Treasury is authorised to appoint and revoke one of the Supervisory Board members. Moreover, one of the PKN ORLEN Management Board members is appointed and revoked by the Supervisory Board at request of the minister in charge of State Treasury.

In accordance with the applicable provisions of the Company's Articles of Association, until the minister in charge of State Treasury or another minister exercises the rights from PKN ORLEN shares owned by the State Treasury under the generally applicable law, the appropriate minister can appoint one or two Observers for the Company, who will be authorised to monitor the Company's activities, participate in the meetings of the Company's authorities, review the Company's documents, request reports and explanations, inspect the Company's assets. Detailed rules regulating the Observers' activity and their powers are set out in the General Meeting, Supervisory Board and Management Board Regulations. In accordance with the Act of 18 March 2010 on Specific Rights Vested in the Minister in Charge of State Treasury and The Exercise of Such Powers In Certain Capital Companies or Capital Groups Conducting Business Activities in the Electricity, Crude Oil and Gas Fuel Sectors (the "18 March 2010 Act on Specific Rights Vested In the Minister in Charge of State Treasury"), the Act of 3 June 2005 on Specific Powers Vested in the Minister in Charge of State Treasury and Their Exercise in Capital Companies Significant for Public Order and Safety, which Act introduced the institution of the Observer in the Company, has expired. Thus, the Company's Management Board proposed to the General Meeting that the provisions concerning the Observer be removed from the Company's Articles of Association. The Annual General Meeting, on 25 June 2010, did not however express the consent to such change in the Company's Articles of Association. While the above act was in force, nobody was appointed to perform the function of the Observer in the Company.

Additionally, specific rights vested in the State Treasury shareholders may also arise out of the commonly applicable provisions of law, especially the 18 March 2010 Act on Specific Rights Vested In the Minister In Charge of State Treasury. Pursuant to the above act, the Minister in charge of State Treasury may object against the resolution passed by the Company's Management Board or any other legal action undertaken by the Company's Management Board regarding the disposal of assets disclosed in the uniform list of facilities, installations, appliances and services comprised in the critical infrastructure, referred to in article 5b section 7 item 1 of the Act of 26 April 2007 on Crisis Management, which pose a real threat to the functioning, business continuity and integrity of the critical infrastructure. The Minister In Charge of State Treasury may also object to the Company's body passing resolution on:

- dissolution of the Company,
- change of function of, or ceasing, the exploitation of the Company's asset disclosed in the uniform list of facilities, installations, appliances and services comprised in the critical infrastructure, referred to in article 5b section 7 item 1 of the Act of 26 April 2007 on Crisis Management,
- change of the Company's business activity,
- disposal or lease of the Company's enterprise or its organized part and establishment of a limited property right thereon,
- adoption of the operational and financial plan, investment activity plan or long-term strategic plan,
- moving the Company's' seat abroad,

provided that such a resolution, if performed, would actually pose a real threat to the operations, business continuity and integrity of the critical infrastructure.

In accordance with the 18 March 2010 Act on Specific Rights Vested In the Minister In Charge of State Treasury , the Company's Management Board, in agreement with the Minister in charge of State Treasury and the Director of the Government Centre for Security is authorized to appoint and revoke a plenipotentiary in charge of the protection of critical infrastructure in the Company. The scope of the plenipotentiary's tasks includes providing the Minister in charge of State Treasury with information on the Company's authorities having undertaken the above specified legal actions, providing the information on the critical infrastructure to the Director of the Government Centre for Security on request, transferring and collecting information on any threats to the critical infrastructure in cooperation with the Director of the Government Centre for Security.

On 2 August 2011 the Supervisory Board of PKN ORLEN appointed a Proxy for critical infrastructure protection.

8.5 Rules for amending PKN ORLEN's Articles of Association

Any amendment to PKN ORLEN's Articles of Association requires a resolution of the General Meeting of Shareholders and has to be entered in the companies register. The resolution of the General Meeting of Shareholders to amend the Company's Articles of Association is adopted by three quarters of votes. The General Meeting may authorise the Supervisory Board to formulate the uniform text of the Articles of Association or make other editorial changes as set out in the resolution passed by the General Meeting.

Once the amendments to the Articles of Association are entered in the companies register, PKN ORLEN publishes a relevant current report.

8.6 Proceedings of PKN ORLEN's general meeting of shareholders, its key powers, and shareholders' rights and their exercise

Proceedings and powers of PKN ORLEN's General Meeting of Shareholders are regulated in the Articles of Association and the Regulations of PKN ORLEN's General Meeting. The documents can be found on the PKN ORLEN's website: www.orlen.pl in the Company and Investor relations sections in the General Meeting tab.

8.6.1 Convening and calling off PKN ORLEN's General Meetings

The General Meeting is to be convened in the manner and under the rules stipulated in the generally applicable provisions of law. The General Meeting is convened through placing an announcement on the Company's website and by delivering a current report to the capital market institutions and making it public. The announcement should be placed at least 26 days before the scheduled date of the General Meeting.

The Ordinary General Meeting of Shareholders should be held no later than within six months from the end of every financial year.

The Extraordinary General Meeting of Shareholders is convened by the Management Board on its own initiative, on the motion of the Supervisory Board or on the motion of a shareholder or shareholders representing no less than one twentieth of the Company's share capital, within fourteen days from filing the motion. The motion for the General Meeting to be held should specify the issues for the agenda or include draft resolution on the proposed agenda. The Supervisory Board may convene the Extraordinary General Meeting if the Supervisory Board recognises that it is advisable to do so. The Supervisory Board may also convene the Extraordinary General Meeting if the Management Board fails to do so within two weeks following the submission of the relevant request by the Supervisory Board. The Extraordinary General Meeting may also be convened by the shareholders representing at least one half of the share capital or at least one half of the overall number of votes in the Company.

The shareholder or shareholders representing no less than one twentieth of the Company's share capital may request that specific issues be placed on the agenda of the nearest General Meeting under the rules stipulated in the generally applicable provisions of law.

All the materials to be presented to the shareholders at the General Meeting, specifically draft resolutions to be adopted by the General Meeting and other important materials are made available by the Company following the day

when the General Meeting has been convened in the Company's seat in Płock and in the Warsaw office, as well as on the corporate website www.orlen.pl.

The General Meetings of PKN ORLEN are held in the Company's seat in Plock, however, they can also be held in Warsaw.

For the shareholders who cannot participate in the General Meeting in person, the Company arranges for an internet broadcast of the Meeting and offers simultaneous translation into English.

In accordance with the General Meeting Regulations the cancellation and the change in the date of the General Meeting should be effected forthwith once the requirement for the cancellation and the change in the date has occurred but no later than seven days prior to the day when the General Meeting is to be held. If the cancellation and change in the date of the General Meeting cannot be effected within the deadline specified above, such a General Meeting should be held unless it is impossible or excessively hindered due to the circumstances. In such case, the cancellation and change in the date of the General Meeting may be effected at any time prior to the day when the General Meeting is to be held. The cancellation and the change in the date of the General Meeting is effected by announcement placed on the Company's website together with the reasons and complying with other legal requirements. Only the body or the person to have convened the General Meeting is competent to cancel the same. The General Meeting with the agenda containing specific issues put therein at the request of eligible entities, or which was convened at such a request, may be cancelled only with consent of such requesting entities.

8.6.2 Competence of PKN ORLEN's General Meeting

The General Meeting of Shareholders is especially authorised to:

- consider and approve the Company's annual financial statements, the annual report on the Company's business operations, the consolidated financial statements of the ORLEN Capital Group and the report on the ORLEN Capital Group business operations for the previous financial year,
- acknowledge the discharge of duties by the Supervisory Board and Management Board members,
- decide on the allocation of profit and the absorption of losses as well as on the use of funds set up from profit, subject to special regulations which provide for a different way of their usage,
- appoint the Supervisory Board members, subject to the provisions of § 8 item 2 of the Articles of Association, and establish principles for their remuneration,
- increase and decrease the share capital unless otherwise stated in the Commercial Code and the Company's Articles of Association,
- decide on claims for the rectification of damage caused when setting up the Company or exercising supervision or management,
- approve the sale and lease of the Company's enterprise or an organised part thereof and establish a limited property right on such enterprise or an organised part thereof,
- grant consent to the sale of real estate, perpetual usufruct or interest in real estate whose net book value exceeds one twentieth of the Company's share capital,
- amend the Company's Articles of Association,
- set up and dissolve reserve capitals and other capitals and the Company's funds,
- pass resolutions to redeem shares and buy shares to be redeemed and to establish the redemption rules,
- issue convertible bonds or bonds with pre-emptive rights and the issue of warrants,
- pass resolutions on winding-up the Company, its liquidation, restructuring and merger with another company,
- conclude holding contracts within the meaning of Article 7 of the Polish Commercial Code.

Purchase of real estate, perpetual usufruct or interest in real estate, regardless of its value, as well as disposal of real estate, perpetual usufruct or interest in real estate where net book value does not exceed one twentieth of the Company's share capital does not require a consent resolution of the General Meeting of Shareholders.

8.6.3 Voting at PKN ORLEN's General Meetings

Unless stated otherwise in the Commercial Code and the Articles of Association, resolutions of the General Meeting of Shareholders are passed with an absolute majority of votes cast, while votes cast mean votes "for", "against" and "abstain."

Resolutions of the General Meeting of Shareholders regarding preferred shares and the Company's merger as a result of all the Company's assets being transferred to another company, winding-up of the Company (including winding-up as a result of the Company's seat or business operations center being transferred abroad), liquidation of the Company, its restructuring and decrease in the share capital by redemption of some shares without the capital being simultaneously increased are passed with a majority of 90% of votes cast.

The General Meeting's resolution to renounce the examination of an issue placed on the agenda may be adopted only in case when there are substantial reasons to do so. The resolutions to remove or not to consider an item placed on the agenda on the motion of the shareholders require the majority of 75% of votes cast provided that the shareholders present at the General Meeting who requested this issue be placed on the agenda previously agreed to the issue being removed from the agenda or not considered at all.

One PKN ORLEN share confers the right to one vote at the Company's General Meeting. The voting right of the Company's shareholders is restricted to the extent that at the General Meeting of Shareholders none of them (but for those specified in the Company's Articles of Association) can exercise more than 10% of the total votes existing in the Company as at the date the General Meeting of Shareholders is held. The detailed rules for exercising the voting right have been described in chapter 8.4 of this report.

The shareholders can participate in the General Meeting and exercise their voting rights in person or by proxy.

8.6.4 Participation in PKN ORLEN's General Meetings

In accordance with Article 406(1) § 1 of the Polish Commercial Code, the right to participate in the Company's General Meeting is vested only in the persons that are the Company's shareholders sixteen days before the date of the General Meeting (date of registration in the General Meeting).

At the request of the shareholder, filed no earlier than the announcement of convening the General Meeting has been published and no later than on the working day following the day when the participation in the General Meeting has been registered, the entity where the securities account is kept issues a personal certificate of entitlement to attend the General Meeting. This certificate includes:

- the business name, seat, address and stamp of the issuer and the certificate number,
- number of shares held,
- type and code of shares,
- the business name, seat and address of the Company,
- nominal value of shares,
- name and surname or the business name of the shareholder,
- the seat (place of residence) and address of the shareholder,
- purpose of issuing the certificate,
- date and place of issuing the certificate,
- signature of the person authorised to issue the certificate

The list of shareholders eligible to participate in the General Meeting is compiled by the Company on the basis of a specification prepared by the entity maintaining the securities deposit in accordance with the provisions of the Act on Trading in Financial Instruments dated 29 July 2005 (at present The National Depository for Securities, Krajowy Depozyt Papierów Wartościowych S.A., KDPW). KDPW prepares the list of entities entitled to participate in the General Meeting on the basis of specifications provided no later than twelve days prior to the date of the General Meeting date by the eligible entities. The lists submitted to KDPW are compiled on the basis of issued certificates of entitlement to participate in the General Meeting. KDPW provides such a list for the company's review no later than a week prior to the date of the General Meeting. PKN ORLEN's Management Board issues the list of shareholders eligible to participate in the General Meeting. This list is prepared on the basis of a specification provided for the company's review by KDPW three days prior to the date of the General Meeting.

The General Meeting may be attended by the members of the Management Board and the Supervisory Board, who can take the floor, even if they are not shareholders, without any invitations being sent. An Ordinary General Meeting of Shareholders can be attended by the members of the Management Board and the Supervisory Board whose mandates have expired before the date of the General Meeting and who exercised their functions in the financial year for which the Management Board report and the financial statements are to be approved by the Ordinary General Meeting of Shareholders.

General Meetings of Shareholders can also be attended by other persons invited by an authority convening the General Meeting or allowed to enter the meeting room by the Chairman, specifically, certified auditors, legal and financial advisers or the Company's employees. PKN ORLEN, as far as admissible under the applicable law and with due consideration of the Company's interests, allows media representatives to attend the General Meetings. The Management Board ensures that each General Meeting is attended by an independent expert specialised in commercial law.

Members of the Management Board and the Supervisory Board and the Company's certified auditor provide the Meeting participants with explanations and information about the Company, within the scope of their authorisation and to the extent required for the issues discussed by the General Meeting to be resolved. Questions posed by the General Meeting participants are answered in view of the fact that PKN ORLEN, as a public company, fulfills its reporting obligations in a manner specified in the applicable capital market regulations and the information cannot be provided otherwise than in conformity with these regulations.

General Meetings can be attended by an Observer appointed by the minister in charge of State Treasury affairs. Until the authorization of this report, the minister in charge of State Treasury affairs has not appointed any Observer for PKN ORLEN and, as stated in chapter 8.4 of this report, the Act of 3 June 2005 on Specific Powers Vested in the State Treasury and Their Exercise in Joint-stock and limited-liability Companies of Material Significance for Public Order or Public Security, which established the institution of Observer in the Company, has expired.

In accordance with the Act of 18 March 2010 on Specific Powers Vested in the Minister in Charge of State Treasury, the right to request from the Company's authorities, including the General Meeting, any documents, information and explanations relating to the issues listed in the Act (i.e. concerning the Company's property disclosed in a uniform list of facilities, installations, devices and services comprised by the critical infrastructure referred to in the Act of 26 April 2007 on Crisis Management) is vested in charge of critical infrastructure protection.

A special section dedicated to the Company's General Meetings is included on the corporate PKN ORLEN website where the guidelines "How to participate in General Meeting" are posted and updated in accordance to changes that occur in the commonly applicable provisions of law. This section provides also information about the planned shareholders' meetings along with material relating to such meetings, archive materials from the meetings held, including texts of resolutions adopted and video files with internet broadcasts of the General Meetings.

8.6.5 General Meeting in 2011

The General Meeting of the Company was held on 29 June 2011. This was the Ordinary General Meeting of PKN ORLEN.

During the debates of the Ordinary General Meeting the shareholders approved the annual reports on the operations of the Company and the ORLEN Capital Group as well as the financial statements for 2010. They also resolved on confirming the performance of duties by all the Supervisory and Management Boards members.

The General Meeting resolved also to allocate the Company's entire profit generated in 2010 to the Company's reserve capital. Moreover, due to the end of the liquidation process of Nafta Polska S.A., the General Meeting of PKN ORLEN decided adjust the current provisions of § 7 11 points 1 and 6 of the Company's Articles of Association by removing the provisions that concern Nafta Polska S.A.

The debates concerned also amendments to the PKN ORLEN's Articles of Association in order to implement the provisions that enable the shareholders to participate in the General Meeting with the use of electronic communication means, which includes:

- broadcast of the General Meetings,
- real time two-way communication within which shareholders may speak during the session of the General Meeting being in a place other than the place of General Meeting,
- exercise voting rights in person or by proxy.

These above mentioned proposals prepared by the Management Board and positively accepted by the Supervisory Board were not approved by the General Meeting. Decisions permitting to hold the so-called e-meeting were not introduced into the Articles of Association. Thus, at the request of the Management Board, changes of the Rules of the General Meeting were removed from the agenda of the General Meeting.

8.7 Composition and proceedings of the management and supervisory authorities in PKN ORLEN and their committees

8.7.1 Composition of PKN ORLEN's Management Board in 2011

As at 1 January 2011 the composition of PKN ORLEN's Management Board was as follows:

Table 22. Composition of the PKN ORLEN's Management Board as at 1st January 2011.

Name and surname	Position held in PKN ORLEN's Management Board
Dariusz Jacek Krawiec	President of the Management Board, Chief Executive Officer
Sławomir Jędrzejczyk	Vice – President of the Management Board, Chief Financial Officer
Wojciech Kotlarek	Member of the Management Board, Sales
Krystian Pater	Member of the Management Board, Refinery
Marek Serafin	Member of the Management Board, Petrochemistry

At its meeting held on 24 March 2011, the Supervisory Board of PKN ORLEN has appointed the Management Board of PKN ORLEN for a joint three-year term. The new term of office of the Management Board started after the holding of the Annual General Meeting, which approved the financial statements for the year 2010.

Composition of the Management Board of the new term, which began its run on 30 June 2011, is presented in the following table:

Table 23. Composition of the Management Board of PKN ORLEN as at 30 June 2011.

Name and surname	Position held in PKN ORLEN's Management Board
Dariusz Jacek Krawiec	President of the Management Board, Chief Executive Officer
Sławomir Jędrzejczyk	Vice – President of the Management Board, Chief Financial Officer
Krystian Pater	Member of the Management Board, Refinery
Grażyna Piotrowska-Oliwa	Member of the Management Board, Sales
Marek Serafin	Member of the Management Board, Petrochemistry

Ms Grażyna Piotrowska – Oliwa was appointed on a motion of the Ministry of State Treasury based on the § 9 paragraph 1 item 3 of PKN ORLEN's Articles of Association. Mr Dariusz Jacek Krawiec, Sławomir Jędrzejczyk, Krystian Pater and Marek Serafin were acting as Members of the Management Board in the previous term in office.

On 7 December 2011, the Supervisory Board of PKN ORLEN resolved to suspend indefinitely Mr Marek Serafin from his office of a Member of the Management Board of PKN ORLEN as a consequence of him being arrested by the Internal Security Agency.

At the meeting held on 8 December 2011, the Supervisory Board of PKN ORLEN resolved to recall Mr Marek Serafin from his office of a Member of the Management Board.
At the same meeting, the Supervisory Board of PKN ORLEN delegated Mr Piotr Wielowieyski, Member of the Supervisory Board, as of 9 December 2011 to temporarily acting as a Member of the Management Board in charge of Petrochemistry. The delegation was for the period not longer than 3 months, e.g. not longer then until 9 March 2012.

Concerning above listed changes, the composition of the Management Board as at 9 December 2011 was as follows:

Table 24. Composition of the Management Board of PKN ORLEN as at 9 December 2011 and 31 December 2011.

Name and surname	Position held in PKN ORLEN's Management Board
Dariusz Jacek Krawiec	President of the Management Board, Chief Executive Officer
Sławomir Jędrzejczyk	Vice – President of the Management Board, Chief Financial Officer
Krystian Pater	Member of the Management Board, Refinery
Grażyna Piotrowska-Oliwa	Member of the Management Board, Sales
Piotr Wielowieyski	Memeber of the Supervisory Board delegated to act temporarily as the Member of the Management Board in charge of Petrochemistry

In March 2012 there were changes in the composition of the Management Board. PKN ORLEN's Supervisory Board at its meeting on 6 March 2012 appointed Mr Peter Chełmiński as a Member of the Management Board of PKN ORLEN Board in charge of Petrochemistry. The appointment is effective starting from 10 March 2012. On 7 March 2012 Ms Grażyna Piotrowska - Oliwa, the Member of PKN ORLEN's Management Board in charge of Sales made a statement of resignation effective from 18 March 2012 from her position in connection with her appointment by the Supervisory Board of the Polskie Górnictwo Naftowe i Gazownictwo S.A. ("PGNiG") as the President of PGNiG. Then, on 14 March 2012 the Supervisory Board of PKN ORLEN appointed Mr Marek Podstawa, effective from 19 March 2012, as the Member of the Management Board of PKN ORLEN in charge of Sales.

Table 25. Composition of the Management Board of PKN ORLEN as at 19 March 2012.

Name and surname	Position held in PKN ORLEN's Management Board
Dariusz Jacek Krawiec	President of the Management Board, Chief Executive Officer
Sławomir Jędrzejczyk	Vice – President of the Management Board, Chief Financial Officer

Piotr Chełmiński	Member of the Management Board, Petrochemistry
Krystian Pater	Member of the Management Board, Refinery
Marek Podstawa	Member of the Management Board, Sales

8.7.2 Number of women and men acting as Management Board Members in the last two years:

Table 26. Number of men and women acting as Management Board Members of PKN ORLEN.

As at	Number of women	Number of men
1 January 2010 roku	0	5
1 January 2011 roku	0	5
30 June 2011 roku	1	4
9 December 2011 roku	1	4
1 January 2012 roku	1	4
19 March 2012 roku	0	5

8.7.3 Competence of the Company's Management Board

Mr Dariusz Jacek Krawiec, President of the Management Board of PKN ORLEN concurrently fulfilling the function of the Chief Executive Officer supervises the following areas: human resources, strategy and project management, procurement, Counsel to PKN ORLEN, corporate communication, audit, crude trading, upstream, representative responsible for confidential information protection as well as representative responsible for critical infrastructure and defense.

Mr Sławomir Jędrzejczyk, Vice – President of the Management Board, Chief Financial Officer is responsible for the following areas: planning and reporting, business controlling, supply chain management, finance management, taxes, investor relations, capital investments and divestments, IT.

Mr Piotr Chełmiński, Member of the Management Board in charge of Petrochemistry is responsible for the following areas: petrochemical production, sale of petrochemical products, chemistry, health and safety, environmental protection, development and efficiency of petrochemical production, implementation of property investments, energetic.

Mr Krystian Pater, Member of the Management Board in charge of Rafinery supervises the following areas: refinery production, oil production, energy production, investments and efficiency of refinery production.

Mr Marek Podstawa, Member of the Management Board in charge of Sales supervises the following areas: wholesale in refinery products, sale of oils, retail sale, and logistics.

8.7.4 Composition of PKN ORLEN's Supervisory Board in 2011

As at 1 January 2011 the Company's business was monitored by the Supervisory Board in the following composition:

Table 27. Composition of PKN ORLEN's Supervisory Board as at 1 January 2011.

Name and surname	Position held in PKN ORLEN's Supervisory Board
Maciej Mataczyński	Chairman of the Supervisory Board
Marek Karabuła	Vice – Chairman of the Supervisory Board
Angelina Sarota	Secretary of the Supervisory Board
Grzegorz Borowiec	Member of the Supervisory Board
Artur Gabor	Member of the Supervisory Board
Krzysztof Kołach	Member of the Supervisory Board

Leszek Jerzy Pawłowicz	Member of the Supervisory Board
Piotr Wielowieyski	Member of the Supervisory Board
Janusz Zieliński	Member of the Supervisory Board

Until 31 December 2011, the above presented composition of the Supervisory Board has not changed.

At the beginning of 2012 changes in the composition of the Supervisory Board were made. On 12 January 2012 the Extraordinary General Meeting of PKN ORLEN revoked Mr Krzysztof Kołach from the Supervisory Board. At the same time the Extraordinary General Meeting appointed Mr Michał Gołębiowski to the Supervisory Board.
Additionally, Minister of State Treasury based on § 8 paragraph. 2 item 1 of Articles of Association, acting on behalf of the State Treasury- the shareholder recalled Mr Janusz Zieliński from his office of the Supervisory Board of PKN ORLEN. Concurrently Minister of State Treasury, as of 12 January 2012 appointed Mr Cezary Banasiński to the Supervisory Board.

Concerning above listed changes, the composition of the Supervisory Board at as 12 January 2012 was as follows:

Table 28. Composition of the PKN ORLEN's Supervisory Board as at 12 January 2012.

Name and surname	Position held in PKN ORLEN's Supervisory Board
Maciej Mataczyński	Chairman of the Supervisory Board
Marek Karabuła	Vice – Chairman of the Supervisory Board
Angelina Sarota	Secretary of the Supervisory Board
Cezary Banasiński	Member of the Supervisory Board
Grzegorz Borowiec	Member of the Supervisory Board
Artur Gabor	Member of the Supervisory Board
Michał Gołębiowski	Member of the Supervisory Board
Leszek Jerzy Pawłowicz	Member of the Supervisory Board
Piotr Wielowieyski	Member of the Supervisory Board

Further changes in the composition of the Supervisory Board took place in March 2012. Mr Marek Karabuła and Mr Piotr Wielowieyski submitted a statement on resignation from the position of PKN ORLEN's Supervisory Board Member, effective from 28 March 2012.

Tabela 29. Composition of the PKN ORLEN's Supervisory Board as at 28 March 2012

Name and surname	Position held in PKN ORLEN's Supervisory Board
Maciej Mataczyński	Chairman of the Supervisory Board
Angelina Sarota	Secretary of the Supervisory Board
Cezary Banasiński	Member of the Supervisory Board
Grzegorz Borowiec	Member of the Supervisory Board
Artur Gabor	Member of the Supervisory Board
Michał Gołębiowski	Member of the Supervisory Board
Leszek Jerzy Pawłowicz	Member of the Supervisory Board

The Supervisory Board was acting in the current composition until the date of authorization of this report by the Management Board.

In 2011, the attendance of members of the Supervisory Board of PKN ORLEN on Board's meetings amounted to was on average 92%.
In 2011, the Supervisory Board held 11 minuted meetings and has adopted 90 resolutions.

8.7.5 Number of women and men acting as Supervisory Board Members in the last two years

Table 30. Number of men and women acting as Supervisory Board Members of PKN ORLEN.

As at	Number of women	Number of men
1 January 2010	1	8
1 January 2011	1	8
1 January 2012	1	8
12 January 2012	1	8
28 March 2012	1	6

8.7.6 Composition of Supervisory Board Committees of PKN ORLEN in 2011

In 2011 Supervisory Board Committees were acting in the following compositions:

Table 31. Composition of Supervisory Board Committees of PKN ORLEN

Name and surname	Position held in PKN ORLEN's Supervisory Board Committee
Audit Commitee	
Artur Gabor	Committee Chairman, Independent Member of the Supervisory Board
Marek Karabuła	Committee Member
Leszek Jerzy Pawłowicz	Committee Member, Independent Member of the Supervisory Board
Piotr Wielowieyski	Committee Member, Independent Member of the Supervisory Board
Janusz Zieliński	Committee Member, Independent Member of the Supervisory Board
Corporate Governance Commitee	
Angelina Sarota	Committee Chairman
Grzegorz Borowiec	Committee Member
Maciej Mataczyński	Committee Member
Strategy and Development Committee	
Marek Karabuła	Committee Chairman
Krzysztof Kołach	Committee Member, Independent Member of the Supervisory Board
Leszek Jerzy Pawłowicz	Committee Member, Independent Member of the Supervisory Board
Piotr Wielowieyski	Committee Member, Independent Member of the Supervisory Board
Janusz Zieliński	Committee Member, Independent Member of the Supervisory Board
Nomination and Renumeration Committee	
Maciej Mataczyński	Committee Chairman
Grzegorz Borowiec	Committee Member
Artur Gabor	Committee Member, Independent Member of the Supervisory Board
Krzysztof Kołach	Committee Member, Independent Member of the Supervisory Board

Due to changes in the composition of the Supervisory Board introduced in January 2012, the Supervisory Board on the meeting held on 19 January 2012 established the following Committee's composition:

Table 32. Composition of Supervisory Board Committees in PKN ORLEN after changes on 19 January.

Name and surname	Position held in PKN ORLEN's Supervisory Board Committee
Audit Commitee	
Artur Gabor	Committee Chairman, Independent Member of the Supervisory Board
Michał Gołębiowski	Committee Member
Marek Karabuła	Committee Member
Leszek Jerzy Pawłowicz	Committee Member, Independent Member of the Supervisory Board
Piotr Wielowieyski	Committee Member, Independent Member of the Supervisory Board
Corporate Governance Commitee	
Angelina Sarota	Committee Chairman
Grzegorz Borowiec	Committee Member
Maciej Mataczyński	Committee Member
Strategy and Development Committee	
Marek Karabuła	Committee Chairman
Michał Gołębiowski	Committee Member
Cezary Banasiński	Committee Member, Independent Member of the Supervisory Board
Leszek Jerzy Pawłowicz	Committee Member, Independent Member of the Supervisory Board
Piotr Wielowieyski	Committee Member, Independent Member of the Supervisory Board
Nomination and Renumeration Committee	
Maciej Mataczyński	Committee Chairman
Grzegorz Borowiec	Committee Member
Artur Gabor	Committee Member, Independent Member of the Supervisory Board
Michał Gołębiowski	Committee Member

Since further changes in the composition of the Supervisory Board took place on 28 March 2012, i.e. the date of authorization of the foregoing report, the composition Supervisory Board Committees will be modified.

8.7.7 The rules of conduct of the Management Board and Supervisory Board and Supervisory Board Committees in PKN ORLEN

Apart from generally applicable laws, the rules of conduct for PKN ORLEN's Supervisory Board, its Committees and the Management Board are regulated in PKN ORLEN's Articles of Association and the Supervisory Board and the Management Board Regulations, respectively. The proceedings of the management and supervisory authorities in PKN ORLEN are also subject to the corporate governance principles set out by the Warsaw Stock Exchange.

8.7.8 The rules of conduct of PKN ORLEN's Supervisory Board

Appointing and recalling members of PKN ORLEN's Supervisory Board

Members of PKN ORLEN's Supervisory Board are appointed for a common term of office, ending on the day when the Ordinary General Meeting has been held, approving the financial statements for the whole second financial year of such term of office. Individual members of the Supervisory Board and the entire Supervisory Board can be recalled at any time before the end of the term of office. The General Meeting of PKN ORLEN appoints the Chairman of the Supervisory Board, whereas the vice-chairman and the secretary are appointed by the Supervisory Board from amongst the other members of the Board.

PKN ORLEN's Supervisory Board is composed of six to nine members. The State Treasury is authorised to appoint and recall one member of the Supervisory Board, other members of the Supervisory Board are appointed and recalled by the General Meeting of Shareholders. On 25 June 2010 the Annual General Meeting of PKN ORLEN appointed Supervisory Board Members to a new term of office.

Pursuant to the Articles of Association of PKN ORLEN, at least two members of the Supervisory Board have to comply with the following independency provisions (the so-called independent members of the Supervisory Board):

- he/she is not an employee of the Company or a Related Entity,
- he/she has not been a member of management authorities of the Company or a Related Entity within the last five years prior to the appointment to the Supervisory Board,
- he/she is not a member of supervisory and management authorities of a Related Entity,
- he/she does not receive nor has received, within the last five years prior to the appointment to the Supervisory Board, a considerable additional remuneration, i.e. remuneration exceeding the aggregate amount of PLN 600,000 from the Company or a Related Entity, apart from the remuneration due to the member of supervisory authorities,
- he/she is not nor has been, within the last three years prior to the appointment to the Supervisory Board, a partner or employee of the current or former chartered auditor examining the financial statements of the Company or a Related Entity,
- he/she is not a shareholder holding 5% or more votes at the Company's General Meeting of Shareholders or a Related Entity's General Meeting,
- he/she is not a member of supervisory or management authorities or an employee of an entity having 5% or more votes at the Company's General Meeting of Shareholders or a Related Entity's General Meeting
- he/she is not an ascendant, descendant, spouse, sibling, spouse's parent or any other person remaining in an adoptive relationship with any of the persons mentioned above,
- he/she has not hold the position of the Company's Supervisory Board member for more than 3 terms of office,
- he/she is not a member of the Management Board of the company, where a member of the Company's Management Board holds the position of a member of the Supervisory Board,
- he/she is free from any significant connections with members of the Company's Management Board by participation in other companies.

Independent members of the Supervisory Board, before being appointed to the Supervisory Board, should submit to the Company a written statement confirming that they comply with the above mentioned provisions. If the said provisions are not met, a member of the Supervisory Board is obliged to immediately notify the Company thereof. The Company informs the shareholders about the current number of independent members of the Supervisory Board.

If the number of independent members of the Supervisory Board is less than two, the Company's Management Board is obliged to immediately convene a General Meeting of Shareholders and put an issue concerning changes in the composition of the Supervisory Board on the agenda of the General Meeting. The Supervisory Board acts in its current composition until the changes in the composition of the Supervisory Board are made, i.e. the number of independent members is adjusted to the statutory requirements set in the Articles of Association whereas the provisions of § 8 paragraph 9 point a of the Articles of Association (containing a list of resolutions which must be passed with consent of at least one half of independent Supervisory Board members) do not apply.

Organisation of PKN ORLEN's Supervisory Board's operations

Sessions of the Supervisory Board are held when necessary, however, not less frequently than once every two months. Moreover, as stated in the Company's Articles of Association, a Supervisory Board session should be convened following a written request of a shareholder or shareholders representing at least one tenth of the share capital, the Management Board or a member of the Supervisory Board. In such cases the session should be convened within two weeks from the receipt of such request and should be held no later than within three weeks of such request being received. If a Supervisory Board session is not convened within two weeks of the request being filed, the requestor can call the session by himself through a written notice specifying the time, venue and the proposed agenda sent to the members of the Supervisory Board, at least seven days before the date of the session.

Sessions of the Supervisory Board can only take place when all its members have been properly invited. Sessions can also be held without the meeting being formally convened if all the Supervisory Board members are present and grant their consent to the session being held and certain issues being put on the agenda.

The Supervisory Board can pass resolutions if at least half of its members participate in the session. Subject to the provisions of the Commercial Code, a resolution of the Supervisory Board can be passed in writing or with the use of direct means of remote communication. Resolutions of the Supervisory Board are passed with an absolute majority of the votes cast, in the presence of at least half of the members of the Supervisory Board, while the votes cast mean votes "for", "against" and "abstain." This does not apply to any members of the Management Board or the entire

Management Board being recalled or suspended during the term of their office when at least two thirds of all the Supervisory Board members have to vote in favour of the resolution.

Passing resolutions on the following matters:
- any contribution to members of the Management Board provided by the Company or any related entities,
- giving permission to sign any significant agreement by the Company or a subsidiary with an entity related to the Company, a member of the Supervisory Board, or Management Board, as well as with their related entities,
- appointing a certified auditor to audit the financial statements of the Company

requires the consent of at least one half of the independent members of the Supervisory Board. Such provisions do not exclude applying Article 15 § 1 and 2 of the Commercial Code.

With a view to fulfilling its duties, the Supervisory Board can review all the Company documents, demand reports and explanations from the Management Board and the employees, and inspect the Company's assets.

Competence of PKN ORLEN's Supervisory Board

The Supervisory Board of PKN ORLEN exercises permanent supervision over the Company's operations, in all fields of its activity, specifically, the Supervisory Board is authorised to act as set out in the Commercial Code and the Company's Articles of Association. The Supervisory Board takes relevant steps required to regularly obtain exhaustive information from the Management Board about all the material issues relating to of PKN ORLEN's operations and the risk related to the business operations and risk management methods applied.

Pursuant to the Articles of Association, the Supervisory Board is also authorised to:
- appoint and recall the President, Vice-Presidents and other members of the Management Board (except for one member of the Management Board appointed and recalled by the Supervisory Board at the request of the State Treasury until the State Treasury sells the last Company share), represent the Company in contracts with the Management Board, including the terms of their employment contracts,
- suspend the activities of individual or all members of the Management Board for important reasons as well as delegating a member or members of the Supervisory Board to temporarily perform the duties of those members of the Management Board who are unable to perform their duties,
- approve the Management Board Regulations,
- appoint an entity authorised to audit the financial statements of the Company and the consolidated financial statements of the ORLEN Capital Group in accordance with the Accounting Act,
- assess the financial statement in terms of its accuracy both in terms of its compliance with the accounting books and documents, the factual status, assess the Management Board's report on the Company's business operations, as well as the Management Board motions on the allocation of profit and coverage of loss, and submit to the General Meeting of Shareholders an annual written report on the results of the above assessments,
- assess the financial statement of the ORLEN Capital Group and the Management Board's report on the business operations of the ORLEN Group and submit the annual written report on the results of such assessment,
- issue opinions on any matter submitted by the Management Board to be presented either to Ordinary or Extraordinary General Meeting of Shareholders,
- grant consent to the members of the Management Board to take positions in supervisory or management authorities of other entities and to collect remuneration for such activities,
- grant consent to implement investment project and to incur the related liabilities in case the expenses or charges due to such activity exceed the equivalent of one half of the Company's share capital,
- set the scope, accuracy and time for submission by the Management Board of its annual and long-term financial plans and plans for the Company's development strategy,
- approve the Company's development strategy and long-term financial plans,
- issue opinions on the annual financial plans,
- give consent, upon the Management Board's motion, to sell real estate, perpetual usufruct or participation in real estate where the net book value does not exceed one twentieth of the share capital,
- give consent, upon the Management Board's motion, to purchase real estate, perpetual usufruct or participation in real estate where the net acquisition price exceeds one fortieth of the share capital,
- give consent to purchase the Company's own shares to prevent serious damage referred to in Article 362 § 1 item 1 of the Commercial Code, posing a direct threat to the Company,
- appoint the acting President of the Management Board, referred to in § 9 sec. 3 item 3, in the event the President is suspended from duty or his/her mandate expires before the end of the term of office.

The Articles of Association also stipulate that the consent of PKN ORLEN's Supervisory Board is required to:

- set up a branch abroad,
- sell or encumber fixed assets whose net book value exceed one twentieth of the asset value stated in the recent financial statements approved by the General Meeting of Shareholders, as a result of one or several related legal actions being taken,
- dispose of or encumber, in any way whatsoever, shares or stakes in the following companies: Naftoport Sp. z o.o., Inowrocławskie Kopalnie Soli S.A. and in the company to be established with a view to transporting liquid fuels through pipelines,
- incur other liabilities exceeding the equivalent of one fifth of the share capital, as a result of one or several related legal actions being taken during the financial year, except for the following:
    - activities performed within the scope of ordinary management activity, including in particular all activities relating to Fuels trading,
    - activities approved by the Supervisory Board in the annual financial plans,
    - activities which need the consent of the Shareholders Meeting in order to be performed,
    - activities performed in connection with the implementation of the investment task, approved by the Supervisory Board in accordance with § 8 sec. 11 item 9 of the Articles of Association, up to the amount not exceeding 110 percent of the amount allocated for this investment task,
    - activities concerning the implementation of the investment task and the related liabilities, if expenditures or charges do not exceed the cap indicated in § 8 sec. 11 item 9 of the Articles of Association,
- carry out capital or tangible investments abroad worth more than one twentieth of the share capital,
- exercise the Company's voting right at general meetings and partners/associates/shareholders meetings of the subsidiaries and other entities, if the value of the shares or stakes held by the Company, at a price the shares were acquired or taken up exceed one fifth of the Company's share capital, as regards merger with another company and Company restructuring, sale and lease of the Company's undertaking and establishing on it the right to use, amendments to the Articles of Incorporation or Articles of Association, execution of the concern contract within the meaning of Article 7 of the Commercial Code and winding up of the Company,
- establish commercial law companies and join existing companies, as well as to make contributions to cover shares in companies, and to sell shares if the Company's capital involvement in a given company so far, or commitment which the Company is about to achieve as a result of buying or acquiring shares, calculated on the basis of the share purchase or acquisition price, exceeds one tenth of the initial capital, excluding the purchase of shares in the regulated market,
- pay interim dividends to the shareholders.

If the Supervisory Board withholds its consent to any of the above activities being taken, the Management Board can address the General Meeting of Shareholders to adopt a resolution to approve the relevant activity.

Additionally, following a request of at least two members, the Supervisory Board is obliged to consider undertaking supervisory actions specified in such request.
Given the best practice standards and in order to enable the shareholders to make a true and fair view of the Company, the Supervisory Board of PKN ORLEN is in charge of the additional duty to submit to the General Meeting of the Company a concise assessment of PKN ORLEN's standing. The assessment is submitted annually, before the date of the Company's General Meeting to allow time for PKN ORLEN shareholders to get acquainted with it.
Moreover, the Supervisory Board prepares an annual report on its work, in which it takes into account both the number of meetings held and the most important issues dealt with in the year.

Committees of PKN ORLEN's Supervisory Board

The Supervisory Board of PKN ORLEN may elect permanent or *ad hoc* committees which act as its collective advisory and opinion making bodies. The following permanent Committees operate within the Supervisory Board of PKN ORLEN:

- Audit Committee
- Strategy & Development Committee,
- Nomination & Remuneration Committee,
- Corporate Governance Committee.

The said Committees report annually to the Supervisory Board on its activities. The Committee competences are regulated by Terms of the Supervisory Board, which is available for shareholders on the Company's website www.orlen.pl.

The members of all Committees are appointed by the Supervisory Board from amongst its members and the Committee itself chooses its Chairman. The Committees consist of between 3 to 5 members. At least two members of Audit Committee are independent members and at least one has skills and expertise in the field of accounting or finance.

The Committee meetings are convened by the Committee chairman and, if he/she is either absent or unable to perform his/her duties, by the chairman of the Supervisory Board or another member of the Supervisory Board indicated by the chairman, who invites all the Committee Members to the meeting and notifies all the other Supervisory Board members of the meeting. All the members of the Supervisory Board can participate in the Committee meetings. The Committee chairman can invite to the Committee meetings members of the Management Board, the Company's employees and other persons whose participation in the meeting is expedient to carry out the Committee tasks.
The Committee resolutions are passed with a simple majority of the votes cast. In the event of a tie, the Committee chairman has the casting vote.

Audit Committee

The task of the Audit Committee is to advise the Supervisory Board of PKN ORLEN on the issues related to the proper implementation of budget and financial reporting rules and internal control within the Company and the ORLEN Group, as well as cooperation with the Company's certified auditors. In particular, the tasks of the Committee are:

- monitor the work of the Company's certified auditors and submit recommendations to the Supervisory Board as to the selection and fee of the Company's certified auditors,
- to discuss with the Company's certified auditors, prior to commencement of audit of each annual financial statements, the nature and scope of the audit, and to monitor co-ordination of work between the Company's certified auditors,
- to review interim and annual financial statements of the Company (consolidated and unconsolidated), with particular focus on:
    - any changes of accounting standards, rules and practice,
    - main areas of judgement,
    - material corrections following from the audit,
    - going concern statements,
    - compliance with applicable accounting regulations.

Furthermore, the tasks of the Audit Committee include:

- to discuss any problems or objections that may result from the audit of the financial statements,
- to analyse the letters to the Management Board drawn up by the Company's certified auditors, independency and objectivity of their audit and the Management Board's replies,
- to give opinions on annual and long-term financial plans,
- to give opinions on the dividend policy, profit distribution and issue of securities,
- to review the management accounting system,
- to review the internal control system, including control mechanisms in terms of finance, operations, compliance with the provisions of law, risk and management assessment, to review the reports of internal certified auditors employed by the Company and basic findings made by other internal analysts together with the Management Board's replies to such findings, to review the independency of internal auditors and to give opinions on the Management Board's intentions as to employment or dismissal of the head of internal audit,
- to review, on an annual basis, the internal audit program, coordination of the work of internal and external auditors and to analyse the conditions for internal auditors' operation, cooperation with the Company's organisational units in charge of audit and control and to evaluate their work on a periodical basis,
- to consider all other issues relating to the Company's audit raised by the Committee or the Supervisory Board,
- to notify the Supervisory Board of any material issues regarding the operation of the Audit Committee.

The Audit Committee meetings are held at least once per quarter, each time prior to the publication of the financial statements by the Company.

Corporate Governance Committee

The task of the Corporate Governance Committee is to evaluate the implementation of the corporate governance principles, to submit recommendations to the Supervisory Board as to the implementation of the corporate governance principles, issue opinions on normative corporate governance documents, evaluate reports concerning compliance with the corporate governance principles prepared for the Warsaw Stock Exchange, issue opinions on the draft amendments of the Company's corporate documents and to develop such drafts in case of own documents of the Supervisory Board, to monitor the management of the Company in terms of legal and regulatory compliance, including the compliance with the PKN ORLEN's Code of Ethics and the corporate governance principles.

Strategy and Development Committee

The task of the Strategy and Development Committee is to issue opinions and submit recommendations to the Supervisory Board on planned investments and divestments which exert a material impact on the Company's assets. In particular, the Committee:

- assesses the effect of planned and conducted already implemented investments and divestments on the form of the Company's assets,
- evaluates the activities, contracts, letters of intent and other documents relating to the actions aimed at acquisition, sale, encumbrance or any other disposal of the Company's material assets,
- issues opinions on any strategic documents which the Management Board submits to the Supervisory Board,
- issues opinions on the Company's development strategy, including long-term financial plans.

Nomination and Remuneration Committee

The task of the Nomination and Remuneration Committee is to help to attain the strategic goals of the Company by providing the Supervisory Board with opinions and motions on how to shape the management structure, with regard to organisational solutions, remuneration schemes and selection of the staff with the skills required to ensure the Company's success. In particular, the tasks of the Committee include:

- to initiate and issue opinions on the solutions in the area of Management Board members nomination system,
- to issue opinions on the solutions proposed by the Management Board in the area of the Company's management system, aimed at ensuring efficiency, integrity and safety of the Company's management,
- to periodically review and recommend the rules for determining incentive schemes to the Management Board members and top executives, with a view to the Company's interest,
- to periodically review the remuneration system applicable to Management Board members and managerial staff directly reporting to the Management Board members, including managerial contracts and incentive schemes and to submit to the Supervisory Board the proposals how to shape them in the context of the Company's strategic goal attainment,
- to submit to the Supervisory Board opinions on the rationale behind performance-driven remuneration,in the context of evaluating the degree to which the Company's specified tasks and goals are met,
- to assess the Company's human resources management system.

8.7.9 The rules of PKN ORLEN's Management Board operations

The PKN ORLEN Management Board's principal objective is to realise the Company's interest, which is understood as building the value of its assets entrusted by its shareholders, with due respect for the rights and interests of the parties other than the shareholders, involved in the Company operations, especially creditors and employees.

The Management Board of PKN ORLEN ensures transparency and efficiency of the Company's management system, and guarantees that the Company's affairs will be handled in accordance with applicable law and good business practice.

Appointing and recalling PKN ORLEN's Management Board

The Management Board of PKN ORLEN consists of five to nine members, including the President, Vice-Presidents and others members of the Management Board. Members of the Management Board are appointed and recalled by the Supervisory Board. One member of the Management Board is appointed and recalled by the Supervisory Board upon the request of the minister in charge of State Treasury.

The term of office of the Management Board members is a joint term of office, ending on the day when the Annual General Meeting has been held, approving the financial statements for the whole second financial year of such term of office. So determined joint term of office is assumed to commence on 7 June 2008. At its meeting on 24 March 2011 the Supervisory Board appointed the Management Board of PKN ORLEN for a three-year term. The new term of the Management Board started on 30 June 2011, i.e. after the holding of the Ordinary General Meeting approving the financial statements for 2010.

The President, Vice-Presidents, and other members of the Management Board may be suspended from duty for significant reasons by the Supervisory Board.

Should the Management Board President be suspended from duty or his/her mandate expires before the end of the term of office, all his/her powers, except for the right to the casting vote referred to in § 9 sec. 5 item 2 of the Articles of Association, are to be executed by the person appointed by the resolution of the Supervisory Board acting as President of the Management Board until the new Management Board President is appointed or the current one is restored to his/her position.

Organisation of PKN ORLEN's Management Board activity

Meetings of the Management Board are held when necessary, however, not less frequently than once every two weeks. Each member of the Management Board may request in writing for a Management Board meeting to be convened or certain issues to be placed on the agenda. The request should contain the proposed agenda and the justification for the request. The meeting should be held within seven days of the request being filed.

The meeting of the Management Board is convened by the President who manages the activity of the Management Board and has to fix the date, venue and the agenda of the meeting. In exceptional cases the meeting of the Management Board may be convened by the Vice-President or two members of the Management Board. The meeting can also be held without being formally convened if all the Management Board members are present and none of them has objected to the meeting being held or any proposed issues being put on the agenda.

Invited Company employees, advisers and other persons can attend the meeting with the consent of the person chairing the meeting of the Management Board.
Meetings of the Management Board are held in the Company's seat in Płock or in the Company's Headquarters in Warsaw. The person convening the meeting may, however, determine another venue for the meeting to be held.

The Management Board adopts resolutions at the meeting. For a resolution to be effective the scheduled meeting has to be notified to all the members of the Management Board and at least one half of the Management Board members have to be present at the meeting. The Management Board resolutions are passed with a simple majority of votes (in the event of a voting deadlock, the President of the Management Board has the casting vote) provided that for resolutions to grant a procuration, unanimity of all members of the Management Board is required. A Management Board member who voted against a resolution that was adopted may communicate its dissenting opinion, however, such communication has to be provided with the reasoning.

Resolutions are adopted in an open vote. A secret ballot may be ordered at request of each member of the Management Board. Resolutions are signed by all members of the Management Board who were present at the Management Board meeting on which the resolution was adopted. The resolution is also signed by the member of the Management Board who filed a dissenting opinion, with a note: "dissenting opinion" or "votum separatum".

Competences of PKN ORLEN's Management Board

The Management Board has to handle all the affairs of PKN ORLEN which are not reserved to be considered by other authorities of the Company under the provisions of the Commercial Code or the Articles of Association. All the members of the Management Board are obliged and authorised to handle the affairs of PKN ORLEN.

All the maters going beyond the ordinary course of business are subject to resolutions of the Management Board, however, the consent of the Management Board is not required to carry out an activity being an integral part of another activity which has already been approved by the Management Board unless the resolution of the Management Board provides otherwise. Activities falling within the scope of the ordinary course of business are activities related to fuels trading within the meaning of the Company's Articles of Association (i.e. crude oil, petroleum products, biocomponents, biofuels and other fuels, including natural gas, industrial gas and fuel gas), and any other activities not specified in the Management Board Regulations.

A resolution of the Management Board is required, among others to:

- adopt and amend the Management Board Regulations,
- adopt and amend the Organisational Rules and Regulations of PKN ORLEN,
- adopt motions to be submitted to the Supervisory Board and / or to the General Meeting of Shareholders, in particular, any motions sent to these bodies for their consent to perform certain actions, issue opinions, make an assessment or give an approval, which are required in accordance with the generally applicable law and / or the Company's Articles of Association,
- convene the General Meetings of Shareholders and adopt the proposed agenda of the General Meetings
- approve annual and long-term financial plans as well as the Company's development strategy
- approve investment tasks and corresponding liabilities if the resulting expenditures and encumbrances exceed PLN 10,000,000,
- incur liabilities, manage the property rights and any form of encumbrance on the Company's property where the total value exceeds PLN 20,000,000 (with certain exceptions to that rule)
- dispose and purchase real estate, perpetual usufruct or an interest in real estate and to establish a limited property right,
- dispose of, purchase and encumber stakes, shares or other interest in other entities, including shares admitted to public trading,
- issue the Company's securities,
- approve the annual report on the Company's business operations, the Company's annual, half-yearly and quarterly financial statements, the ORLEN Capital Group's annual, half-yearly and quarterly financial statements,

- adopt and change the Company's employees' remuneration scheme, as well as decisions regarding introduction and fundamentals of the incentive schemes,
- conclude, amend and terminate a collective labour agreement applicable in the Company, and other agreements with trade unions,
- establish the principles of granting and revoking powers of attorney,
- formulate the so-called donation policy of the Company,
- grant a procuration,
- establish the internal segregation of duties among the members of the Management Board,
- set up establishments / offices abroad,
- handle other matters which at least one member of the Management Board requests to be handled in the form of a resolution,
- take decisions on the payment of interim dividends.

The Management Board has to regularly provide the Supervisory Board with exhaustive information on all aspects of PKN ORLEN's business operations and the risks related to such operations as well as the methods of managing such risks. Additionally, the Management Board has to draw up and adopt annual and long-term financial plans and the Company development strategy in the form, to the extent and by the deadlines set by the Supervisory Board. The Management Board of PKN ORLEN has also to draw up and submit to the Supervisory Board the annual financial statements of PKN ORLEN and the annual financial statements of the ORLEN Group for the previous financial year.

8.7.10 Description of the remuneration Policy and the rules for its determination

The remuneration for the Supervisory Board Members is determined by the Company's General Meeting.

Remuneration for Members of the Board is determing by the Supervisory Board taking into account the recommendations of the Nomination and Remuneration Committee, acting with its framework. A detailed description of the competences of the Nomination and Remuneration Committee is presented in section 8.7.8 of the foregoing report.

The main components of the Management Board Members remuneration system include:

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

Additional benefits for the Management Board Members:

- company car,
- tools and technical appliances necessary to perform the duties of the Management Board Member,
- reimbursement of business trips costs and costs of representation to the extent and in the amount relevant to the function held,
- life and endowment insurance agreement,
- private health insurance for the Management Board Member and his/her closest family.

Rules for awarding bonuses to the key executive

In 2011 the ORLEN Group's key executive personnel was subject to the annual MBO bonus system (management by objectives). The regulations applicable to PKN ORLEN Management Board, executive directors of PKN ORLEN, management boards of the PKN ORLEN Group and other key positions in the Group have certain common features. The persons subject to the above mentioned systems are remunerated for the accomplishment of individual targets set at the beginning of the bonus period by the Supervisory Board for the Management Board Members and by the Management Board Members for the key executive personnel. The targets set are qualitative or quantitative (measurable) and are accounted for following the end of the year for which they were set, based on the rules adopted in the applicable Bonus System Regulations. The bonus systems are structured in a way so as to promote the cooperation between individual employees in view to achieve the best possible results at PKN ORLEN and ORLEN Group level.

In 2011 new MBO bonus standards were developed and approved for the senior managerial personnel in the ORLEN Group to be in force as of 2012. The main goal for implementation of the changes is to match the bonus system with PKN ORLEN Management Board's goals and to increase top management responsibility for ORLEN Group results and adjusting bonus system to the best market practices.

Additional information regarding remuneration policy can be found in the item 3.5 of the foregoing Management Board Report on the Operations of PKN ORLEN for 2011.

Management Board Report on the Operations of PKN ORLEN

for 2011

is submitted by the Management Board composed of:

……………………
Dariusz Krawiec
President of the Board

………………………
Sławomir Jędrzejczyk
Vice-President of the Board

……………………
Piotr Chełmiński
Member of the Board

…………………………
Krystian Pater
Member of the Board

……………………
Marek Podstawa
Member of the Board

Warsaw, 28 March 2012

Refinery Glossary

Alkylation – in Plock refinery conditions, refinery process, namely that olefin and paraffin fractions are merged in order to produce high-octane gasoline component (alkylate). The process is run on alkylation installation in the presence of hydrofluoric acid.

Barrel – unit of liquid volume used mainly in the oil industry, 1 barrel of crude oil (1 bbl) = 42 American gallons = 158,96832 l.

Bioesters – methyl esters of higher fatty acids produced from vegetable oils or animal fats. Used as a bio-component for diesel fuel or as a fuel for cars with diesel engines. Meets the quality standards set for the biofuel in the PN EN 14214, applicable both in Poland and other European Union markets.

Bioethanol – ethanol derived from biomass or biodegradable waste.

Catalyst – substance, which accelerates (initiates) the expected chemical reaction.

Cracking – thermal or catalytic conversion of heavy or more complex hydrocarbons into light products and coke, which increases the yields of light products from crude oil.

Distillation – method of physical separation of liquid mixtures, which uses the phenomenon of differences in boiling temperatures of particular components in the mixture undergoing distribution.

Differential Ural/Brent – difference between the quotations of two kinds of crude oil, calculated as: Med Strip - Ural Rdam (Ural CIF Rotterdam).

Hydrocarbons – Organic compounds made of carbon and hydrogen. Crude oil and natural gas are mixtures of hydrocarbons.

Hydrocracking – catalytic cracking of hydrocarbon raw materials in the presence of hydrogen. This process raises the efficiency of light products from crude oil.

Hydrodesulphurization – the process of removing sulfur compounds in the raw material by contact with hydrogen at the catalyst bed under high temperature and pressure.

Med Strip – Brent crude oil quotation.

Model refining margin – calculated as: revenues from products sold (93,5% Prodcts = 36% Gasoline + 43% Diesel + 14,5% HHO) - costs (100% input: crude oil and other raw materials). Total input calculated acc. to Brent crude quotations. Spot market quotations.

Model olefin margin – calculated as: revenues from products sold (100% Products = 50% Ethylene + 30% Propylene + 10% Benzene + 10% Toluene) - costs (100% input = 75% naphtha + 25% LS VGO). Contract market quotations.

Monomers – molecules of the same type or number of different kind of compounds characterize not very high molecular weight, which can form polymers during polymerization reaction.

Polymers – chemicals of very high molecular weight, which consist of many repeated units called mers, polyethylene and polypropylene.

Upstream – oil exploration and mining.

Ural Rdam (Ural CIF Rotterdam) – Ural crude oil quotation in Rotterdam.

Financial Glossary

ADR – American Depository Receipt = certificate issued by an American bank representing a share of a foreign stock that the bank holds in trust but that is traded on an American stock exchange

EURIBOR – ang. Euro Interbank Offered Rate – interest rate of interbank credit on the interbank market in euro zone

GDR – Global Depositary Receipt = security issued outside of Poland by the Depositary Bank in relation to shares

LIBOR – London Interbank Offered Rate – interest rate on the London market that apply to interbank credits

WIBOR – Warsaw Inter Bank Offered Rate - interest rate on the Polish interbank market that apply to interbank credits

The methodology of calculating ratios in the report.

Liquidity ratios
Current liquidity = current assets/short-term liabilities
Quick liquidity = current assets– inventories – prepazments/short-term liabilities
Working capital = trade receivables + inventories – trade liabilities

Turnover ratios
Receivables turnover = average amount of trade receivables, gross/net revenues x 365 days
Liabilities turnover = average amount of trade liabilies, gross /cost of goods sold x 365 days
Inventory turnover = average Mount of inventories/net revenues x 365 days
Asset turnover = net revenues/average balance of assets

Profitability ratios
Net sales profitability = net profit/net revenues x 100%
Equity profitability = net profit/(equity-net profit) x 100%
Return on Equity ROE = net profit/equity as at the end of the period x 100%
Return on Assets ROA = net profit/total assets as at the end of the period x 100%
Return on Capital Employed ROACE = profit from operations after tax /average capital employed(equity+ net debt) x 100%

Debt service coverage ratio
Financial leverage = net debt/equity (calculated using the average carrying amount in the period) x 100%