Polski Koncern Naftowy ORLEN
Spółka Akcyjna

ORLEN CAPITAL GROUP

MANAGEMENT BOARD REPORT ON THE OPERATIONS

FOR THE YEAR ENDED 31 DECEMBER 2015

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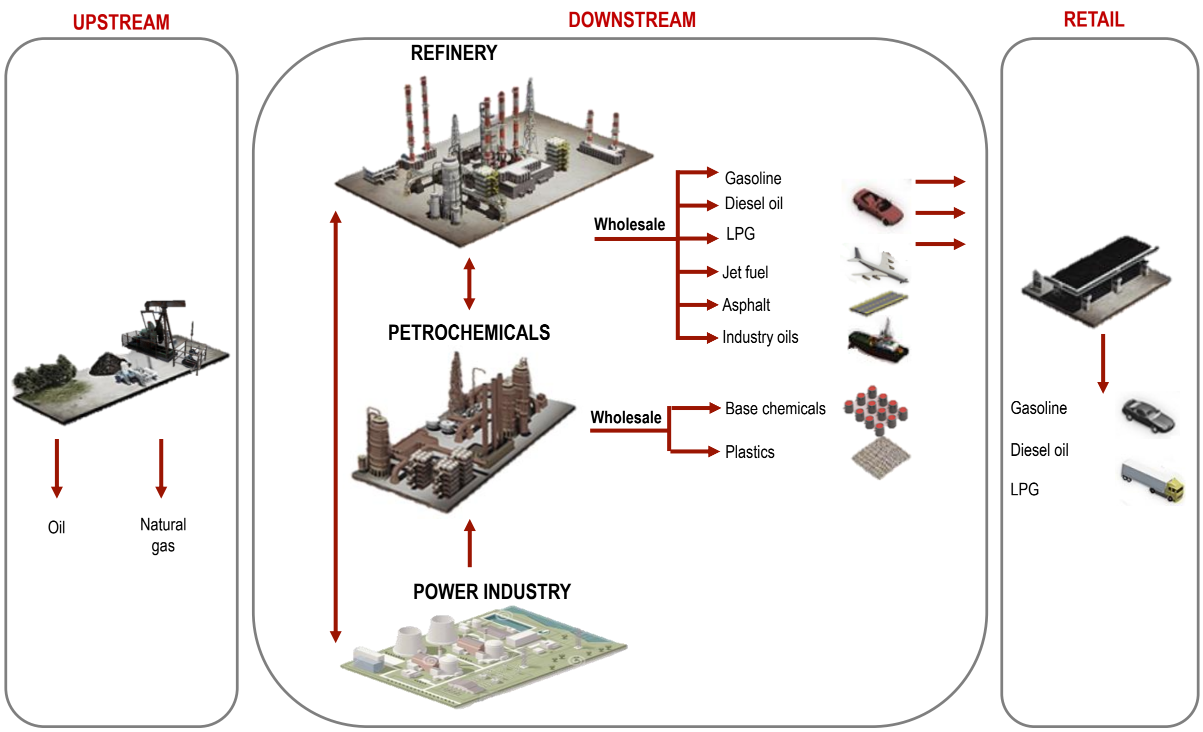
1. WHO WE ARE

1.1. Introduction

Polski Koncern Naftowy ORLEN S.A. („PKN ORLEN"; „the Parent Company"; „the Company") together with the companies being members of the Polski Koncern Naftowy ORLEN S.A. Capital Group ("ORLEN Group", "the Group", "the Concern") is the leader in the petroleum and petrochemical industry in the Central and Eastern Europe.



ORLEN Group manages six refineries, three of which are located in Poland (Płock, Trzebinia, Jedlicze), two[1)] in the Czech Republic (Litvinov, Kralupy) and one in Lithuania (Mazeiku). The total crude oil's capacity per year amounts to more than 35 million tons. The Group is also the leading manufacturer of petrochemicals, and their products are the basic raw material for a large group of chemical companies.

ORLEN Group has been consistently developing a segment of exploration and extraction of hydrocarbons. ORLEN Group after the acquisition of two further upstream companies: Kicking Horse Energy Ltd. (Canada) and FX Energy (Poland) ORLEN Group has in total 97 million boe[2)] of oil and gas reserves (2P).

In power industry area,the construction of gas-steam power plant with a capacity of 463 MWe in Włocławek is being finalized and the construction of gas-steam power plant CCGT in Płock with a capacity of 596 MWe has commenced.

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

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

According to the British financial magazine Euromoney, PKN ORLEN for the next time was awarded as the best managed petroleum company in the region. The Company represents the most valuable Polish brand, the value of which in 2015 exceeded PLN 4.5 billion. Moreover, PKN ORLEN is the most desirable employer, for many years the leader of the largest companies list in the country and the first company in the central part of Europe which received the title of The World's Most Ethical Company granted by the US Ethisphere Institute. The Company has been listed on the Warsaw Stock Exchange (WSE) for 16 years, now part of WIG 20, WIG 30 and elite Respect Index. For years, PKN ORLEN Investor Relations and the quality of published financial reports on the Stock Exchange are at the forefront of the best rated by analysts and investors.

Reducing the impact of the manufacturing processes on the environment is one of the priorities of PKN ORLEN. Special attention is also devoted to the most important assets, which are customers and employees. We take care of the success being built by daily work and dedication of nearly 20 thousand employees of PKN ORLEN along with companies of The ORLEN Group which was created with compliance with the ethics and values of the company.

1) The production plant in Paramo does not process crude oil.
2) Barrel of oil equivalent

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

ORLEN, FUELLING THE FUTURE

Values and rules of conduct

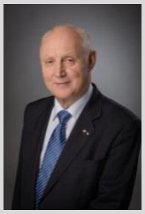
Wojciech Jasiński, The President of the Management Board of PKN ORLEN:
„Values and rules of conduct define five most important values on which we are building the Group's corporate culture. These values are: Responsibility, Progress, People, Energy, and Dependability. This is our basis for building relations between employees and stakeholders as well as business decision making."

Internal company culture basis on the universal values. Guided by them supporting realization of consortium targets and at the same time it protects business from irregularities.
PKN ORLEN S.A. Management Board on 4 September 2012 accepted „The core values and standards of conduct of PKN ORLEN". This document contains current mission and also range of values which corresponds to the Concern challenges. Responsibility, Progress, People, Energy and Dependability – the values which support realization of strategy, are signs setting out the way to achieve the ambitious objectives by the people creating the company.
"The core values and standards of conduct of PKN ORLEN" is a preliminary guide concerning relations within the company, but also in the external environment – with business partners, local society, natural environment and competition.
This document puts a significant emphasis on building relationships and mutual trust in the organization, provides employees the opportunity to clarify doubts or observed irregularities. Next step in process of corporate culture development was implementation of „The core values and standards of conduct of PKN ORLEN" in ORLEN Group companies.
This direction of operation was appreciated not only by Polish experts but also by international group. In 2014, 2015 and 2016 US Ethisphere Institute has granted to PKN ORLEN the title of The World's Most Ethical Company, what placed Concern as the only company from Central and Eastern Europe in this honorable ranking. Simultaneously as a leader in ethical solutions in the region, PKN ORLEN became a partner in the „Ethical Company" contest, which goal is to create a Polish equivalent of ethical companies ranking. PKN ORLEN corporate culture based on values is constantly developing and addresses the needs of changing environment. The solutions adopted in the field of ethics are effective and demonstrate the responsibility of the Concern against the challenges and expectations, while at the same time rank PKN ORLEN among the best companies in the world.

1.2. Management and Supervisory Board

The Management Board

Composition of the Management Board on 31 December 2015:



WOJCIECH JASIŃSKI
President of the Management Board, Chief Executive Officer,

On 16 December 2015 Mr Wojciech Jasiński was appointed President of the Management Board and CEO of the Company.

He is a graduate of the Law and Administration of the University of Warsaw. In the years 1972-1986 he worked in Płock, i.a. in the National Bank of Poland, Branch in Płock, in the Town Hall, also as a legal counsel in the Tax Chamber. In 1990-1991 he organized the local government in the Plock Voivodeship, being the Delegate of the Government's Plenipotentiary for Local Government Reform. From 1992 to 1997 he worked in the Supreme Audit Office (NIK), in turn at the positions director: of NIK's Delegation in Warsaw, Finance and Budget Team, State Budget Department. In years 1997-2000 he was a Member and then the President of the Management Board of Srebrna company located in Warsaw. In years 1998-2000 he was a Member of the Supervisory Board of Bank Ochrony Środowiska. From September 2000 to July 2001, he held the position of Undersecretary of State in the Ministry of Justice. In 2006-2007 he was the Minister of Treasury.

Since 2001 till September 2015, he has been the Member of Polish Parliament, where he performed the following function: the Chairman of Standing Subcommittee for the Banking System and Monetary Policy, Chairman of the Economy Committee, Chairman of the Public Finance Committee. He was also a member of the State Treasury Committee in the Parliament.

On 25 February 2016 he was appointed as the Member of the Supervisory Board of PKO Bank Polski S.A.

SŁAWOMIR JĘDRZEJCZYK
Vice-President of the Management Board, Chief Financial Officer

In June 2008, Mr Sławomir Jędrzejczyk was appointed as Member of the Management Board of PKN ORLEN. On 18 September 2008 he became Vice-President of the Management Board.

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

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

Mr Piotr Chełmiński was appointed as the Member of PKN ORLEN Management Board on 10 March 2012.

He is a graduate of the Warsaw University of Life Sciences in Warsaw. He accomplished postgraduate management studies at University of Management and Marketing in Warsaw (Denver University Partner) and studies at Warsaw University of Technology-Institute of Heat Engineering, the Gas Energy faculty specialized in Gas Turbines and Gas-Steam systems. He has wide experience in managing of Polish and foreign companies, including public listed companies.

In the years 1995 – 1996 he served as Vice-President for sales, marketing and export of Okocimskie Zaklady Piwowarskie S.A. From 1996 to 1999 he worked for Eckes Granini GmbH & Co. KG as Regional Director for Central and Eastern Europe region and as President of its subsidiary, Aronia S.A. During 1999 – 2001 he has been a Member of the Board of Directors, Browar Dojlidy Sp. z o.o. Between 2001 and 2006 he served as Member of the Management Board and as Member of Supervisory Board of Kamis-Przyprawy S.A. From 2006 to 2009 he served as Vice-President for Sales and Marketing, Gamet S.A. in Toruń and as Member of the Board of Directors, Gamet Holdings S.A. in Luxembourg. He was entrusted with the post of President of Directors and CEO at Unipetrol a.s. from December 2009 till April 2013. Currently, he serves as Chairman of the Supervisory Board of ANWIL S.A. and Vice-Chairman of Supervisory Board of Basell ORLEN Polyolefins Sp. z o.o.

KRYSTIAN PATER
Member of the Management Board, Production

Mr Krystian Pater is the Member of the Management Board of PKN ORLEN since March 2007.

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

MAREK PODSTAWA
Member of the Management Board, Sales

Mr Marek Podstawa was appointed to the position of Member of PKN ORLEN Management Board in charge of Sales, effective from 19 March, 2012.

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

Mr Marek Podstawa was dismissed by the Supervisory Board from the position of PKN ORLEN's Member of the Management Board on 8 February 2016.

Members of the Management Board appointed by the Supervisory Board at its meeting on 8 February 2016:

MIROSŁAW KOCHALSKI
Vice President of the Management Board, Corporate Affairs

Mr Mirosław Kochalski was appointed by the Supervisory Board to the position of Vice President of the Management Board on 8 February 2016.

He is a graduate of the Faculty of History at the University of Nicolaus Copernicus University in Toruń. He completed postgraduate studies at the National School of Public Administration and "Enterprise Value Management" at the Warsaw School of Economics. He has a long-standing experience on managerial and advisory positions in the private and public sector.

In 1994 he worked at the Chancellery of the Prime Minister as a Chief Specialist. In years 1995–1999 he worked at the Public Procurement Office as a Director of Public Procurement Bulletin, Director of Training and Promotion Department and then as a Chief Executive Officer. From 1999 to 2002 he held the position of the Director of Supplies and Non-fuel Purchases Department at PKN ORLEN S.A. In years 2003-2006 he was an employee of the local government of the City of Warsaw, starting from the position of the Director in the Public Procurement Office and then acting as the President of the City of Warsaw. From 2006 to 2008 he held the position of the President of the Management Board of Ciech S.A. In 2010 he worked as a Managing Director at Coifer Impex SRL in Bucharest. From 2012 to 2015 he acted as a Director of the Centre for Document Personalization in the Ministry of Interior.

ZBIGNIEW LESZCZYŃSKI
Member of the Management Board, Sales

Mr Zbigniew Leszczyński was appointed by the Supervisory Board to the position of the Member of the Management Board on 8 February 2016.

He is a graduate of the University of Warsaw, Faculty of Accounting and Finance. He completed postgraduate studies "Management of the Company in the European Union Market" at the Warsaw School of Economics, "Designing and Operating Computer Networks" at the University of Nicolaus Copernicus in Totuń and "Project management" at the Koźmiński Academy of Entrepreneurship and Management.

He has wide managerial experience in the petroleum industry. Associated with the ORLEN Group, for almost ten years was responsible for the construction, development and settlements of fuel stations network in ORLEN Paliwa as well as supported and developed wholesale of refinery products in PKN ORLEN. He implemented a variety of strategic projects for the Concern.

He has served as Vice-President of the Management Board of the Warsaw Institute Foundation providing expert advice on oil, mining, gas and the energy sector. Before that, he worked i.a. as the President of the management board of Wisła Płock S.A., Head of Sales and Marketing at Kompania Węglowa S.A. and President of the Management Board of Wodociągi i Kanalizacja w Opolu Sp. z o. o. He has also provided advisory, supervisory and project management services as a freelancer.

Supervisory Board

Composition of the Supervisory Board on 31 December 2015

ANGELINA ANNA SAROTA
Chairman of the Supervisory Board

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

Ph.D. in law, legal adviser, graduate of the Faculty of Law and Administration of the Jagiellonian University, the National School of Public Administration and postgraduate studies „Strategic Management of Human Resources" at the Kozminski University. In 2015 graduated from the prestigious program of the Advanced Executive MBA Program at the University of Navarra in Barcelona.

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

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

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

LESZEK JERZY PAWŁOWICZ
Member of the Supervisory Board

Mr Leszek Jerzy Pawłowicz has been Vice Chairman of the Supervisory Board of PKN ORLEN for previous term. On 27 June 2013 was reappointed to the Company's Supervisory Board for next term office and again he serves as Vice-Chairman.
He is a graduate of the Production Faculty of the Gdansk University. In 1977, he awarded PhD in Economics and then in 1988 postdoctoral degree. Since 1973 he has been associated with the University of Gdańsk. Since 1993 he has been worked as a professor and since October 2003 he has been served as Manager of the Banking Department at the University of Gdańsk.

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

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

ADAM AMBROZIK

Member and Secretary of the Supervisory Board

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

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

By the end of January 2016 he holds the position of the Director of the Department of Restructuring and Public Aid at the Ministry of the State Treasury. He supervises the companies under restructuring, as well as oversees issues related to providing support and public aid from the entrepreneurs restructuring fund and the Industrial Development Agency. By the end of May he was a Chairman of the Supervisory Board of Polimex – Mostostal S.A.

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

CEZARY BANASIŃSKI

Member of the Supervisory Board

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

Ph.D. in law, docent at the Faculty of Law and Administration of the University of Warsaw. He graduated in Management and Law and Administration of the University of Warsaw. He received scholarship among others at the Faculty of Law of the University of Vienna and of the University of Tubingen, of the Humboldt Foundation at the University of Constance.

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

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

GRZEGORZ BOROWIEC

Member of the Supervisory Board

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

He graduated from the Gdynia Maritime University the National School of Public Administration, The Faculty of Management University of Warsaw, He have a title of Master of Business Administration under the University of Warsaw/University of Illinois programme and he was appointed as a civil servant.

Since December 2007 till December 2015, he served as General Director of the Ministry of State Treasury. Since December 2015 employee of the Ministry of Development. Since January 2010 till November 2015, he was a member of the Audit Committee at the Ministry of Infrastructure and Development.

From 1987 to 1994, Mr Borowiec worked as a deck officer for Polish and foreign ship owners in a merchant fleet. From April 1997 to June 1998, he held the position of the Deputy Director of the Ministry of the State Treasury Office for Free of Charge Distribution of Shares to Entitled Employees. From 1998 to 2001 he worked as General Director in the Energy Regulatory Authority. From August 2001 to December 2007, Mr Borowiec was the Director of the Finance Department in the Ministry of Finance. He served as a Member of the Supervisory Board of WSK "Rzeszów" (1998) and PKP SKM Fast City Railway in the Polish Tricity area (2002-2007). From October 2009 to July 2014, he was the representative of the Minister of State Treasury in the Supervisory Board of TVP S.A. Since July 2014 till January 2016, he was Member of the Supervisory Board of Polskie Radio S.A.

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

ARTUR GABOR

Independent Member of the Supervisory Board

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

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

In 2015 he graduated prestigious Advanced Management Programme on IESE Business School and on Harvard Business School / IESE Business, School, programme for members of supervisory boards "Value Creation Through Effective Boards".

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

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

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

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

RADOSŁAW LESZEK KWAŚNICKI
Member of the Supervisory Board

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

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

He held the functions among others of the Chairman of the Supervisory Board of Agencja Rozwoju Przemysłu S.A. (2007), Vice-Chairman of the Supervisory Board of PGE ZEW-T Dystrybucja Sp. z o.o (2008 - 2009), the Secretary of the Supervisory Board of BOT Elektrownia Turów S.A. (2007 - 2008), Member of the Supervisory Board of PGE Energia S.A. (2008 - 2009), the Chairman of the Supervisory Board of Geometria Pyrzyce Sp. z o.o (2006 - 2007), the Chairman of the Supervisory Board of BBI Capital NFI S.A. (2012 - 2014), the Chairman of the Supervisory Board of Investments SA (2012 - 2014), the Chairman of the Supervisory Board of Investment TFI SA (2012 - 2014), Chairman of the Supervisory Board of the Brokerage of Investments SA (2012 - 2014), Member of the Supervisory Board of MAGO S.A. (2012 - 2013) and the Chairman of the Supervisory Board of NAVI GROUP (2014). He is a member of the Corps of the Polish Institute of Directors included on the list of candidates for Professional Members of the Supervisory Boards of Polish Institute of Directors and Member of the Supervisory Board of Polish State Railways SA (2015).

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

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

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

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

CEZARY MOŻEŃSKI
Member of the Supervisory Board

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

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

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

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

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

REMIGIUSZ NOWAKOWSKI
Member of the Supervisory Board

Mr Remigiusz Nowakowski was appointed to the Supervisory Board of PKN ORLEN on 23 November 2015.

He is a graduate of the Wroclaw University of Economics, Faculty of Management and Computer Science, specializing in "Business Management" and graduate of the University of Wroclaw, Faculty of Law and Administration, specializing in "Commercial law". Ph.D. student at the Wroclaw University of Economics, Faculty of Business Management, IT, Finance, Division of Strategy and Management Methods.

Since December 2015 President of the Management Board of Tauron Polska Energia S.A. and member of Supervisory Boards in companies from Tauron capital group.

In the years 2008-2015 related to the energy company Fortum, holding various executive positions. He served as Head of Fuels Production Optimisation and Management and Proxy in Fortum Power and Heat Polska Sp. z o.o., the proxy in the capital group companies. In 2008-2012, he was responsible for construction of Power Plant Fortum in Poland in particular for development process of Combined Heat and Power (CHP) investment, obtaining of administrative permits, obtaining of energy and gas connections condition, selecting of contractors of main technological equipment of heat and power plant. In the years 2012 - 2015 he supervised a business function of Fuels Production Optimisation and Management at Heat Fortum Division in Poland, responsible in particular for creating and implementation of fuels supplies strategy for Fortum in Poland, coordination of fuels purchase, electricity and heat production planning and optimization in heat and power plants, analysis of energy market and forecasts of market trends. Since September 2015 Director of Production Optimisation, Heat Electricity Sales and Solutions Division.

In 2006-2008 Member and Vice-president of the Management Board, Development Department Director at TAURON Polska Energia SA as well as President of the Management Board at EnergiaPro Koncern Energetyczny S.A. Involved in realization of the key restructuring projects in Polish electro-energy sector, ie. consolidation of energy companies from the TAURON group and unbundling process realization as well as setting up of operators dealing with electricity distribution in TAURON group.

In 2002-2006 CEO and co-owner of consulting company INERCON Sp. z o.o., advising to mergers and acquisitions in energy and utilities sector in Poland.

He has extensive experience in the area of preparation and development of investment projects, design and implementation of public-private partnership models as well as creation and realization of development strategy in energy and heat sectors in Poland, including, in particular, strategic management in the areas of investments and fuels management in energy companies.

The Extraordinary General Meeting of PKN ORLEN on 29 January 2016 dismissed from the Supervisory Board: Mr Adam Ambrozik, Mr Cezary Banasiński, Mr Grzegorz Borowiec, Mr Cezary Możeński and Mr Leszek Jerzy Pawłowicz.

Members of the Supervisory Board appointed at the Extraordinary General Meeting of PKN ORLEN SA on 29 January 2016:

MATEUSZ HENRYK BOCHACIK
Secretary of the Supervisory Board

Mr Mateusz Henryk Bochacik was appointed to the Supervisory Board of PKN ORLEN on 29 January 2016.

He graduated from the law and history at the Jagiellonian University in Cracow. In 2013 he passed advocate exam and was entered on the list of advocates conducted by the Regional Council of Advocates in Cracow.

He is an advocate and conducts his own legal office in Cracow specializing in civil, economic and administrative law. During his practice he represented public persons as well as private ones, among others commercial companies, local government units and journalists. In total he was a representative in numerous lawsuits at the common and administrative courts as well as at the Supreme Court.

Mr Bochacik was also an assistant of the Minister-Coordinator of the Special Services and Deputy of the Polish Sejm Zbigniew Wassermann as well as a director of his Deputy office (2007-2010). In years 2010-2013 he was an assistant of Deputy at the European Parliament Paweł Kowal.

AGNIESZKA KRZĘTOWSKA
Independent Member of the Supervisory Board

Ms Agnieszka Krzętkowska was appointed to the Supervisory Board of PKN ORLEN on 29 January 2016.

Ph.D. degree in economics, academic lecturer at the College of Economics and Social Sciences, The Warsaw University of Technology. Lecturer at the State School of Higher Professional Education in Plock. Over several years she managed the Institute of Economics and Law at the State School of Higher Professional Education in Płock.

She specializes in contemporary economics and directions of domestic and world economy development. In her professional career she deals with enterprise financials, demography and statistics.

ARKADIUSZ SIWKO
Member of the Supervisory Board

Mr Arkadiusz Siwko was appointed to the Supervisory Board of PKN ORLEN on 29 January 2016.

He is a graduate of the Faculty of Law at the Adam Mickiewicz University in Poznan. He completed a training for Stockbrokers in Warsaw under the auspices of Oxford University as well as a training for Investment Advisors. In addition, he completed a training in Washington in Crisis Management at the State Structures under the auspices of the US State Department.

In 1989 – 1991 he worked as an academic employee at the Polish Academy of Sciences, Law Department. Next he became a director of the cabinet of Minister of Internal Affairs, supervising in years 1991 – 1992 offices of administration, licensees, law and foreign issues as well as the Fire Department. In 1992 he became an advisor in development strategy of the Minister – Chief of Central Office of Planning. In 1993 – 1996 he held a position of President at the Domestic Office of Financial Advisory "Projekt", he was also a Chairman of the Foundation Warsaw Institute of Finance and International Affairs. In 1996 he became a law advisor in administrative reform of the Warsaw Voivodship Governor. In 1998 – 2005 he held a position of the Vice President of Orbis S.A. In 2005 he became an advisor in transportation and development of the Minister of Transportation and Building Industry. In 2006 – 2008 he was a President of the Management Board at the Operator Logistyczny Paliw Płynnych, a market leader of fuel storage, including obligatory reserves and state reserves. In 2008 – 2013 Mr Arkadiusz Siwko was a General Director at the Domestic Office of Financial Advisory "Projekt". From 2013 he held a position of a President of the Management Board of the Institute of Strategic Studies Grosvenor House. Since 9 December 2015 he is the President of the Management Board of Polska Grupa Zbrojeniowa S.A.

ADRIAN DWORZYŃSKI
Independent Member of the Supervisory Board

Mr Adrian Dworzyński was appointed to the Supervisory Board of PKN ORLEN on 29 January 2016.

He is graduate of the Faculty Law and Administration at the University of Lodz. In years 1998 - 2002 Counsel – legal training at Warsaw Bar Association. In years 1997 – 2002 he worked in Andrzej Żebrowski i Wspólnicy Law Office, providing legal services to large companies, especially banks. Between 2003-2005 the Office of the City of Warsaw Deputy Director and subsequently Director of the Legal Office. In years 2006 - 2007 Chancellery of the President of the Republic of Poland Director of the Legal and Legislative Office. In years 2007 – 2012 Director of the Legal Department and subsequently Director of the Legal and Regulatory Department at Polkomtel S.A. In 2013 Director of the Legal Department at PGE Polska Grupa Energetyczna. Since 2014 he provides legal services under his own Law Office.

In years 2003-2010 the Member of the Warsaw Bar Association. Between 2010-2013 Mr Adrian Dworzyński served as Vice Dean of Warsaw Bar Association.

He was a Member of the Supervisory Boards: Oczyszczalnia Ścieków Południe Sp. z o.o. (2003-2005), Tramwaje Warszawskie Sp. z o.o. (2005), Polska Agencja Informacji i Inwestycji Zagranicznych S.A. (2006-2008), Nordisk Polska Sp. z o.o., PGE Dom Maklerski S.A., PGE Energia Odnawialna S.A. and Przedsiębiorstwo Usługowo-Produkcyjne TOP SERWIS Sp. z o.o. (2013).

He is currently an Independent Member of the Supervisory Board in AAT Holding S.A. and DUON Group.

1.3. Selected operation and financial data.

TABLE 1. Selected operation and financial data for the years 2011-2015.

Specification	Unit	2015	2014	2013	2012	2011
I. MACROECONOMIC DATA (average value for the period)						
Oil Brent	USD/bbl	52.4	98.9	108.7	111.7	111.3
Oil Ural	USD/bbl	51.0	97.2	107.4	110.2	109.1
Oil WTI	USD/bbl	48.8	94.0	99.0	94.1	94.9
Brent/URAL differential[1)]	USD/bbl	1.8	1.7	1.0	1.3	1.7
Model refining margin[1)]	USD/bbl	8.2	3.4	3.4	5.7	2.1
Model petrochemical margin [1)]	EUR/t	968	781	730	685	705
Model downstream margin[1) 2)]	USD/bbl	13.8	11.4	10.8	-	-
II. OPERATING ACTIVITY						
Crude oil throughput ORLEN Group, of witch:	'000 tonnes	**30 908**	**27 276**	**28 216**	**27 939**	**27 785**
Crude oil throughput in PKN ORLEN	'000 tonnes	15 674	14 278	15 182	15 191	14 547
Crude oil throughput in Unipetrol Group	'000 tonnes	6 495	5 130	3 607	3 927	3 942
Crude oil throughput in ORLEN Lietuva Group	'000 tonnes	8 486	7 497	9 010	8 533	9 007
Sales of products and goods, including:	'000 tonnes	**38 676**	**35 740**	**35 909**	**35 288**	**35 446**
Downstream	'000 tonnes	30 380	27 706	28 376	27 821	28 101
Retail	'000 tonnes	7 986	7 776	7 516	7 467	7 345
Upstream	'000 tonnes	310	258	17	-	-
III. FINANCIAL ACTIVITY						
3.1. Consolidated statement of profit or loss and other comprehensive income						
Sales revenues	PLN million	**88 336**	**106 832**	**113 597**	**119 864**	**106 973**
EBITDA LIFO before write-downs, including: [3) 4)]	PLN million	**8 738**	**5 213**	**3 086**	**5 095**	**3 894**
Downstream	PLN million	7 776	4 210	2 407	4 724	3 419
Retail	PLN million	1 539	1 416	1 268	1 006	836
Upstream	PLN million	44	152	(32)	(24)	2
Corporate functions	PLN million	(621)	(565)	(557)	(611)	(363)
EBITDA LIFO, including:	PLN million	**7 745**	**(147)**	**3 086**	**4 407**	**2 097**
Downstream	PLN million	7 640	(852)	2 407	4 036	1 705
Retail	PLN million	1 539	1 440	1 268	1 006	760
Upstream	PLN million	(808)	(170)	(32)	(24)	2
Corporate functions	PLN million	(626)	(565)	(557)	(611)	(370)
Corrected LIFO	PLN million	**(1 510)**	**(2 573)**	**(668)**	**(175)**	**2 349**
EBITDA, including:	PLN million	**6 235**	**(2 720)**	**2 418**	**4 232**	**4 446**
Downstream	PLN million	6 130	(3 425)	1 739	3 861	4 054
Retail	PLN million	1 539	1 440	1 268	1 006	760
Upstream	PLN million	(808)	(170)	(32)	(24)	2
Corporate functions	PLN million	(626)	(565)	(557)	(611)	(370)
Amortization	PLN million	**1 895**	**1 991**	**2 111**	**2 202**	**2 380**
EBIT	PLN million	**4 340**	**(4 711)**	**307**	**2 030**	**2 066**
Net profit (loss)	PLN million	**3 233**	**(5 828)**	**90**	**2 170**	**2 015**
3.2. Balance sheet data						
Total assets	PLN million	48 137	46 725	51 352	52 253	58 731
Equity capital	PLN million	24 244	20 386	27 551	28 307	26 799
Net debt	PLN million	6 810	6 720	4 668	6 727	7 589
3.3. Consolidated cash flow statement						
Net cash from operating activities	PLN million	5 354	3 187	5 540	2 970	761
Net cash from / (used in) investing activities, including:	PLN million	(4 096)	(4 020)	(2 441)	(2 853)	1 497
CAPEX	PLN million	3 183	3 788	2 484	2 004	2 133
Net cash from (used in) financing activities	PLN million	(2 866)	2 083	(2 438)	(3 340)	332
Free cash flow [5)]	PLN million	1 258	(833)	3 099	117	2 258
3.4. Key indicators						
Return on capital employed (ROACE) [6)]	%	15.2	1.7	0.7	6.3	9.1
Return on capital employed LIFO (ROACE LIFO) [7)]	%	19.5	8.5	2.3	6.7	3.6
Net financial leverage [8)]	%	28.1	33.0	16.9	23.8	28.3
Profit/(Loss) attributable to shareholders of the Parent Company per share (EPS)	PLN/share	6.63	(13.59)	0.41	5.48	5.53

1) The method of calculating the margin has been placed at the end of these reports "Dictionary of selected concepts and financial industry."

2) Due to changes in the method of management in the field of refining, petrochemical and energy in the ORLEN Group and the creation of an integrated Downstream Segment in 2014 has began calculation of the Downstream Margin Model. In addition, the value of margin mentioned above was presented for 2013 year.

3) The ORLEN Group inventories are valued in the financial statements in accordance with International Financial Reporting Standards by the method of weighted average cost or purchase price. This method results in later recognition of the effects of an increase or decrease in oil prices compared to the prices of finished products. The application of the LIFO method of inventory valuation causes current production costs are valued at the cost of purchased crude oil and as a result performance better represent the actual situation.

4) The results of operations for the years 2011, 2012, 2014 and 2015 include write-downs for impairment of assets in the amount of PLN (1 797) million, PLN (688) million, PLN (5 360) million and PLN (993) million.

5) Free cash flow = net cash from operating activities + net cash from / (used in) investment activities.

6) ROACE = operating profit for the last four quarters after tax and before write-down the value of assets / average capital employed (equity + net debt) for the last four quarters.

7) ROACE LIFO = LIFO operating profit for the last four quarters after tax and before write-down the value of assets / average capital employed (equity + net debt) for the last four quarters.

8) Net financial leverage = net debt / shareholder's equity - calculated as of the end of the period.

1.4. The ORLEN Group strategy

Wojciech Jasiński, President of the PKN ORLEN's Management Board:

„Last year, PKN ORLEN consistently implemented strategy, which allowed to achieve excellent operating and financial results. Due to the constantly changings in macroeconomic environment which influences to the condition of the sector in which we operate, we have to face with discussion about the priority objectives and targets for the Group for next coming years. One of the key elements is intensification of support and innovation. They should become the driving force of our company and the economy of our country."

1.4.1 Assumptions of the ORLEN Group strategy for the years 2014-2017

The year 2015 was the first full year for the 2014-2017 strategy realization. It assumes implementation of development projects in the most prospective areas by integrated value chain, financial safety and strength and modern management culture:

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

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

Financial strength - the Company's strategic objective is connected with the steady growth of the DPS (Dividend Per Share). The company's dividend policy assumes the payment of dividends, including the accomplishment of strategic goal of secure financial foundations and forecasts of the macroeconomic situation.

Human resources – responsibility for people, the environment and partners: zero tolerance for accidents, business responsibility towards the community, the environment and business partners.

Development of human capital and innovation: consistent development of an experienced team of professionals, systematic increase in spending on research and development, the implementation of innovative solutions.

CAPEX - in the years 2014-2017 the planned expenditures of PLN 10.8 billion will be allocated for the development of the Concern, of which: PLN 6.4 billion in downstream segment, PLN 1.2 billion for retail segment and PLN 3.2 billion in upstream segment.
Furthermore, the amount of PLN 5.5 billion will be allocated on the modernization work connected with maintaining high system performance and fulfillment of regulatory requirements.

1.4.2 Strategic objectives in the individual segments of the ORLEN Group

Downstream | **Value drivers**

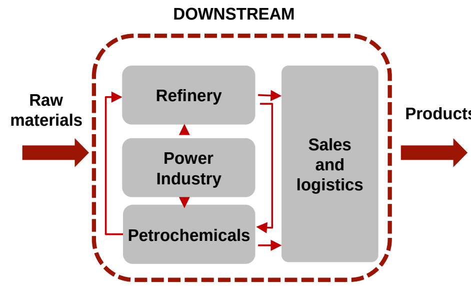
Integrated management
- comprehensive management of value chain
- expansion of product mix and the degree of conversion

Operational excellence
- consistent improvement in key indicators of efficiency
- optimization of the structure and the restructuring of the Group's assets

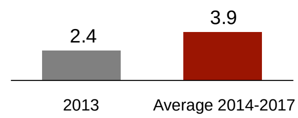
Effective sales
- adjustment of sales models for best practices
- strengthening the position in the home markets

The development of industrial cogeneration
- construction of new power - EC Wloclawek and EC Plock
- modernization of existing assets

Integrated chain value



Downstream EBITDA LIFO growth [PLN billion]



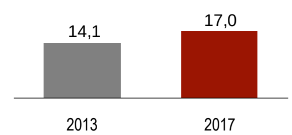
Retail | **Value drivers**

Modern network:
- further development of the owned stations network as well as franchise (DOFO)
- growth in annual average fuel sales per station

Customer orientation:
- implementation of new services and products
- implementation of new shops formats under ORLEN logo and also new format of Stop Café

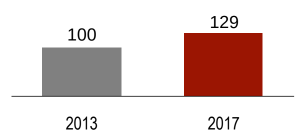
Strong brand:
- full potential utilization of loyalty program
- e-commerce development

The increase in the share of fuel sales in domestic markets* [%]



* Poland, Czech, Lithuania, Germany

Increase of non-fuel margin [index]



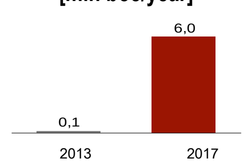
Upstream | **Value drivers**

Organic growth in Poland
- concentration on the most perspective areas of unconventional deposits
- development of conventional projects

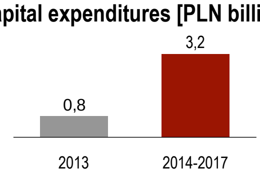
Extraction development in Canada:
- extraction increase to 16 thousand boe per day
- increase of gas and oil (2P) reserves to 53 million boe

Opportunistic purchases of assets:
- in Poland and other markets dependent on the amount of the free cash flow

Increase in hydrocarbons extraction [mln boe/year]



Capital expenditures [PLN billion]



1.4.3 The summary of strategic actions in the ORLEN Group in 2015

Value creation

- Record EBITDA LIFO: PLN 8.7 billion [1)]
- Record throughput of 30.9 million tonnes and sales of 38.7 million tonnes
- The acquisition of upstream assets in Canada and Poland
- New contracts for the supply of oil to 10.8 million tonnes per year

Financial strength

- Financial leverage at the end of 2015: 28.1%
- Cash flow from operating activities PLN 5.4 billion
- Dividends: payment of PLN 0.7 billion / PLN 1.65 per share
- Extension of the average maturity of sources of financing to the 4 quarter of 2019

People

- The World's Most Ethical Company 2015
- Top Employers Polska 2015
- Best managed companies in CEE 2015
- ORLEN Warsaw Marathon/Verva Street Racing

ORLEN the most valuable brand in Poland worth PLN 4.5 bn

(by daily „Rzeczpospolita")

1) Before the impairment loss of non-current assets. Impairment losses on assets in 2015 amounted to negative value of PLN (993) million and was primarily related to impairment losses on exploration assets of the ORLEN Upstream Group in Poland recognized in II quarter of 2015 in negative amount of PLN (429) million, impairment losses on petrochemical assets of Unipetrol Group recognized in III quarter of 2015 in negative amount of PLN (93) million in connection with the failure of ethylene production installation in August 2015 and impairment losses of mining assets in Canada which amounted to negative value of PLN (423) million recognized in the IV quarter of 2015.

1.4.4 The strategy realization in segments

Downstream | **Realization**

- Record EBITDA LIFO: PLN 7.8 billion[1)]
- Record throughput of 30.9 million tonnes and volume sales of 30.4 million tonnes
- Increased the yield of white products in the ORLEN Group 1 p.p. (y/y) to 79% and a decrease of energy absorptivity by nearly 3 p.p. (y/y)
- Construction of new powers - PP Włocławek (463 MWe) and PP Płock (600mWe)
- The contract for the construction of a new polyethylene plant (PE3) in Litvínov
- Adjustment of the PP in Płock to emission standards applicable from 2016

Retail | **Realization**

- Record EBITDA LIFO: PLN 1.5 billion
- Volume sales increased by 3% (y/y), including: an increase in Poland by 4% and in the Czech Republic by 10%
- Start piloting new formats convenience store's 10 stations (5 in the ORLEN brand and 5 under the new brand O!Shop)
- 1 404 points Stop Cafe and Stop Cafe Bistro in Poland; an increase of 154 points (y/y) and the launch of two test stations with the new format catering Stop Cafe 2.0
- The acquisition of 68 retail stations from OMV in the Czech Republic and 13 "Sun" fuel stations in Germany from Germania Petrol

Upstream | **Realization**

- The acquisition of upstream assets in Canada (Kicking Horse Energy) and Poland (FX Energy)
- The increase in total oil and gas reserves (2P) to 97 million boe
- Average production in 2015 of 7.1 thousand boe/d

[1)] *Before the impairment loss of non-current assets of PLN (136) million related mainly to the failure of the ethylene production installation in the Unipetrol Group of PLN (93) million described above.*

1.5. ORLEN Group organization

The ORLEN Group companies conduct business activities:

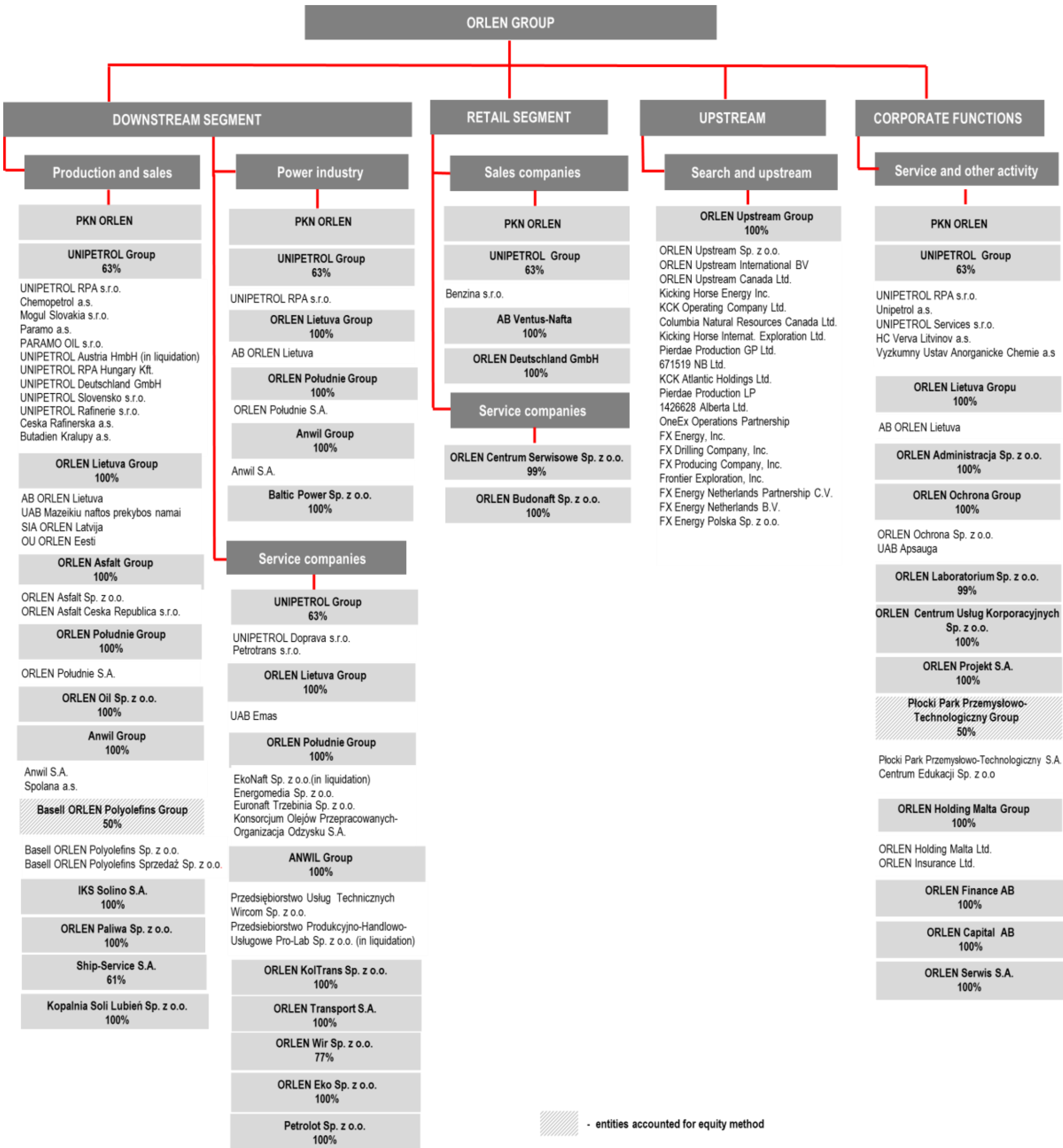
- production and commercial activities – crude oil processing, production of refining, petrochemical and chemical products and semi-products, wholesale and retail sale of fuels and other refining and petrochemical products,
- service activities – crude oil and fuels storage, transport, maintenance and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

For management purposes, the ORLEN Group is divided into the 3 operating segments: Downstream, Retail, Upstream and Corporate Functions. A more detailed description of these abovementioned segments was presented in Chapter 2 and their financial results in Chapter 3.

The ORLEN Group includes PKN ORLEN as the Parent Company and entities located in Poland, Germany, the Czech Republic, Lithuania, Malta, Sweden, the Netherlands, Slovakia, Hungary, Estonia, Latvia, the USA and Canada.

As at 31 December 2015 the ORLEN Group consisted of 86 companies, including 77 subsidiaries.

SCHEME 1. Capital and organizational relations in the ORLEN Group as at 31.12.2015.



Percentage of shares owned by the Parent Company/ORLEN Group in capital of the ORLEN Group companies and consolidation methods are presented in point 9.1 to the Consolidated Financial Statements for 2015.

1.5.1 Range of activities of selected Companies in the ORLEN Group

TABLE 2. The scope of business of other companies in the ORLEN Group.

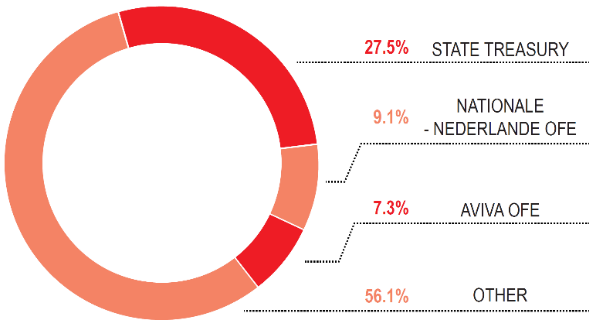
COMPANY's NAME	BASIC SCOPE OF BUSINESS
Production and Sales	
PKN ORLEN	crude oil processing, production of refinery and petrochemical products as well as wholesale and retail sales
ORLEN Lietuva Group	crude oil processing, production of refinery products and wholesale of the company's products in the local market and export by land and sea
Unipetrol Group	crude oil processing, production and distribution of: refined, petrochemicals and chemicals products
ANWIL Group	production of nitrogen fertilizers, plastics and the chemical processing for industry and agriculture
ORLEN Południe Group	crude oil processing, production and sale of biofuels, logistic and storage services, waste oils processing, manufacture and sale of oil bases and oils, heating oils and organic solvents
ORLEN OIL Sp. z o.o.	production, distribution and sale of grease oils, lubricants, oil bases as well as car care products and maintenance liquids
ORLEN Paliwa Sp. z o.o.	wholesale of fuels and liquefied petroleum gas
ORLEN Asfalt Group	sale of asphalt, including: road, modified and industrial
Inowrocławskie Kopalnie Soli SOLINO S.A.	oil and fuels storage, extraction and packaging of salt
ORLEN Deutschland GmbH	retail sale of fuel in Germany
Petrolot Sp. z o.o.	distribution of aviation and automotive fuels, fuels storage, storing, filling, and dispatching services
Services	
ORLEN KolTrans Sp. z o.o.	rail transport of goods, rail servicing locations of loading and discharge, repairs and upgrade of railway rolling stock
ORLEN Transport S.A.	transport of fuels, LPG and chemicals
ORLEN Serwis S.A.	maintenance of industrial installations, repair and modernization of installations, realization of investment projects, design and prefabrication, service of industrial automation equipment
ORLEN Wir Sp. z o.o.	maintenance and modernization of compressors, centrifuges, locomotive engines and engine-generators
ORLEN Eko Sp. z o.o.	waste management with the use of waste recovery and disposal installation, including among others hazardous waste, provision of safety and hygiene services, fire precaution and environment protection services, rescue and fire equipment maintenance
Extraction	
ORLEN Upstream Group	production of hydrocarbons in the Canadian market and conduct of exploration and production projects in the Polish market

1.6. Shareholders and shares

1.6.1 Shareholding structure in PKN ORLEN

The share capital of PKN ORLEN is divided into 427 709 061 ordinary bearer shares with a nominal value of PLN 1.25.
The ownership rights of PKN ORLEN's shares are fully transferable.

DIAGRAM 1. Shareholding structure in PKN ORLEN 1)



1) According to the Extraordinary General Meeting of PKN ORLEN held on 29 January 2016.

The Management Board of PKN ORLEN has no information about agreements influencing the future change of current shareholding and bondholding structure.

1.6.2 Employee stock option scheme monitoring system

In 2015 no employee stock option scheme was implemented in the ORLEN Group.

1.6.3 Shares repurchase

In 2015 PKN ORLEN and other entities of the ORLEN Group did not hold or repurchase its own shares.

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

Members of the Management Board of PKN ORLEN as at 31 December 2015 did not hold any shares of the Company.
Mr Grzegorz Borowiec and Mr Artur Gabor from the Supervisory Board of PKN ORLEN held 100 and 3 200 shares of the Company, respectively, at the end of 2015. Management and supervisory personnel of PKN ORLEN as at 31 December 2015 did not hold any shares in the other ORLEN Group's entities.

1.6.5 PKN ORLEN on the Stock Exchange

PKN ORLEN shares are quoted on the main market of the Warsaw Stock Exchange in the continuous quoting system and are included in WIG, WIG20, WIG30, WIG-Poland and WIG-FUELS – the industry index. Since 19 November 2009 PKN ORLEN`s shares are included in the index of companies engaged in corporate social responsibility, called RESPECT Index.

In 2015 the largest companies stock market index WIG 20 decreased by (19.7%) (y/y), whereas WIG index decreased by (9.6%) (y/y). In this period PKN ORLEN's share price increased by 38.7% (y/y), to afford the highest rate of return of all companies included in WIG20. In the previous year, 323 408 878 of shares changed their holders on the market, that is 63% more in comparison to 2014.

TABLE 3. Key data regarding PKN ORLEN's shares.

KEY DATA	U.M.	2015	2014	2013	CHANGE %
1	2	3	4	5	6=(3-4)/4
Net profit attributable to equity owners of the Parent Company	PLN million	2 837	(5 811)	176	-
Highest share price [1]	PLN	85.25	49.50	56.80	72.2%
Lowest share price [1]	PLN	47.75	36.88	40.50	29.5%
Share price at year end [1]	PLN	67.85	48.92	41.00	38.7%
Average price in the period [1]	PLN	65.84	42.26	47.96	55.8%
P/E ratio average		9.9	(3.1)	116.6	-
P/E ratio at the end of the year		10.2	(3.6)	99.6	-
Number of issued shares	Item	427 709 061	427 709 061	427 709 061	0.0%
Capitalisation at year end	PLN million	29 020	20 924	17 536	38.7%
Average daily trading value	PLN million	86	34	44	152.9%
Average daily trading volume	Item	1 288 482	796 614	915 877	61.7%

1) Share price according to a closing share price.

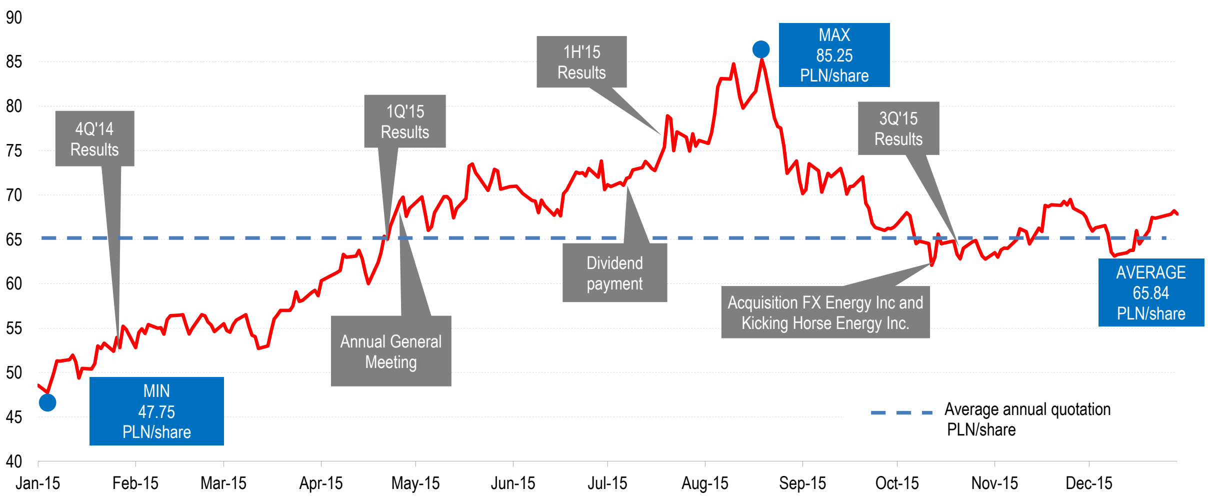
TABLE 4. Brokerage offices which issue recommendations for shares of PKN ORLEN[1)]

SEATED IN POLAND		SEATED OUTSIDE POLAND	
BDM	ING	Bank of America Merrill Lynch	JP Morgan
Deutsche Bank	Vestor	Barclays	Morgan Stanley
BOŚ	Ipopema	Concorde Securities	Raiffeisen
BZ WBK	mBank	Erste	Societe Generale
Citi	PKO BP	Goldman Sachs	UBS
Haitong Bank	Trigon	HSBC	UniCredit

1) As at the date of approval of this Report.

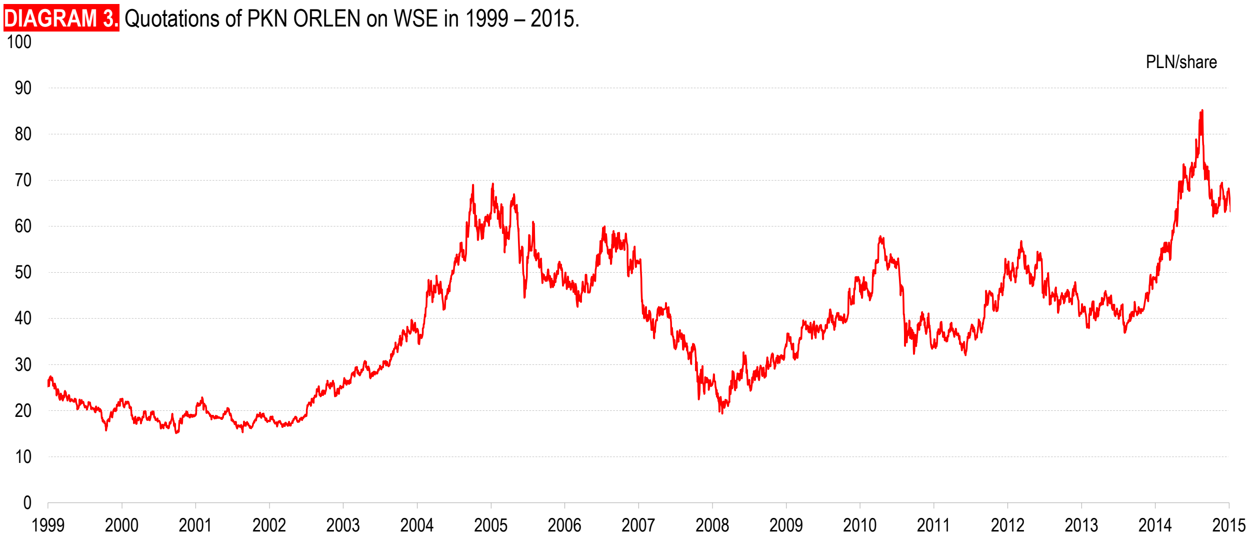
Current list of recommendations issued for the Company's shares is available on the corporate website under: http://www.orlen.pl

DIAGRAM 2. Key events on the background of quotations of PKN ORLEN in 2015.



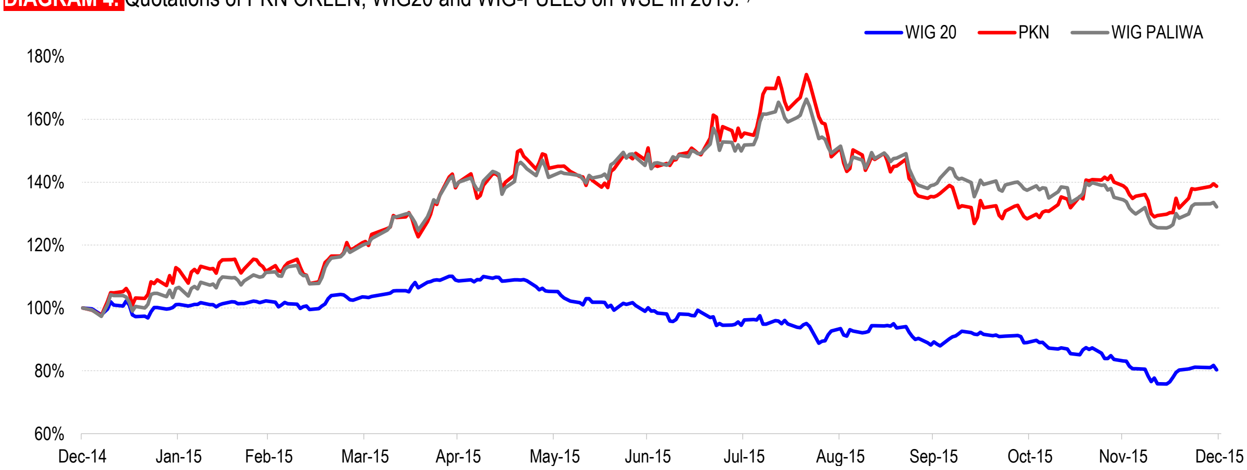
Source: Own calculations based on data from gpwinfostrefa.pl.

DIAGRAM 3. Quotations of PKN ORLEN on WSE in 1999 – 2015.



Source: Own calculations based on data from gpwinfostrefa.pl

DIAGRAM 4. Quotations of PKN ORLEN, WIG20 and WIG-FUELS on WSE in 2015.[1)]



1) percentage change of quotations of PKN ORLEN, WIG 20 in relation to the listing of 30 December 2014
Source: Own calculations based on data from gpwinfostrefa.pl

2. OPERATING ACTIVITY AND THE MOST IMPORTANT ACHIEVEMENTS

2.1. The most important events

JANUARY 2015

Repurchase of mandatory reserves

On 29 January 2015 the agreement for gathering and keeping of crude oil mandatory reserves, concluded on 27 June 2013 between Neon Poland Sp. z o.o. ("Neon") and PKN ORLEN S.A. has expired. Therefore, PKN ORLEN S.A. acquired crude oil owned by Neon. The value of the transaction was approximately USD 145 million (approximately PLN 540 million). On the day of signing the agreement the acquisition price of crude oil has been hedged with a forward contract. The settlement of the hedging transaction increased the value of the acquired raw material by USD 112 million (representing PLN 419 million). Regulatory announcement no. 13/2015.

AUGUST 2015

Repurchase of mandatory reserves

On 12 August 2015 PKN ORLEN S.A. exercised an option of early repurchase of a crude oil mandatory reserves sold to Cranbell Sp. z o.o.("Cranbell') on 26 June 2014. Accordingly PKN ORLEN S.A. terminated the agreement for gathering and keeping of crude oil mandatory reserves concluded with Cranbell on 26 June 2014 and bought back crude oil owned by Cranbell. The value of the transaction was approximately USD 301 million (approximately PLN 1 137 million). On the day of signing the agreement the acquisition price of crude oil has been hedged with a forward contract. The settlement of the hedging transaction increased the value of the acquired raw material by USD 406 million (representing PLN 1 536 million). Regulatory announcement no.118/2015.

SEPTEMBER 2015

Power Plant in Włocławek

The consortium of companies (General Electric International S.A. and SNC-LAVALIN POLSKA Sp. z o.o.) that builds gas-steam power plant in Włocławek informed about new date for completion of the project. Therefore, commercial operation of the power plant is planned for the second quarter of 2016. The previously planned date of commercial operation of the power plant was December 2015. Regulatory announcement no 129/2015.

NOVEMBER 2015

Changes in a composition of the Supervisory Board

On 24 November 2015 PKN ORLEN Management Board informed that on 23 November 2015 the Minister of the State Treasury acting on behalf of the shareholder of the State Treasury, based on § 8 item 2 point 1 of the Articles of Association, dismissed Mr Maciej Bałtowski of the Supervisory Board of PKN ORLEN S.A. and appointed Mr Remigiusz Nowakowski to the Supervisory Board. Regulatory announcement no. 161/2015.

DECEMBER 2015

Convening of PKN ORLEN's Extraordinary Meeting of Shareholders

On 9 December 2015 Management Board of the PKN ORLEN S.A. acting pursuant to the Article 399 § 1 in conjuction with the Article 400 § 1 of the Commercial Companies Code and § 7 item 4 of the Articles of Association informed about convening PKN ORLEN's Extraordinary Meeting of Shareholders on 29 January 2016. Regulatory announcement no. 165/2015.

Changes in PKN ORLEN's Management Board

On 16 December 2015 the Supervisory Board of PKN ORLEN S.A. dismissed Mr Dariusz Krawiec from the Management Board of PKN ORLEN and at the same time appointed Mr Wojciech Jasiński as President of the Management Board for three year term of office, ending on the day of the Ordinary General Shareholders' meeting that will approve the financial statements for 2016. Regulatory announcement no. 172/2015.

The most important events in 2016 until publication of the Management Board Report.

JANUARY 2016

Changes in a composition of the Supervisory Board of PKN ORLEN

On 28 January 2016 the Minister of the State Treasury acting on behalf of the shareholder of the State Treasure, based on § 8 item 2 point 1 of the Articles of Association, dismissed Mr Remigiusz Nowakowski from the Supervisory Board of PKN ORLEN S.A. Regulatory announcement no. 15/2016.

On 29 January 2016 the Extraordinary General Meeting of Shareholders of PKN ORLEN S.A. dismissed Mr Adam Ambrozik, Mr Cezary Banasiński, Mr Grzegorz Borowiec, Mr Cezary Możeński and Mr Leszek Jerzy Pawłowicz from the Supervisory Board of PKN ORLEN and appointed Mr Mateusz Henryk Bochniak, Mr Adrian Dworzyński, Ms Agnieszka Krzętowska, Mr Remigiusz Nowakowski and Mr Arkadiusz Siwko to the Supervisory Board of PKN ORLEN. Regulatory announcement no. 17/2016.

FEBRUARY 2016

Changes in a PKN ORLEN's Management Board

On 8 February 2016 the Supervisory Board of PKN ORLEN S.A. dismissed Member of Management Board Mr Marek Podstawa and at the same time appointed Mr Mirosław Kochalski as a Vice-President of the Company's Management Board and Mr Zbigniew Leszczyński to the position of the Member of Management Board, for the common three year term of the office, ending on the day of the Ordinary General Shareholders' Meeting that will approve the financial statements for 2016. Regulatory announcement no. 22/2016.

Information concerning significant contracts are described point 2.9.

2.2. Awards and distinctions

JANUARY 2015

ORLEN Warsaw Marathon was awarded the title "Mass Event of the Year" in the 80th Plebiscite of "Przegląd Sportowy".

FEBRUARY 2015

PKN ORLEN for the fourth time in a row obtained title of „**Top Employers Polska**", confirming its position among the best employers.

MARCH 2015

For the second time PKN ORLEN obtained prestigious title of „**The World's Most Ethical Company**" for implementation ethics in the daily company's operations and determining the standards of ethical leadership.

PKN ORLEN obtained title of **"Promoter of the ecology**" in the 15th edition of National Ecological Competition "Friendly to the Environment" for education activities as well as a number of activities on optimizing the impact on the environment.

APRIL 2015

In the next edition, of the prestigious plebiscite „Fleet Awards" organized by the „Magazyn Flota", fleet card program FLOTA has been acclaimed as the best in the category "Fuel cards for large fleets".

PKN ORLEN winner of the **Responsible Company Ranking 2015** made by "Dziennik Gazeta Prawna" in fuel, energy, extraction category.

MAY 2015

PKN ORLEN for 16th time in a row took first place in prestigious „ **List of 500**" ranking published by "Rzeczpospolita". Among the biggest Polish companies were also other companies of ORLEN Group: ORLEN Paliwa, ORLEN Gaz and ORLEN Petrotank.

PKN ORLEN awarded the "**CSR Golden Leaf**" for its outstanding activities in the area of the social responsibility and sustainable development in 2014. This is the 4th "CSR Leaf", after 3 silver awarded before by the "Polityka" magazine and Deloitte experts.

JUNE 2015

PKN ORLEN became a laureate of two awards in the 10th edition of "**Direct Marketing competition** – **Golden Arrow**". The Mobile Application VITAY and publication of "Information Package PKN ORLEN Annual Report 2013" were awarded.

JULY 2015

PKN ORLEN as the only one Polish Company was listed in the "Global 500" American „**Fortune**" magazine at the prestigious list of the largest Companies in the world. This annually published list of the world's largest Companies is classified in terms of total revenue.

AUGUST 2015

Three gold and one silver medals were won by athletes provided with PKN ORLEN individual scholarship program at **15th Athletics World Championship in Beijing**. Gold medals were won by: Anita Włodarczyk (Hammer Throw), Paweł Fajdek (Hammer Throw), Piotr Małachowski (Discus Throw), and the silver medal won Adam Kszczot.

SEPTEMBER 2015

PKN ORLEN once again awarded in the 11th edition of the ranking „**Best managed companies in CEE 2015**" performed by British "Euromoney" financial magazine.

PKN ORLEN another year in a row is the unquestionable leader in terms of revenue among the biggest Companies in Central Europe in the 9th edition of "**CE TOP 500**".

PKN ORLEN was awarded with **"Safety leader in the Industry"** title granted by Risk Engineering and Industry Development Team of PZU in recognition of is merits and implementation of good practices, and in particular the implementation of the "Report Threats in Safety at Work".

OCTOBER 2015

PKN ORLEN awarded four prizes in the X edition of „**The Best Annual Report**" contest. Besides the Special Award, PKN ORLEN won contest for the best Report on the Internet and for the best Financial Statements prepared in accordance with MSSF/MSR standards, what is more PKN ORLEN received title "**The Best of the Best**" title, awarded to Companies which were able to achieve three times the highest distinction in competition organized by "Accountancy and Tax Institute".

PKN ORLEN once again awarded with „**Safe Work Leader Gold Card**" granted by „Leaders in safety at work".

PKN ORLEN awarded with **„Leader in purchase 2015"** title in competition organized by "Association of Polish Logistic Managers" under patronage of "Polish Chamber of Commerce" and "Harvard Business Review"'.

PKN ORLEN leader of XIV ranking edition of "**List of 2000 – The biggest Polish enterprises and exporters**" under patronage of Ministry of Economy.

NOVEMBER 2015

ORLEN, BLISKA and STOP CAFE brands were awarded with „**Superbrands Created in Poland 2015/2016**" title and PKN ORLEN brand won "**Business Superbrands 2015/2016**" title.

PKN ORLEN received **"Philanthropy Leader"** award in category of "Individual Employee Philanthropy Program". The contest is organized by "Warsaw Stock Exchange".

DECEMBER 2015

PKN ORLEN for ninth time in a row became a laureate of the **„Most Valuable Polish Brand"** ranking. In 2015 value of PKN ORLEN brand reached PLN 4.5 billion.

PKN ORLEN was rewarded in **"Reactions and Innovations 2015"** plebiscite, for accomplishment of construction process of PX/PTA complex – the second largest and the most modern petrochemical complex designed for production of paraxylene and terephthalic acid.

Chartered Institute of Purchasing & Supply granted PKN ORLEN, for the first time in Poland, with Supply Chain Management Certificate. International CIPS experts performed integrated audit in the areas of: leadership and organization, strategy, employees competence, functions of process and systems and measurement with data management, experts concluded that PKN ORLEN is perfectly following purchasing standards.

PKN ORLEN continuously since 2009 remains in an elite group of companies being members of **RESPECT Index** that selectsfirms which are managed in responsible and sustainable way.

2.3. Organization and management

2.3.1 ORLEN Group development policy

The ORLEN Group is striving to strengthen the position of its companies in the area of their primary activities and to extend the energy and upstream segment. At the same time, the Group is focusing on the improvement of management, restructuring and consolidation of assets, as well as on the divestment of assets which are not directly related to its primary activity. The purpose of these measures is to increase the market value of the ORLEN Group, to strengthen its position on the parent markets, as well as to ensure product and geographic expansion. The primary developmental investments aim at further expanding the product portfolio and the degree of conversion, generating new energy powers and continuing projects related to the exploration and extraction of hydrocarbons. Holding management principles, i.e. solutions aiming at the implementation of shared goals for companies in the ORLEN Group, defined by the Parent Company, were implemented to ensure effective management. The solution has been implemented on the basis of the ORLEN Group's Constitution stipulating three key regulations: the Agreement for Cooperation, the Group Regulations, and the provisions of ORLEN Group company Statutes/Agreement.

The Constitution provided for the standardization of exchange of information, effective monitoring of key business decisions, as well as for the standardization of organization norms. Furthermore, the Constitution defines the legal basis for the formation of a cohesive strategy for the ORLEN Group.

Since 2011, the Constitution was implemented in 39 and the holding management principles – in 27 companies of the Group.

Effective PKN ORLEN corporate supervision over the companies of the Group is based on the supervision of the operating activity of these companies, their financial and formal-legal supervision.

2.3.2 Changes in the principles of organization and management in the Parent Company and the ORLEN Group and in capital relations

Parent Company – PKN ORLEN S.A.

On 16 December 2015, the President of the Management Board was replaced. By decision of the Supervisory Board, Mr Dariusz Jacek Krawiec was dismissed and Mr Wojciech Jasiński was appointed.

SCHEME 2. The responsibility division of Members of the Management Board of PKN ORLEN as at 31.12.2015.

AREAS OF RESPONSIBILITY OF THE MANAGEMENT BOARD OF PKN ORLEN

PRESIDENT OF THE MANAGEMENT BOARD, CHIEF EXECUTIVE OFFICER WOJCIECH JASIŃSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD, CHIEF FINANCIAL OFFICER SŁAWOMIR JĘDRZEJCZYK	MEMBER OF THE MANAGEMENT BOARD, DEVELOPMENT AND POWER ENGINEERING PIOTR CHEŁMIŃSKI	MEMBER OF THE MANAGEMENT BOARD, SALES MAREK PODSTAWA	MEMBER OF THE MANAGEMENT BOARD, PRODUCTION KRYSTIAN PATER
Human Resources	Planning and Reporting	Implementation of Investments	Wholesale of Refinery Products	Refinery Production
Strategy and Project Management	Business Controlling	Development and Technologies	Sale of Petrochemical Products	Petrochemical Production
Procurement	Supply Chain Management	Power Engineering	Retail Sale	Investments and Efficiency of Production
Audit and Corporate Risk Management	Finance Management	Health and Safety	Logistics	Technics
Marketing	IT	Environmental Protection	Efficiency and Development of Sale in ORLEN GROUP	
Corporate Communication	Taxes			
Trade of Crude Oil and Gas	Capital Investments			
Legal Counselor	Investor Relations			
Protection of Information, Critical Infrastructure, Security and Defense Matters				
Innovative Projects				

On 8 February 2016 the Supervisory Board dismissed Mr. Marek Podstawa from the Management Board of PKN ORLEN S.A. and appointed Mr Mirosław Kochalski for the Vice-President of the Management Board and Mr Zbigniew Leszczyński for the Member of the Management Board.

Due to the acquisition of production assets from the ORLEN Group companies, a new organizational unit – the Oil-Asphalt Block – and its subordinated Asphalt and Oil Departments were established within the section governed by the Refinery Production Executive Director.
A new organizational unit – Representative Office in Brussels – was established in the section governed by the Concern Counselor.

In the course of 2015, shifts were made in the following organizational units:

- The Fuel Station Maintenance Department (with subordinated units) was shifted from the Retail Section to the Implementation of Property Investments Section,
- The Innovative Project Office was shifted from the Strategy and Project Management Section to the section governed by the Chief Executive Officer,
- The Refinery and Petrochemical Production Optimization and Production Processes Office with the subordinated Refinery and Petrochemical Production Optimization and Production Processes Team was shifted from the section governed by the Executive Petrochemical Production Director to the Investment and Production Effectiveness Office.

In addition, a draft of the new division of competences between the Crude Oil and Gas Trade area and the Logistics area was implemented in relation to the transfer of the crude oil supply settlement process to the Logistics area. Due to the new division of competences, the organizational structure of the Executive Crude Oil and Gas Trade Director has changed.
In turn, the responsibility to monitor the mandatory reserves was transferred from the Logistics area to the Supply Chain Management area.

Unipetrol Group
The Unipetrol Group consolidation project aiming at optimizing its structure and, in consequence, improving its operating activity and strengthening its market position was implemented.
In May 2015, the Unipetrol Group finalized the acquisition of 100% of shares in Ceska Rafinerska a.s., becoming the sole operator of the refining capacity in the Czech Republic. Full control of integrated production assets creates the basis for further improvement of the company's operating parameters. In 2015, works related to the merger of Benzina s.r.o and Polymer Institute s.r.o. with Unipetrol RPA s.r.o. were conducted to ultimately lead to the creation of a Unipetrol Group operational center, concentrating the key business processes. The aforementioned company merger was performed on 1 January 2016. A merger of Mogul Slovakia s.r.o. and Unipetrol Slovensko s.r.o, companies trading fuels, oils and grease manufactured by the Unipetrol Group, took place on the same day. The purpose of the Unipetrol Group in terms of wholesale was to strengthen its position on the domestic market and on export markets by creating companies operating directly on these markets. Such measures allow for improving the quality of locally provided services and for flexibly reacting to the needs of new consumer groups. Completing the aforementioned assumptions, Unipetrol RPA established company Unipetrol RPA Hungary Kft for the wholesale and retail sale of fuels in November 2015 in Hungary. Expansion of the Unipetrol Group on international markets is also a strategic step in the context of increasing processing powers resulting from the purchase of Ceska Rafinerska a.s. shares.

ORLEN Południe Group
On 1 January 2015, pursuant to a sales agreement concluded in December 2014, the organized part of an enterprise including the Heat and Power Plant and thermal networks and the remaining infrastructural property (e.g. electrical, gas, water networks) in Energomedia Sp. z o.o., a daughter company, was transferred to Rafineria Trzebinia S.A.

The merger of Rafineria Trzebinia S.A. as the acquiring company with companies: Rafineria Nafty Jedlicze S.A., Fabryka Parafin Naftowax Sp. z o.o. and Zakładowa Straż Pożarna Sp. z o.o. was recorded on 5 January 2015. The name of the company was changed to ORLEN Południe S.A. The current operational strategy has remained unchanged and is focused on the primary segments related to the production and sales of biofuels and biocomponents, paraffin and solvents.
Agreements concluded between ORLEN Południe S.A. and ORLEN Asfalt Sp. z o.o. concerning the lease of the Trzebinia asphalt production facility (Trzebinia Production Department) belonging to ORLEN Asfalt sp. z o.o. and the acquisition of functions related to this part of the assets entered into force on 1 March 2015.

ORLEN Asfalt Sp. z o.o.
On 2 January 2015, PKN ORLEN S.A. purchased production assets with logistics, located in Płock, in the form an organized part of an enterprise, from ORLEN Asfalt Sp. z o.o. Integration of ORLEN Asfalt Sp. z o.o. production assets under the Płock production plant will raise the effectiveness of operations in this area and will allow the company to concentrate on its commercial development in the country and on foreign markets.

ORLEN OIL Sp. z o.o.
On 2 January 2015, PKN ORLEN S.A. purchased production assets located in Płock with logistics and base oil sales (Oil Block), in the form of an organized part of an entreprise, from ORLEN OIL Sp. z o.o. Integration of ORLEN OIL Sp. z o.o. production assets under the Płock production plant will raise the effectiveness of operations in this area and will allow the company to concentrate on its commercial development, including the implementation of an effective sales strategy on domestic markets.
On 5 January 2015 ORLEN OIL Sp. z o.o. merged with its subsidiary, Platinum OIL Sp. z o.o. through acquisition of all Platinum OIL Sp. z o.o. assets by ORLEN OIL Sp. z o.o. The merger aimed at increasing the effectiveness of decision making processes, simplifying structures and increasing the effectiveness of sales and distribution of oil and lubricants.
The project of logistics and distribution centralization and outsourcing was continued. In May 2015, the company completed its measures related to the centralization of supplies to PKN ORLEN fuel stations, as a result of which the company assumes all PKN ORLEN S.A. fuel stations in Poland with direct service.

ORLEN Paliwa Sp. z o.o.
In 2015, a multi-stage process of changes in the wholesale fuel sales channel in the ORLEN Group was completed. The first stage of this process was the acquisition of fuel and fuel oil wholesale to a part of small and medium companies and wholesale discounts from PKN ORLEN S.A. by ORLEN Paliwa Sp. z.o.o. On 30 June 2015, ORLEN PetroTank Sp. z o.o. acquired ORLEN Paliwa Sp. z o.o., changing its name to ORLEN Paliwa Sp. z o.o. On 30 October 2015, ORLEN Paliwa Sp. z o.o. acquired ORLEN Gaz Sp. z o.o.
The purpose of these structural changes was to create an entity with a vast commercial offer, as to allow for the full use of the scale effect in terms of logistics and sales solutions, and to ensure a competitive, complex and high-quality commercial offer.

Support function centralisation processes

In 2015, projects of further centralization of accounting services, payroll and personnel processes within the ORLEN Group were continued. The standardization and automation of accounting processes was continued by implementing a process model of accounting service utilizing an electronic workflow system in the consecutive companies. In terms of human resources and payroll, ORLEN Ochrona was assumed with central HR-payroll service. At the end of 2015 ORLEN Centrum Usług Korporacyjnych Sp. z o.o. kept accounting books of 21 ORLEN Group companies along with payroll and personnel processes in 30 companies.

Changes in capital relations in 2015

TABLE 5. Changes in respect of capital relations in the ORLEN Group.

TYPE OF TRANSCATION/COMPANY	TRANSACTION DATE	NUMBERS OF SHARES ACQUIRED/DISPOSED OF	SHARE IN THE CAPITAL AFTER THE TRANSACTION
FOUNDATION OF THE COMPANY AND SHARES AUTHORIZATION			
by ORLEN Upstream Sp. z o.o.:			
Kiwi Acquisition Corp.	9 October 2015	1 000	100.00%
by UNIPETROL RPA, s.r.o.:			
UNIPETROL RPA Hungary Kft.	10 November 2015	1	100.00%
ACQUISITION OF SHARES			
by PKN ORLEN:			
Przedsiębiorstwo Inwestycyjno-Remontowe RemWil Sp. z o.o.	23 January 2015	6 000	100.00%
by UNIPETROL a.s.:			
Česká Rafinérská a.s.	4 May 2015	303 304	100.00%
by ORLEN UPSTREAM Canada Ltd.:			
Kicking Horse Energy Inc.	1 December 2015	1 000	100.00%
by KIWI ACQUISITION CORP.:			
FX Energy Inc.	15-31 December 2015	540 870 587	100.00%
by ANWIL S.A.:			
Pro-Lab Sp. z o.o.	18 February 2015	123	99.99%
Wircom Sp. z o.o.	20 November 2015	293	97.05%
Wircom Sp. z o.o.	15 December 2015	2	97.38%
DISPOSAL OF SHARES			
by ANWIL S.A.:			
Przedsiębiorstwo Inwestycyjno-Remontowe RemWil Sp. z o.o.	23 January 2015	6 000	0.00%
INCREASING THE CAPITAL OF THE COMPANY AND SHARES AUTHORIZATION			
by PKN ORLEN:			
ORLEN Upstream Sp. z o.o.	25 March 2015	1 850	100.00%
ORLEN Upstream Sp. z o.o.	1 October 2015	1 059	100.00%
ORLEN Upstream Sp. z o.o.	18 November 2015	30 026	100.00%
MERGERS:			
Rafineria Trzebinia S.A. (currently ORLEN Południe S.A.), Rafineria Nafty Jedlicze S.A., Fabryka Parafin Naftowax sp. z o.o. and Zakładowa Straż Pożarna Sp. z o.o. by transfer the property to ORLEN Południe S.A. [1)]	5 January 2015	703 459	100.00%
ORLEN Oil Sp. z o.o. and Platinum Oil Sp. z o.o. by transfer to ORLEN Oil Sp. z o.o. the property of Platinum Oil Sp. z o.o.	5 January 2015	0	100.00%
ORLEN Serwis S.A., ORLEN Automatyka Sp. z o.o. and Przedsiębiorstwo Inwestycyjno – Remontowe RemWil Sp. z o.o. („RemWil") by transfer the property of ORLEN Automatyka Sp. z o.o. and RemWil to ORLEN Serwis S.A.	20 February 2015	1 207 990	100.00%
Baltic Power Sp. z o.o. and Baltic Spark Sp. z o.o. by transfer the property of Baltic Spark Sp. z o.o. to Baltic Power Sp. z o.o.	19 March 2015	87	100.00%

ORLEN PetroTank Sp. z o.o. and ORLEN Paliwa Sp. z o.o. pr by transfer the property of ORLEN Paliwa Sp. z o.o. to ORLEN PetroTank Sp. z o.o. (at the same time changing the name from ORLEN PetroTank Sp. z o.o. to ORLEN Paliwa Sp. z o.o.)	30 June 2015	2 658	100.00%
ORLEN Paliwa Sp. z o.o. and ORLEN Gaz Sp. z o.o. by transfer the property of ORLEN Gaz Sp. z o.o. to ORLEN Paliwa Sp. z o.o.	30 October 2015	4 295	100.00%
Unipetrol RPA s.r.o. and Polymer Institute Brno s.r.o.	31 December 2015	0	100.00%
REMOVAL FROM NATIONAL REGISTER COURT			
Orlen Oil Cesko s.r.o. in liquidation	14 February 2015	1	0.00%
Raf-Koltrans Sp. z o.o. in liquidation	3 June 2015	18 500	0.00%
ZWCh Wistom S.A. in bankruptcy	30 June 2015	7 428	0.00%
SIA Balin Energy in liquidation	2 July 2015	500	0.00%
Huta Gliwice S.A. in bankruptcy	17 July 2015	724	0.00%
CHEMAPOL SCHWEIZ AG in liquidation	21 August 2015	1	0.00%
UAB Paslaugos TAU in liquidation	30 September 2015	500 000	0.00%
OIEPCo in liquidation	31 October 2015	218 612	0.00%
Raf-Służba Ratownicza Sp. z o.o. in liquidation	14 December 2015	1 600	0.00%

1) On 30.01.2015 PKN ORLEN S.A. was added to the register of shareholders of ORLEN Południe SA in place of the minority shareholders, whose shares are canceled.

2.4. Research and technological development

In 2015, the **ORLEN Group** realized projects of research and development related to the implementation of new products and technologies, as well as resulting from the existing laws on environmental protection and the production and sale of chemicals.

Modernizing the DRW IV installation in the Płock production plant, **PKN ORLEN** used research works concerning the improvement of yields and energy efficiency in atmospheric and vacuum columns. An analysis of the operation of feeder furnaces in the Flue Gas Desulfurization Installations was also carried out for the purpose of reducing carbon oxide emissions. Research works were also conducted for the purpose of expanding the production capacity of the polymer modified asphalt bases. In cooperation with the Jedlicze Refinery from the ORLEN Południe Group, technological trials aimed at obtaining raw material feed for the production of base oils were conducted. A project related to raising the energy efficiency of the PTA technological process was also carried out.
Projects related to biomass processing into fuel components were also carried out, as dictated by care for the natural environment and resulting from the goals in the application of biofuels specified by the Renewable Energy Directive (RED) for 2020. In this area, PKN ORLEN and the Unipetrol Group joined the project conducted by the BIOENERGY 2020+ competence center, concerned with biomass use issues.
A project in advanced biofuels, concerning the development of alternative methods of sourcing higher-generation biocomponents was launched in cooperation with the University of Warmia and Mazury in Olsztyn and the University of Szczecin. As part of this project, a testing station for growing algae with the use of carbon dioxide and post-production, refinery waters will be built within the premises of the Płock Production Plant. The main goal of this project is to develop a biocomponent production technology based on oil algae and Baltic diatoms in the refinery operating conditions.
In terms of tightening cooperation with the representatives of the world of science, a series of “Innovation Day” meetings was organized to allow representatives of the industry and science to share their knowledge in innovation in the industry and to identify potential areas for cooperation.

As part of its strategy, PKN ORLEN has commenced a series of measures aiming at implementing and completing innovative projects in particular areas of its activity. By implementing innovative solutions and developing unique services, PKN ORLEN is building an innovative culture throughout the entire value chain. Poland’s first open competition for innovative solutions increasing the energy efficiency of production processes was announced in 2015. The purpose of the competition was to find the most effective technological concept for the recovery and utilization of low-temperature heat from distillation columns. Under the project, the Concern established cooperation with an international expert in crowdsourcing initiatives – NineSigma. Despite the considerable challenge and the complexity of the problem, the competition became the point of interest of numerous innovators (teams of specialists, research institutions, scientists) from 10 countries of the world.

The Unipetrol Group has implemented research and development works in refinery products in cooperation with VÚAnCh (Inorganic Chemistry Research Institute) and the Polymer Institute Brno in terms of petrochemical products.
In the refinery area, research activities were focused on processes related to the production of engine fuels and the processing of residual fractions. With growing quality requirements for engine fuels, a large-scale test of diesel oil additives used in the refinery industry was carried out. Due to the obligation to reduce the emission of greenhouse gasses by 2020, tests of the effect of particular types of biocomponents on the properties of the winter diesel oil and emission levels were performed. Projects related to heavy fractions aimed at developing innovative technologies for the construction of asphalt paving using recycled materials.
Research in plastics was carried out by the Polymer Institute Brno. Long-term plans in petrochemistry stipulate improvement in the quality of the product portfolio and increase of production effectiveness. The possibility of utilizing light hydrocarbons from pyrolysis and their further use was researched in 2015. In terms of polyethylene production, the focus was on continued improvement of the utility values of the litens produced and the search for savings in manufacture costs. Production of block copolymers was

launched as an aftermath of research conducted in the past years, concerning non-phthalate catalysts. Furthermore, new possibilities for preparing copolymers of improved utility values and innovations in existing polymer types were considered with the purpose of reducing operation costs.
A project for the construction of a University in the Chempark in Litvínovie Záluží was completed in cooperation with the Higher School of Chemistry and Technology in Prague (VŠCHT). The purpose of the project was to provide vocational preparation and education of students.

The ORLEN Lietuva Group continued the performance of projects related to improving the energy efficiency of production processes and implementation of new technologies. One of its most outstanding works was the finalization of effective use of semi-product streams obtained in the Visbreaker Vacuum Flasher by modifying existing processes and selecting optimal catalysts. Works on improving the effectiveness of catalytic cracking were conducted. Thanks to the use of additives, an increase of the diesel oil stream was achieved in the installation. After completing the research, the production of bitumens using new components was started. Another important group of subjects assumed with research and development works were projects related to the adaptation of production processes to new environmental regulations.

IKS Solino launched a pilot program for testing the long-term storage of gasoline in salt caverns. The best practices and research works were carried out by the Concern with the assistance of the State Research Institute and indicated that the storage of gasoline in caverns is safe from the geological, environmental and technological point of view.

The ANWIL Group participated in the preparation of assumptions and principles for the INNOCHEM sector program which, at the initiative of the Polish Chamber of Chemical Industry, has been distributing subsidies under the Intelligent Development Operational Program. Participation in the program will be an opportunity to obtain financing for the second, three-year stage of the project related to the development of a technology for manufacturing ceramizing composites on the basis of PVC, implemented in cooperation with the Lodz University of Technology and the GIG Mining Institute.
Production trials for the possibility of implementing a nano-composite-modified PVC production technology were carried out in 2015. The trials were carried out with the participation of the Industrial Chemistry Institute, which granted a license for the application of the patented invention. As a result, trial PVC polymer series were obtained and forwarded to processing tests performed by PVC manufacturers cooperating with ANWIL S.A.

ORLEN Asfalt has carried out finishing works related with the implementation of a new group of asphalts marked with the symbol ORBITRON HIMA, modified by a high content of special polymer. Additional laboratory tests of utility features of the paving with the new asphalts were carried out and ultimately, the product enriched the commercial offer of the company in 2015.

In 2015, **ORLEN Oil** carried out research works assuming the modification (qualitative and concerning costs) of products, related to obtaining new product certificates and the definition of directions for the development of lubricant technology. A series of works related to the adaptation of quality of oils to the expectations expressed by the clients were undertaken. Technologies for 14 new products were developed and implemented in the group of automotive oils, 3 in the group of consumable fluids and 21 technologies in the industrial oil area.
In 2015, HETG and HEES hydraulic oils received EEL certificates (European Eco Label) as the most environmentally friendly products. These are the first certificates of this type, awarded for lubricants in Poland.
Furthermore, ORLEN Oil has been actively cooperating within the structures of the Technical Association of the European Lubricants Industry (ATIEL), the manufacturers of NLGI grease, the European Committee for Standardization (CEN).

ORLEN Południe Group has been continuing works related to the optimization of yields in the Fractional Distillation Installation (DRW). Works related to the optimization of raw materials in the hydro-refined and semi-refined paraffin area as well as to the expansion of the commercial offer of paraffin products were also continued. Production and sales of treatment oil was launched as a result of a project for the development of a new generation of metalworking fluids obtained from the recycling of waste oil. Works related to the concept of development of the 2nd and 3rd generation of biofuels were continued with the presence of PKN ORLEN.

In 2015, **the Upstream ORLEN Group** continued its research and development works submitted in the first edition of the Blue Gas sector program, coordinated by the National Center for Research and Development. The purpose of the program is to create and commercialize shale gas in Poland. As part of the program, research and development projects devoted to the development of geological analyses, seismic surveys, methods of estimating resources and risks, construction of deposit engineering models and development of optimal concepts for the management of deposits in the extraction of shale gas are carried out cooperation with companies PGNiG and LOTOS Petrobaltic, and the academic centres: the AGH University of Science and Technology, the Warsaw University of Technology, the Gdansk University of Technology, and the Oil and Gas Institute.
The Ungaslab project was also launched in 2015, the purpose of which is to create innovative services facilitating research in deposit engineering in unconventional reservoir rocks (low-porosity and low-permeable rocks) and the development of tools and services for unconventional deposit exploration and extraction. The project is carried out under the European Institute of Technology (EIT), in cooperation with the AGH University of Science and Technology and the Bay Zoltán Hungarian research center.

ORLEN Laboratorium Sp. z o.o. launched research works related primarily to the corrosive-sediment assessment of production installations and new methods for testing crude oil for PKN ORLEN.

2.5. Downstream segment

2015

PRODUCTION

	units	ORLEN Group	Poland	Czech Republic	Lithuania
Maximum processing capacity	million t	35.2	16.3	8.7	10.2
Utilization of processing capacity	%	90	96	84	83
White products yield	%	79	80	82	74
Utilization of Olefin installation capacity	%	74	84	59	—
Utilization of PTA installation capacity	%	88	88	—	—

SALES

		ORLEN Group	Poland	Czech Republic	Lithuania
TOTAL	thousand t	30 380	15 192	6 726	8 462
REFINERY, including:	thousand t	25 075	11 682	4 931	8 462
fuels	thousand t	17 432	6 614	4 159	6 659
heavy fractions	thousand t	4 544	2 309	600	1 635
other refinery products	thousand t	3 099	2 759	172	168
PETROCHEMICAL, including:	thousand t	5 305	3 510	1 795	—
olefins	thousand t	878	784	94	—
polyolefins	thousand t	482	—	482	—
benzene	thousand t	357	212	145	—
plastics	thousand t	445	339	106	—
fertilizers	thousand t	1 146	951	195	—
PTA	thousand t	587	587	—	—
other petrochemical products	thousand t	1 410	637	773	—

LOGISTICS

	units	ORLEN Group	Poland	Czech Republic	Lithuania
Total length of used pipelines	km	3 753	1 888	1 774	91
Length of used raw material pipelines	km	1 695	930	674	91
Length of used product pipelines	km	2 058	958	1 100	—

POWER INDUSTRY

	units	Płock Power Plant	Litvinov Power Plant	Mazeikiu Power Plant
Heating power installed	MWt	2 149	768	694
Electric power installed	MWe	345	112	160
Boiler's efficiency	%	93.0	90.8	92.8
Boiler's availability	%	82.4	74.2	77.0

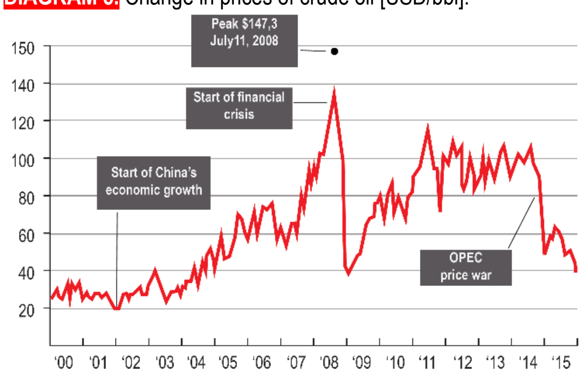
2.5.1 Market trends in the downstream segment

Adam Czyżewski, Chief Economist:
"The predictability of crude oil daily prices can be currently compared with the predictability of short-term floating exchange rate differences. The price of crude oil is one of the central macroeconomic categories, as it affects "everything", beginning with the decisions of central banks regarding percentage rates and exchange rates, through state budget to the revenues and expenses of companies and households, and remains affected by these factors.
Following a cartel decision of November 2014 to defend its share on the market, the price of crude oil seeks support in unpredictable end costs of extraction. The process will last until the surplus of crude oil supply is not absorbed. Before this happens, the price of crude oil can fluctuate in a relatively wide range. Afterwards, the price will increase, and the growth rate will depend on the reduction scale of the extraction capacity".

Crude oil prices

In the beginning of the year, a barrel of crude oil cost USD 55, whereas in the middle of May 2015, its price increased to USD 66, after which a drop in quotations commenced down to 36 USD/bbl in the end of the year. Lower prices generally resulted from a surplus in crude oil supply and excess of extraction capacity which grew in the environment of high prices maintaining from the middle of the year 2014. A downward trend was additionally reinforced by growing impact of geopolitical factors, expectations of lifting the sanctions imposed on Iran and the continuously high production of crude oil in OPEC countries. Demand factors related to the risk of deteriorated demand, resulting from a slowdown of the Chinese, Brazilian and Indian economies were also recorded.

DIAGRAM 5. Change in prices of crude oil [USD/bbl].



Source: Bloomberg

Demand and supply of raw material

High supply of crude oil, compared with its demand, recorded in the horizon of a year or two will affect the level of prices. The market of crude oil supplies is also changing due to structural changes in the economies of the main developing countries and efforts to raise energy efficiency. However, after levelling demand with supply, some adverse geopolitical factors can be taken into account, which, at the current low level of extraction capacity reserves in OPEC countries, can add risk premium to the price.

TABLE 6. Crude oil market in 2015-2021 [million bbl/d].

ITEM	2015	2016	2017	2018	2019	2020	2021
World Demand	**94.4**	**95.6**	**96.9**	**98.2**	**99.3**	**100.5**	**101.6**
Total World Supply, including:	**96.4**	**96.7**	**97.0**	**97.8**	**98.7**	**99.5**	**100.5**
- Non-OPEC Supply	57.7	57.1	57.0	57.6	58.3	58.9	59.7
- OPEC	38.7	39.6	40.0	40.2	40.4	40.6	40.8

Source: Data by International Energy Agency (IEA).

In 2015, demand for crude oil grew by 1.6 mbbl/d (by 1.7%) and this was one of the largest growths in the recent years, stimulated primarily by the fast drop in prices, which started in the second half of 2014 and was recorded throughout 2015. Crude oil demand forecasts according to IEA up to 2021 assume average annual increase by billion 1.2 bbl/d, which is a solid perspective in the historical perspective.

Potential trends in changes of crude oil price

In the short-term perspective to 2020, the dominant part of publicly available analyses and forecasts assume a break-through in the prices of crude oil. Forecasts indicate that in the middle of 2017, the crude oil market should reach a point of balance between demand and supply, which can constitute an impulse for raising the price of this raw material. Main factors affecting the prices of crude oil in 2016 are:

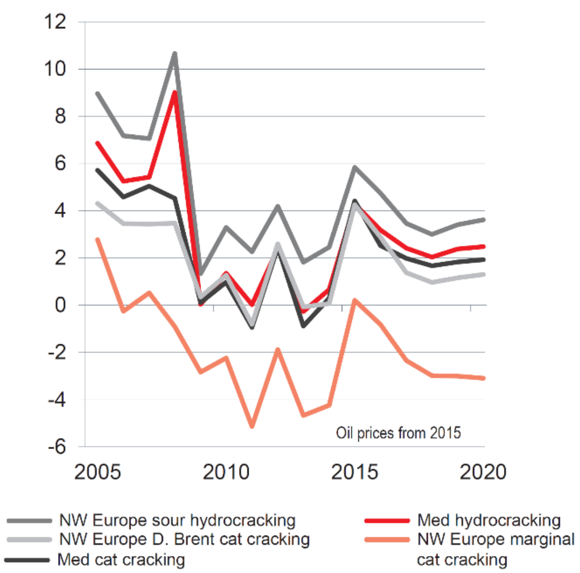
- OPEC countries extraction policy – in the past, OPEC accustomed the market to foreseeable crude oil prices. Currently, a part of the member states is forced to extract crude oil below the break-even point. Therefore, a conflict has been growing between particular members of the cartel, which can lead to successive turbulences on the crude oil market in 2016.
- Slowdown of world economic growth – the driving force of the global economy and the largest consumer of raw materials – China – has been undergoing an economic slowdown. The process is very difficult to reverse using traditional monetary and fiscal policy, which stands for further slowdown in the successive years turning into dropping demand for raw materials for energy.
- Return of Iranian crude oil on the market – on 17 January 2015, a memorandum of understanding concerning the limitation of the Iranian nuclear program entered into force in return for gradual lift of the prevailing sanctions. The sanction lift can entail the supply of additional 400,000 bbl/d until the end of 2016.
- Growing geopolitical risk – 2015 was the first year since a long time with a geopolitical risk factor. In 2016, deteriorating situation in the most turbulent regions of the world, that is in North Africa, in the Middle East and in Ukraine, might stimulate the change of the raw material prices dynamic.

The above specified factors implied the Brent crude oil prices forecasts to 2020 to hover around 55-95 USD/bbl, however, at the turn of 2015 and 2016, forecasts declaring prices below 30 USD/bbl have also appeared. Balancing the crude oil market will be possible thanks to the supply reduction.

DOWNSTREAM – SALES AND PRODUCTION

In 2015, the market of petroleum products in Europe recorded good results, primarily thanks to dropping crude oil prices. Their level was generally affected by the surplus in crude oil supply, with a relatively stable level of demand. A drop in the price of crude oil caused an increase in product margins, thanks to the mechanism of delay in adapting fuel prices to drop in crude oil prices. The increase in margins improved the profitability of crude oil processing and stimulated growth of refining capacity. In turn, the allocation of higher product volume on the market required a decrease in their prices.

DIAGRAM 6. Refining margins in Europe [USD/bbl]



Source: IHS.

In 2016, the refinery industry in Europe will be affected by a series of factors, which will determine the dynamic of margins. The most important are the following:

- **The surroundings of refineries.** Currently, the European refinery industry is under structural pressure of low demand. Additionally, competition from the Middle and Far East refineries, development of production capacities in Russia and increase of fuel production in that market create a risk of fuel import and decrease of margins of the local manufacturers in Europe.

  The release of crude oil export in the US may have a positive impact and narrow the Brent/WTI differential, thus partly improving the competitive position of European refineries in relation to their competitors from the US.

- **The position of refineries**. European refineries are working with reduced production capacity, which additionally raises the costs and limits profitability. They are relatively older and, consequently, less effective to the competitive refineries in the Middle East and Asia. Therefore, despite the current improvement in the industry, the issue of efficiency improvement, in a long term, will be of high significance for European refineries.

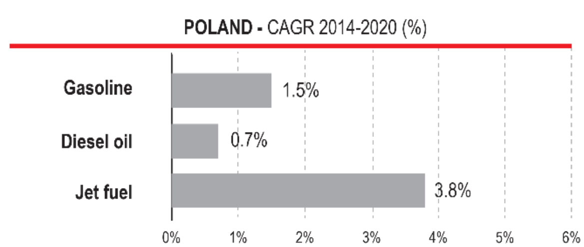
- **Potential surplus in stocks.** Absorption of crude oil surplus entails its processing to refinery products, which is currently performed at a very high pace, die to beneficial margins. Since the increase in margins and processing does not result from increased demand, the market will undergo a growth in refinery product stocks, which will create pressure on their prices.

- **Relative stability of demand.** A strong reduction of margins could be stimulated by a breakdown in fuel demand as a result of global recession caused by geopolitical factors, however, the probability that this scenario will come to life is relatively low**.**

The key driver for the growth demand of fuel in Europe will be plunging crude oil price – lower fuel prices translate into growth in their consumption. Higher forecasts of growth of demand for gasoline, exceeding the demand for diesel oil are symptomatic. Growth of gasoline sales is also manifested by new, more restrictive emission standards implemented by the EU and improving quality of gasoline engines. In turn, according to HIS forecasts, the European demand for diesel oil has and will maintain a slightly increasing trend to 2030 (increase of CAGR[1] by 0.8% per annum).

In Poland, a growth tendency is particularly displayed by projected demand for jet fuel, thanks to a growing volume of air carriage in Poland – according to available forecasts, the number of passengers carried to 2020 can increase by nearly 37% compared to 2014. Growing demand for gasoline is the effect of a growing number of vehicles registered in Poland – according to data published by the European Automotive Manufacturers' Association, the number of newly registered vehicles increased by 18% in Poland in 2015 compared to 2014.

DIAGRAM 7. Compound Annual Growth Rate (CAGR) in Poland [%].

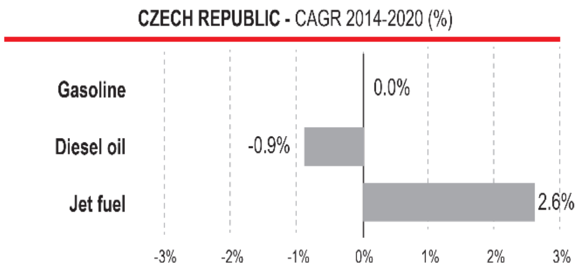


Source: JBC Energy

In the Czech Republic an increase in demand for jet fuel is anticipated, assuming stable demand for gasoline and LPG. According to JBC Energy, maximum demand for diesel oil is to fall in the years 2015-2016 – primarily due to the development of the transport sector, whereas in the successive years, i.e. to 2020, demand for diesel oil will drop (CAGR (-) 0.9%).

[1] CAGR – compound annual growth rate.

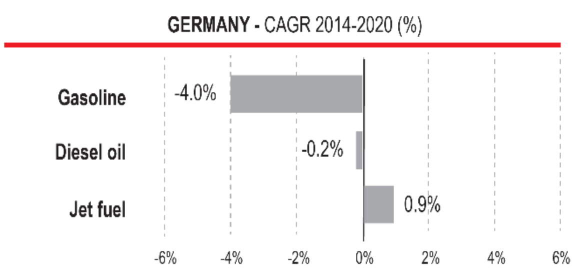
DIAGRAM 8. Compound Annual Growth Rate (CAGR) in the Czech Republic [%].



Source: JBC Energy

The German market is the focal point for all western European fuel market trends. There are forecasts of decrease in demand, mainly for gasoline. For several years, we have been witnessing progressive deterioration in automotive usage rates and growing effectiveness of engine use. The number of registered vehicles dropped from 559 per 1000 residents in 2008 to 540 currently. The use of alternatives to combustion engines is growing, and Germany is the third country in Europe in terms of registration of electrical cars.

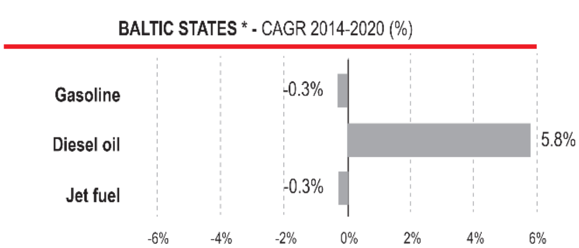
DIAGRAM 9. Compound Annual Growth Rate (CAGR) in Germany [%].



Source: JBC Energy

In the Baltic states, the anticipated growth in demand for fuels concerns primarily Diesel oil and results from the region economy development forecast, stipulating an average growth by 3.5% per annum to 2020.

DIAGRAM 10. Compound Annual Growth Rate (CAGR) in the Baltic countries [%].



* Includes Lithuania, Latvia, Estonia and Belarus

Source: JBC Energy

A series of economically significant factors affect the European **refinery sector**:

- Competition from refineries in the Middle East. IHS analysts expect refining capacity in the Middle East to increase nearly by 2.2 million bbl/d to 2022. State investments in the countries of this region are partially forced by the need to diversify the source of income, and to provide stimulus for economic growth and to stimulate employment in these fast-growing populations. With decreasing export of diesel oil to China, caused by the Chinese economic slowdown, Middle Eastern countries might look for new disposal markets, also in Europe.
- Russian manufacturers policy, aiming at selling higher volume of processed products instead of the raw material. Russia has been increasing its fuel export, taking advantage of the market situation and modernization of own refineries. Russia is producing 2.5 more diesel oil than it consumes (production of 1,500 thousand bbl/d, compared to consumption of 600 thousand bbl/d). In turn, demand for gasoline is practically balanced with production. Increased processing, securing consumption of gasoline, simultaneously forces domestic companies to export diesel oil. The problem which most of the Russian refineries can encounter in increasing export to Europe is the fact that production of diesel oil has been growing faster, exceeding the transfer capacity of pipelines. At this point, increasing the fuel transfer capacity has become the main priority of the Russian refinery industry. In result of these measures and additional upgrading works, Russian pipeline throughputs are to be increased by 515 thousand bbl/d to 2018. This will allow for further increase of diesel oil export to Europe in the next years, implying the excess of diesel oil in Europe.
- Loss of the American market. Due to increased production of hydrocarbons from unconventional deposits in the US, Europe has practically lost its opportunity to export gasoline surpluses to the American market.
- Introduction of regulatory limitations. Adaptation of production processes to community regulations in terms of the share of biocomponents and other renewable fuels in the general amount of fuels consumed in transport, high penalties for the non-performance of specific levels or the abolishment of tax exemptions related to the use of biocomponents and biofuels in production are the dominant factors to impact the cost of operation of petroleum concerns in Europe. Restrictive regulations regarding environmental protection and greenhouse gas emissions act to the diminish competitiveness between the European refineries and Chinese, Indian or US companies.

One of the biggest challenges for the manufacturers of the **petrochemical sector** in Europe is the development of new production capacities in the USA, in the Middle East and in Asia. Due to low natural gas prices, thanks to the shale revolution in North America, the costs of manufacturing of petrochemicals in the US fell nearly to the costs from Middle Eastern countries. Asian markets have become the most important markets for petrochemical products, but it is worth noticing, that these very regions are expected to undergo the fastest growth of production capacities in the next years.

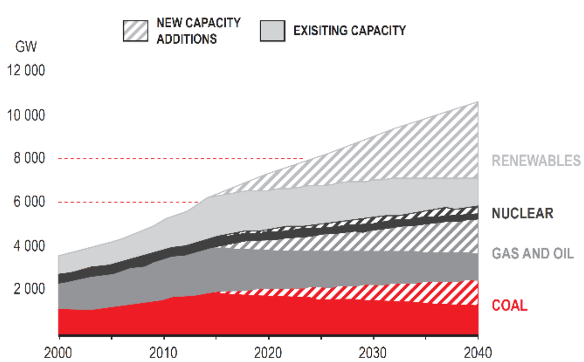
Low gas prices in North America in the last 8 years allowed for increase the supply of ethylene characterized by lower production costs compared to Europe, where production is based on crude oil. In world petrochemistry, the cost of raw material and energy determines competitiveness and constitutes approx. 70% of the product cost.

The European petrochemical industry will have to face a competition challenge from the USA, which has considerable raw material advantage. European manufacturers display significant diversification of potential to achieve economic benefits – the main factors are: the scale of operations, integration with the refinery, location and technology as well as age of the installations. Companies having installations based on gasoline feeds convert parts of their production to lighter LPG mixes. The main drivers for improving the situation of manufacturers in Europe are cost reduction, margin improvement and plant restructuring programs. Further technological development and other process innovations will also be important. Among optimization measures including improvement of price policy, the portfolio of specialized products featuring higher margins is also possible. The commencement of production of more advanced products requires not only changes in terms of change of production installation regimes, but also strong R&D competences, capital expenditures and reorganization of sales channels, as well as establishment of relations with clients. The prevailing gap between polyolefin consumption ratios for Western Europe and Poland as well as Central-Eastern Europe indicates further growth potential for the ORLEN Group in this area.

DOWNSTREAM – POWER INDUSTRY

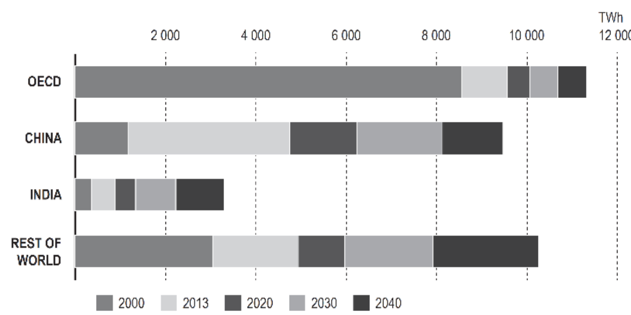
Over 80% of the energy consumed worldwide currently comes from fossil fuels: crude oil, coal and natural gas. In today's conditions the cheapest energy source is coal. However, it is expected that, in the long term, coal as an energy source will be replaced with natural gas and renewable energy sources. The change will be dictated by the necessity of decarbonisation of industry and fuel prices. After 2035 gas will be the largest source of electricity generation. Less expensive crude oil will have undoubtedly impact on the reduction of gas prices. Shale gas, which price in the United States and Canada is low, competes for primacy with coal – in particular by offering a significant reduction in CO_2 emissions.

DIAGRAM 11. World energy power [GW].



Source: IEA

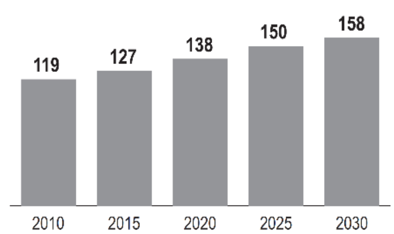
DIAGRAM 12. Demand for electricity in the various regions of the world.



The pace of economic growth plays an essential role in shaping electricity consumption trends. Increase in demand in non-OECD countries will be stimulated by fast economic growth and increasing revenues, growing population and the development of urban agglomerations. According to the 2015 World Energy Outlook report published by the International Energy Agency, the average pace of demand increase for electricity in non-OECD countries in 2013-2040 will equal 2.9% per year, whereas in OECD countries only 0.7% per year. Despite the fast growth of demand for electricity per capita, non-OECD countries will consume less than 40% of the average consumption per capita in the OECD countries in 2040.

In the power industry area of the downstream segment of the ORLEN Group, the core market is Poland - favourable growth prospects are provided due to lower energy consumption compared to most European countries. In Poland, energy consumption per capita is significantly lower than the average in the European Union and amounted to 4.1 MWh/capita in 2015 with the average of 5.4 MWh/capita in the European Union. In 2010-2015, demand for electricity in Poland was growing at the average pace of 1.3% a year. In 2015-2020, we are expecting an acceleration of growth of demand for electricity (acc. to CERA, CAGR will equal approx. 1.8%). Growth of demand for electricity is anticipated in Poland in years 2015-2030, which will be primarily related to the economic development of the country.

DIAGRAM 13. Domestic demand for electricity in Poland in years 2010-2040 [TWh].1)



Source: IEA

1) Final demand for electricity, i.e. without taking into account losses in transmission and own needs of power plants

Until 2011, wholesale prices of electricity indicated a stable growth. In 2012-2014, a drop in prices from 180 PLN/MWh at the end of 2011 to approximately 140 PLN/MWh at the end of 2013 was recorded. Following the growth in 2014 (to a level of approx. 190 PLN/MWh), prices were stable in 2015 at the level of approx. 150 PLN/MWh. A considerable part of the production capacity in Poland requires modernization and/or replacement due to their age and high emission rates. It is estimated that approximately 5 GW of production capacities should be withdrawn from the market until 2020.

The Czech market of electricity was fully liberated in 2006 and is currently one of the most mature European markets. In years 2010-2015, energy demand was relatively stable (CAGR 0.3%). In years 2015-2020, according to CERA, a demand growth of approx. 1.5% is anticipated. The main energy wholesale facility is the Prague Energy Exchange (PXE).

The Lithuanian energy system generates a total consumption of 10 TWh/annum. The Mazeikiai refinery is the largest recipient of energy in Lithuania, consuming approx. 0.6 TWh per year. In years 2010-2015, energy consumption by end users in Lithuania grew at the pace of 2.6% per year. In years 2015-2020, according to CERA, average demand growth of approx. 2.4% is anticipated. Lithuania is also an importer of electricity from the neighboring countries.

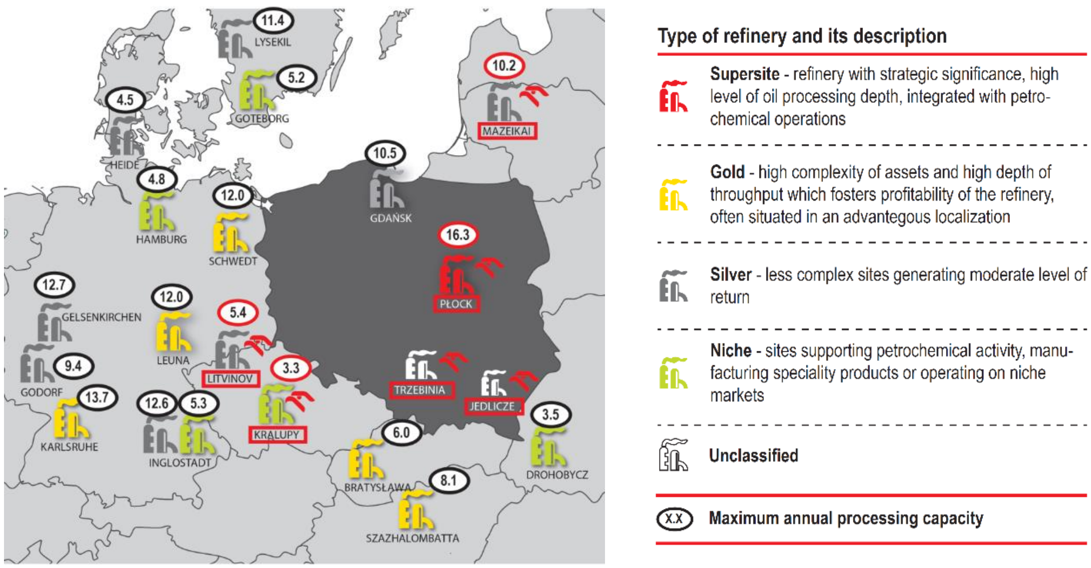
In the future, development of renewable energy sources (RES) in the world is also expected. It will be supported by regulations aimed at reducing CO_2 emissions and preferential treatment of RES. In 2014, the EU agreed targets for reducing CO_2 emissions and the share of renewables in energy consumption for 2030 years. Target for CO_2 reduction and the target for the share of renewable energy is 40% and 27%, respectively (compared to 1990). An important step towards a global consensus was also the agreement between the US and China, which are the world's biggest CO_2 emitters to reduce greenhouse gas emissions.
In Poland, over 80% of electricity is generated from coal, but the share of renewable energy sources is gradually increasing. In 2005, the share of RES in energy production amounted to 2.4%, in 2013 - 10.4%, while in 2014 up to 12.5%.

2.5.2 The ORLEN Group's position and competitive environment

Krystian Pater, Member of the Management Board, Production:
"After 50 years of operation of the Płock Production Plant, we have beaten another record in crude oil processing. Last year, we processed 15.7 million tonnes, which exceeds the current best results from 2012-2013 by half a million tons. Higher crude oil processing was possible mainly due to full use of the potential of the installations in terms of improving yields in our key units, implementing an innovative process control system with APC systems (Advanced Process Control), and extending periods between maintenance standstills.
We are following our strategy, we are systematically researching and searching for new, better technologies suitable for use in our facilities, and we are striving to use our resources in the Płock Production Plant and other production facilities in the Capital Group in a broader and more effective manner".

MAIN PRODUCTION ASSETS OF THE ORLEN GROUP

SCHEME 3. Types of European refineries.



Source: Own calculation based on Wood Mackenzie.

Total capacity of the ORLEN Group amounts to 35.2 million tonnes. Production plant **PKN ORLEN** in Płock is one of the modern integrated production facilities in Central and Eastern Europe with annual capacity of conversion at the level of 16.3 million tonnes per year. According to Wood Mackenzie's ranking, the complex has been classified as a so-called Super-Site, which means refinery of strategic importance characterized by large depth of crude oil processing, integrated with petrochemical activity and generating high margins.
Within petrochemical production area the key installation Olefin has maximum capacity about 700 thousand tonnes of ethylene and about 380 thousand tonnes of propylene. Produced monomers are input used to production of polymers in BOP and PVC installation in the ANWIL Group. PKN ORLEN has also modern complex PX/PTA, which capacity amounts to 400 thousand tonnes of paraxylene, which enables production of 600 thousand tonnes of terephthalic acid.
Other Polish PKN ORLEN refineries are located in the southern Poland (Trzebinia and Jedlicze). They specialize mainly in services related to the storage and distribution of fuels, production of bio-components, base oils, heating oils and regeneration of spent oils. At the beginning of 2015 they were merged and currently they are operating as ORLEN Południe.

Taking into account size of capacity, the second largest production plant in the ORLEN Group and also the only one on the market of the Baltic countries (Lithuania, Latvia and Estonia) is a refinery belonging to **ORLEN Lietuva.** Capacity of the Lithuanian refinery amounting to 10.2 million tonnes per year exceeds the demand of the local market and enables directing part of the products to the worldwide markets by sea.

Crude oil processing in the **Unipetrol Group** is realized by refineries in Kralupy and in Litvinov. In 2013, the Unipetrol Group signed an agreement for the purchase of 16.4% of shares in Ceska Rafinerska a.s. from Shell. Continuing the consolidation process of refinery assets in 2014, Unipetrol concluded an agreement with the Italian concern Eni, for the purchase of the next 32.4% of the shares in Ceska Rafinerska. In May 2015, the Unipetrol Group finalized the acquisition of shares from Eni and thus became the sole owner of the refineries belonging to Ceska Rafinerska, which resulted in higher availability of production capacities and guaranteed the safety of raw material supplies to the petrochemical segment. The total production capacities of the Unipetrol Group grew to 8.7 million tonnes/year. The Unipetrol Group also possessed petrochemical assets of total production capacities of approx. 600 thousand tonnes/year, including 320 thousand tonnes of polyethylene and approx. 280 thousand tonnes of polypropylene. Construction of a new Polyethylene 3 installation of total production capacity of approx. 270 thousand tonnes/year is in progress and will allow for increasing the use of the ethylene installation and for deeper integration of petrochemical and refinery production in the Unipetrol Group.

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

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

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

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

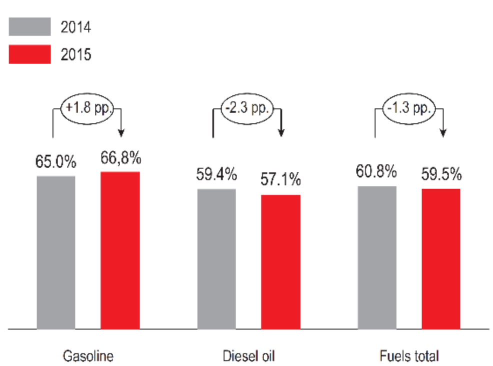
MARKET SHARES OF THE ORLEN GROUP IN DOWNSTREAM SEGMENT

Wholesale of refinery products

In 2015, the ORLEN Group conducted wholesale of refinery products in Poland, Czech Republic, Germany, Slovakia, Hungary, Lithuania, Latvia, Estonia, Finland and Ukraine and by sea to Western Europe transshipment terminals. The ORLEN Group's domestic markets include: Polish, Lithuanian and Czech markets. The ORLEN Group has an extensive portfolio of refinery products, among others: gasoline, diesel, jet fuel, light and heavy heating oil and a wide range of non-fuel products and semi-products.

Growth in total sales of gasoline and diesel oil, which the ORLEN Group reached on the Polish market, allowed for maintaining high market shares at the level of 59.5%. Introduced legal regulations, concerning illicit fuel trade (also referred to as the "shadow economy"), can particularly stimulate increase in the consumption of fuels, as announced in official statistics, and can therefore disturb the dynamic of changes in the ORLEN Group market shares.

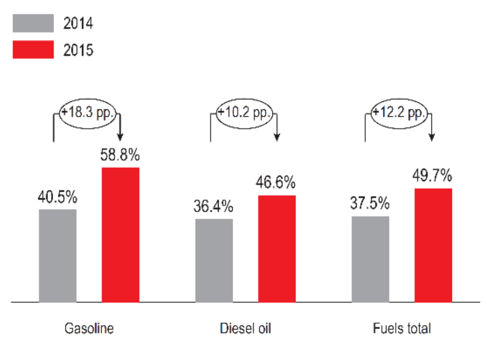
DIAGRAM 14. Participation in the wholesale fuel market in Poland.



Source: Own calculation.

Considerable growth of production potential of the Unipetrol Group allowed for increasing sales and strengthening the Group's leading position on the Czech market.

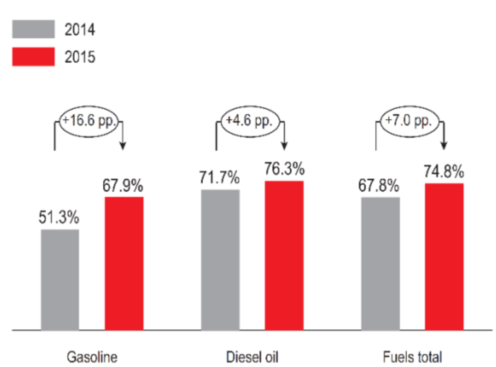
DIAGRAM 15. Participation in the wholesale fuel market in the Czech Republic.



Source: Own calculation.

Despite aggressive competition from Scandinavian and Belarussian suppliers, the ORLEN Lietuva Group maintained its leading position in the fuel sales sector of the Baltic markets, increasing its total share on the market in 2015 by 7 p.p.

DIAGRAM 16. Participation in the wholesale fuel market in the Baltic countries.



Source: Own calculation.

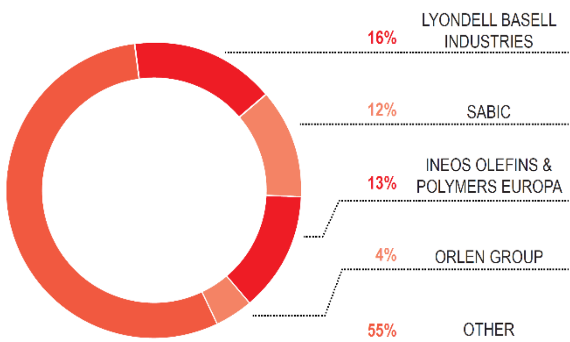
Wholesale of petrochemical products

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

Polyethylene

The production capacity of high and low density polyethylene in Europe are at a level of about 13 617 thousand tonnes/year. The largest producer of polyethylene is a company Lyondell Basell Industries, which has a production capacity of about 2 195 thousand tonnes/year (including a 50% stake in BOP). The company has assets located in Germany, France and Poland. The second largest producer is Ineos Olefins & Polymers Europa with a production capacity of around 1 745 thousand tonnes/year and assets located in Belgium, France, Germany, Italy and Norway. The third largest producer is Sabic with a production capacity of about 1 590 thousand tonnes/year and assets located in Germany, the Netherlands and the UK. Other major producers are Total Petrochemicals, Borealis and ExxonMobil.

DIAGRAM 17. Polyolefins producers in Europe.



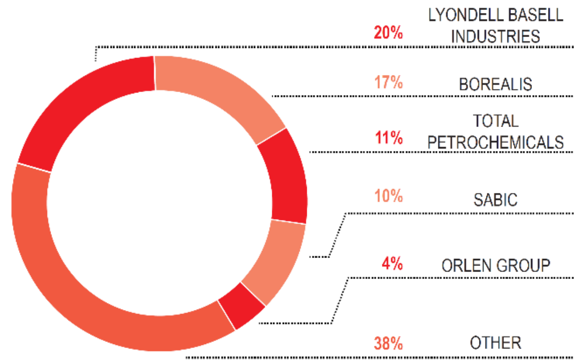
Source: Own calculations based on POLYGLOBE.

Polypropylene

Polypropylene production capacity in Europe is at the level of about 11 584 thousand tonnes/year. The largest producer of polypropylene is a company Lyondell Basell Industries, which has a production capacity of about 2 365 thousand tonnes/year (including a 50% stake in BOP). The company has assets located in Germany, France, Italy, Spain, the UK and Poland. The second largest producer is Borealis a company with a production capacity of around 1 920 thousand tonnes/year and assets located in Belgium, Germany, Austria and Finland. The next major producers are Total Petrochemicals with a production capacity of about 1 280 thousand tonnes/year and assets located in Belgium and France, and Sabic having production capacity of 1 150 thousand tonnes/year and assets located in the Netherlands and Germany.

The total share of BOP and the Unipetrol Group in the European polyethylene production capacity is approx. 4% and about 4% in case of polypropylene.

DIAGRAM 18. Polypropylene producers in Europe.



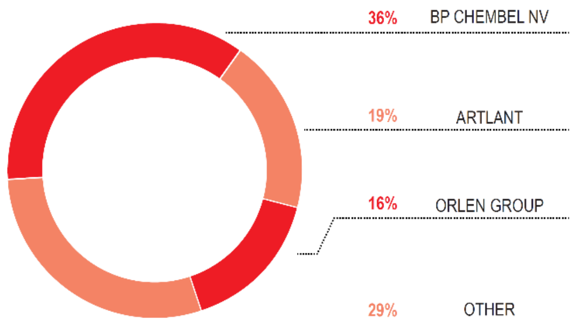
Source: Own calculations based on POLYGLOBE.

PTA

PTA production in the European market in 2015 amounted to about 2,611 thousand tonnes/year, with nominal production capacity of approximately 3,883 thousand tonnes/year. This results from the fact that the actual production recorded by Artlant in 2015, compared to minimum production powers, was significantly reduced due to long-term shutdown of the Portuguese manufacturer (since Q3 2014, the installation was operational for 3 weeks in October 2015, and the re-start of production is planned for the second half of 2016).

PTA in Europe is mainly used for the production of PET granulate intended for food bottles (about 85% of European production) and the production of polyester fibers (about 5% of European production) and foil (about 3% of European production). There were 7 PTA producers on the European market. In 2015, a decision was made to close the production unit Indorama Ottana Energia JV with nominal production capacity of 190 thousand tonnes/year. The largest producers of PTA in Europe are: BP Chembel NV located in Belgium with nominal capacity of 1,400 thousand tonnes/year, the company Artlant in Portugal with nominal production capacity of 750 thousand tonnes/year and PKN ORLEN with production capacity of 600 thousand tonnes/year. In total, these three producers represented in 2015 over 72% of European nominal production capacity in the PTA segment. The ORLEN Group in 2015 had a 16% share in the nominal European production of PTA and was the only one in Europe holding PTA manufacturing systems fully integrated with the production of paraxylene. Planned in the future investments of PTA in Europe, except from planned for the Q1/Q2 2016 increase of production powers of the Indorama Rotterdam installation (by 250 thousand tonnes/year), concentrates in Russia: Etana (750 thousand tonnes/year – 2020), Mogilev (600 thousand tonnes/year – 2020) and OJSC TANECO (210 thousand tonnes/year – 2021).

DIAGRAM 19. PTA producers in Europe.

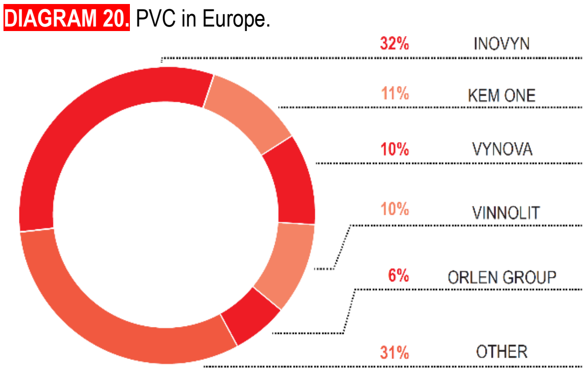


Source: Own calculations based on PCI.

Plastics

PVC nominal production capacity in Europe is 7,858 thousand tonnes/year, whereas Oltchim and Karpatneftekhim, recording nominal production capacities of approx. 300 thousand tonnes each, have been permanently shut down for a long time. The leading manufacturers of PVC in Europe are INOVYN (a company established through the merger of Ineos Chlor and Solvay), Kern One and Vynova. The share of these companies in normal PVC production capacities is estimated, respectively, for: 31.5%, 11.0% and 10.5%. Estimated share of the ANWIL Group, with the production capacity of 475 thousand tonnes/year, in the European production capacity is approx. 6% and places the company in the 6th position. The ANWIL Group's main competitors in the PVC domestic and European market are BorsodChem, Inovyn and Vynova.

DIAGRAM 20. PVC in Europe.

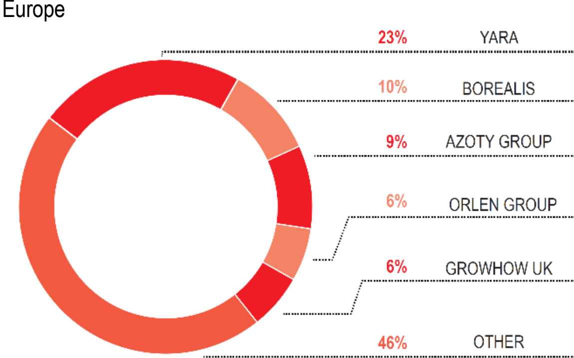


Source: Own calculations based on IHS.

Fertilizers

Total ammonium nitrate and nitro-chalk production capacity in 28 countries of European Union (including Switzerland and Norway) is about 7,500 thousand tonnes/year. The product is used mainly in agriculture as a fertilizer. The largest producer is Yara with 23% share in the European market. The next big manufacturers are Borealis and Azoty Group with 10% and 9% market share respectively. The share of ANWIL S.A., regarding the production capacity, in the market of ammonium nitrate and nitro-chalk is 6% and places ANWIL in the 4th position.

DIAGRAM 21. Ammonium nitrate and saltrzak producers in Europe



Source: Own calculations based on Fertilizers Europe.

Core products, goods and services of the ORLEN Group are described in point 2.5.3.

LOGISTICS ASSETS OF THE ORLEN GROUP

Efficient logistics infrastructure is the key element of the competitive advantage of the ORLEN Group on the market.

The ORLEN Group uses a network of mutually complementary infrastructure elements: fuel terminals, onshore and offshore handling facilities, networks of raw material pipelines. In 2015, product logistics in the ORLEN Group was based on pipeline use, on railway transport, as well as on tank truck carriage.

In 2015 pipeline transport was the primary transport form of raw materials and products. The total length of used product and raw material pipeline networks, belonging to external entities and own facilities in Poland, the Czech Republic and in Lithuania was nearly 3.8 thousand km (2.1 thousand km are product pipelines, and 1.7 thousand km are raw material pipelines).

On the Polish market PKN ORLEN uses 620 kilometers of pipelines owned by Przedsiębiorstwo Eksploatacji Rurociągów Naftowych "Przyjaźń" and its own transportation infrastructure with a length of 338 km consist of two sections: Płock - Ostrów Wielkopolski - Wrocław with a length of 319 km and Wielowieś – Góra (IKS Solino) with a length of 19 km for the transport of fuel products. Crude oil transport is performed primarily with the use of a network of pipelines belonging to PERN "Przyjaźń", of a total length of 887 km, as well as using own pipeline of 43 km, linking

Góra (IKS Solino) to Żółwiniec (connection to the PERN "Przyjaźń" pipeline).

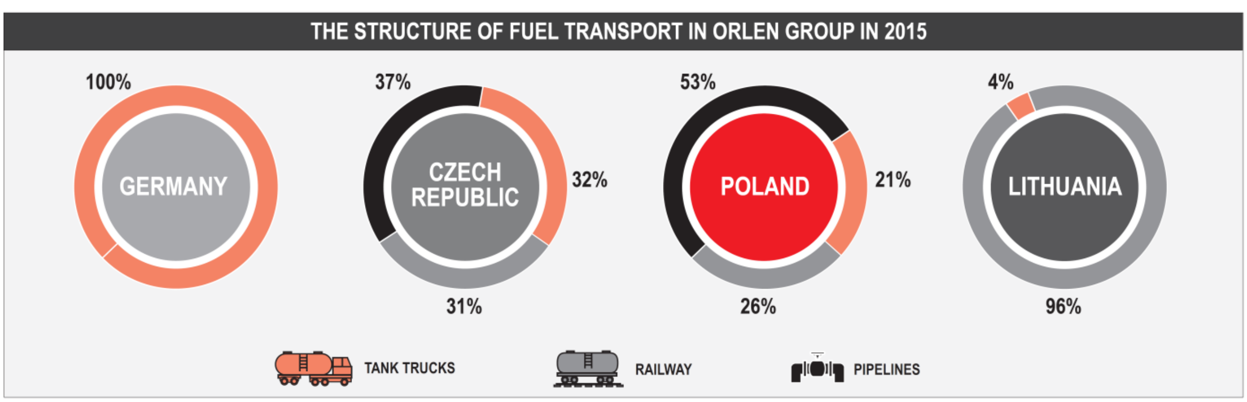
For operational purposes of receipt, dispatch and loading of fuel in 2015, the ORLEN Group used in aggregate 24 facilities (own fuel terminals, terminals owned by entities from the ORLEN Group and third parties' centres). The total storage capacity within own infrastructure and based on agreements concluded at the end of 2015 amounted to 7 million m^3.

In 2015 on the Czech market, the ORLEN Group used 1,774 km of pipelines (1,110 km of product pipelines owned by CEPRO and 674 km of raw material pipelines owned by MERO) and 12 storage and distribution stations belonging to the state-owned operator CEPRO and 2 storage facilities leased from third parties.

The main component of the logistics infrastructure, currently used on the Lithuanian market, is the raw material pipeline with the length of 91 km, linking the Butinge terminal with the Mazeikiai refinery. Both the terminal and the pipeline are owned by ORLEN Lietuva.

On the German market, ORLEN Deutschland has taken advantage of the warehouse-distribution capacities in five facilities located in the northern part of Germany, belonging to external entities. Fuel transport on this market is performed entirely with the use of road transport.

SCHEME 4. Logistics infrastructure used by the ORLEN Group in Europe.

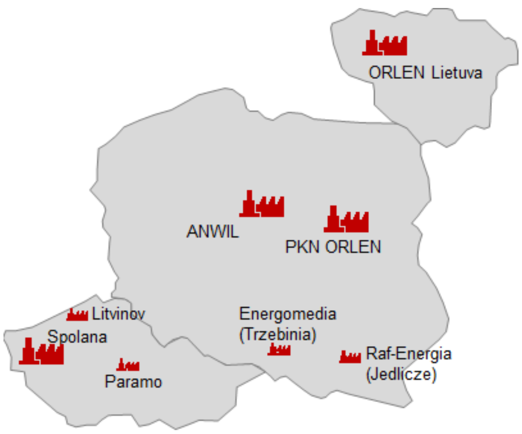


POWER INDUSTRY

The ORLEN Group is a significant producer of electricity and heat, which is used in large part for their own production needs. It is also one of the largest consumers of gas in Poland and an active participant in the process of liberalization of the gas market.
According to the assumptions of the ORLEN Group strategy, the current production sources are undergoing upgrading projects and new investments in the form of gas-steam blocks are carried out.

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

SCHEME 5. Energy assets in the ORLEN Group.



PKN ORLEN Power Plant in Płock ("PP") is the largest in terms of installed capacity industrial power plant in Poland and one of the largest in Europe, producing heat and electricity in the high-efficiency cogeneration. The total installed electric capacity is 345 MWe and installed thermal capacity is 2 149 MWt. The PP provides, as the basic supplier, heat in steam and heating water and electricity - the media used for the production installations and for external customers including the city of Płock. Different types of fuel may be used for the production of electricity and heat: heavy fuel oil as the primary fuel, natural gas and post-refining gas. In 2015, in the PP in Płock, the construction of an installation of Catalytic Denitrification and Dedusting was continued. Alongside the construction of Catalytic Denitrification and Dedusting installation, on individual boilers, flue gas desulphurization installation based on the wet-limestone technology, used to desulphurization of flue gas from all boilers, was constructed and commissioned in December 2015. After the launch of the aforementioned installations, the PP in Płock fulfilled environmental requirements effective as of the beginning of 2016.

Construction of the gas-steam power plant in Włocławek of 463 MWe in total power. The installation will be strictly technologically linked to the ANWIL Group Production Plant. The initial, contractual completion term for the investment – the end of 2015 – was shifted to the turn of the quarter II and III of 2016 due to extension of construction-installation works. In Q4 2015, a series of works related to start-up was carried out. Tests and assessments related to the electrical and power systems and PSE power connections were completed, gas turbine burners were lit up, inducing turbine rotations. After commissioning, the newly built power plant will serve as the main source of technological heat and electricity for the ANWIL Group, and the surplus of electricity manufactured will be allocated by PSE on the domestic market.

Construction of a gas-steam block of 596 MWe in Płock was commenced in 2015. In April 2015, the site was handed over to the General Contractor – a consortium of Siemens AG and Siemens Polska Sp. z o.o. As of the beginning of July, the Contractor obtained a replacement building permit for the construction project and commenced civil works. All earthworks related to technological and auxiliary buildings were completed until the end of the year. The foundation slab for the boiler room, the water conditioning station and raw and demineralized water tanks were completed. Apart from the construction of the gas-steam block, contract and design works devoted to the infrastructure required for its launch were carried out, i.e. devoted to the 400kV block line, the 30kV busbars, the multi-chamber reactors for decarbonized water, and to the ICT installations. At the end of 2015, technical documentation required for obtaining an environmental decision for the construction of the 400kV line was submitted. Furthermore, a tender for the appointment of contractor of this line was announced. The completion of this investment is planned for the end of 2017.

Energy trading
The Energy Trading Department of PKN ORLEN is responsible for trade within the entire ORLEN Group, on the Polish, Czech, German and Lithuanian markets. The Active Energy Trading Group was operating in 2015 and optimized additional energy production from TG6 (Płock PP) and T700 (Unipetrol) to optimize the work of turbines. Arbitration transactions on the wholesale electricity market were also carried out. In 2015, the formation of retail structures was commenced to extend the margin chain and to be able to offer energy to end recipients in 2016.

The Polish renewable energy industry is primarily based on wind turbines. 2015 was marked by continuing works on the draft of act on renewable energy sources, which would guarantee their further, sustainable development. After completing the legislative process, the ORLEN Group will make decisions regarding the legitimacy of implementation of projects devoted to renewable energy sources. In 2015, PKN ORLEN S.A. opened a pilot project for furnishing a selected group of fuel stations with photovoltaic modules.

Heat and Power Plant in ANWIL is an industrial power plant generating technological heat and electricity in a cogeneration process. The total installed electric capacity of three turbine generators is 91.5 MWe,and in 2015 a total installed thermal capacity of four boilers increased by about 48 MWt and amounted to 448 MWt. The Heat and Power Plant provides heat in technological steam and heating water and electricity for the purpose of production installations and for external customers. As fuel in boilers uses natural gas and heating oil.

Heat and Power Plant ORLEN Południe Group located in Trzebinia ensures full heating needs in steam and water, and partly the need of electricity. Currently in the Heat and Power Plant there are 3 installed steam boilers and 2 backpressure turbine sets to produce electricity for a total capacity of 8 MWe of electricity, and the total thermal power of 90 MWt. The basic fuel in the Heat and Power Plant is fine coal, moreover, there is a possibility of burning heavy fuel oil. Future plans consist of modernization of energy assets in the direction of increasing the efficiency of production, to meet future environmental standards and to protect fully the needs of electricity for the Refinery Trzebinia. A tender for the modernization of the Heat and Power Plant was carried out in 2015, administrative decisions were obtained, an economic model for the investment was developed and the site was prepared for construction works.

Heat and Power Plant in Jedlicze is the primary source of heat production in technological steam. Currently, in the Heat and Power Plant there are 6 steam boilers and a discharge-backpressure turbine set installed. The total thermal power of the Heat and Power Plant is 61 MWt, whereas the production of electricity allows for satisfying 10% of the needs. The basic fuel in the Heat and Power Plant is fine coal, but it is also possible to burn heavy fuel oil and natural gas. Works related to the reduction of dust emissions from coal boilers are currently in progress. An energy audit was carried out for the Heat and Power Plant, under which applicable effectiveness measures will be implemented. Several modernization variants for the existing property are at the stage of analytical works.

Heat and Power Plant in Litvinov in the Unipetrol Group, is based on brown coal and has electric and thermal power which amounts to 112 MWe and 768 MWt. According to the current strategy, energy assets in Litvinov are under modernization. At the same time, in order to ensure supplies of technological steam to petrochemical plant, preparatory works for the construction of a new steam source are in progress.

Heat and Power Plant in Spolana with an installed capacity of 70 MWe and 280 MWt, based on brown coal. In 2015 the process of analyzing and implementing initiatives to improve the energy efficiency of power plants was continued**.**

The Paramo Heat and Power Plant includes two production plants: Kolin and Pardubice, in which the source of producing steam based on the combustion of natural gas are located. A variant analysis for the modernization of the Heat and Power Plant was performed in 2015 in Pardubice for the purpose of adapting it to reduced demand for steam and new emission limits. An analysis of adaptation to new emission limits was carried out in the Kolin Heat and Power Plant.

Heat and Power Plant in the ORLEN Lietuva Group is a source of technological steam for production processes and operates on a mix of heavy fuel oil and refining gases. The electric power of the plant is 160 MWe and thermal powers is 694 MWt. In 2015, an analysis of adaptation of energy assets to reference requirements was commenced. Continuation of analyses and commencement of preparatory works is planned for 2016.

Competitive projects. A significant part of existing production capacity requires modernization and/or replacement due to their age and high emission rates. It is estimated that approximately 5 GW of production capacities will have been withdrawn from the market by 2020. At the end of 2015, the total installed power capacity in Poland was approx. 40 GW. Sources (without considering RES projects) of total power of approx. 5 GW are currently under construction. These units will partially replace the blocks which are put out of service. In the group of implemented investments, approximately 1.7 GW refer to cogeneration projects, including two blocks built by PKN ORLEN (Płock and Włocławek), a gas-steam unit in Stalowa Wola of 450 MW in total power, which is a joint project of PGNiG and Tauron, and a gas heat and power plant in Gorzów Wielkopolski, of 138 MW in total power, contracted by PGE.

2.5.3 Volume sales of Downstream Segment

Zbigniew Leszczyński, Member of Management Board, Sales:
"In 2015, the ORLEN Group completed record-breaking sales volume reaching 38.7 million tonnes, out of which 30.4 million tonnes constituted downstream segment sales. We must emphasize that we have achieved volume growth on all of our operations markets. Strong competition on the domestic market persuaded us to seek new solutions in the optimization of the fuel wholesale channel within the ORLEN Group. One of our unquestionable accomplishments is the merger of ORLEN Paliwa, ORLEN PetroTank and ORLEN Gaz. The introduced changes aimed at creating an entity with a broad commercial offer, offering beneficial commercial terms basing on state of the art logistics and sales solutions. We are convinced that the offer of the company will be competitive on the market not only due to the quality guarantee but also due to its unique universality in terms of product offer".

In 2015, the ORLEN Group achieved the volume sales increase on all domestic markets. Downstream segment volumes of the ORLEN Group amounted to 30,380 thousand tonnes and increased by 9.7% (y/y). Medium distillates, which sales increased by 18.9% (y/y) and light distillates, which sales grew by 17.6% (y/y) had the biggest effect on the positive sales result. Record-breaking results were recorded for diesel oil, which sales increased by more than 21.1% (y/y). The increase of production capacity of the Unipetrol Group after the purchase of 32% shares of Ceska Rafinerska from ENI in 2015 had the largest impact on the sales level recorded by the ORLEN Group. This contributed to strengthening the position of the Unipetrol Group on the Czech market. Thanks improved market situation, higher volume sales was also recorded on markets operated by the ORLEN Lietuva Group and in Poland.

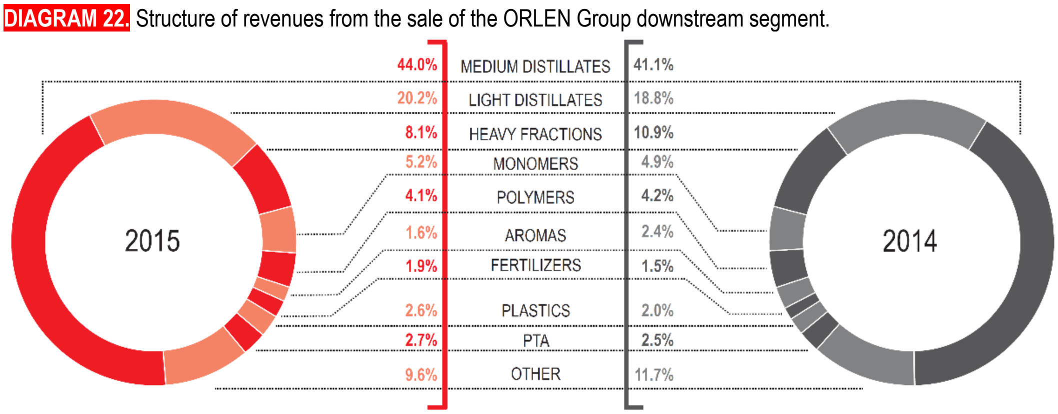
TABLE 7. The ORLEN Group sales in the downstream segment (PLN million/thousand tonnes).

Sales	2015		2014		2013		CHANGE %	
	VALUE	VOLUME	VALUE	VOLUME	VALUE	VOLUME		
1	2	3	4	5	6	7	8=(2-4)/4	9=(3-5)/5
Downstream Segment								
Light destillates 1)	11 528	5 437	13 270	4 623	16 236	5 230	(13.1%)	17.6%
Midlle distillates 2)	25 062	11 995	28 976	10 092	32 270	10 240	(13.5%)	18.9%
Heavy fractions 3)	4 610	4 544	7 701	4 527	9 130	4 813	(40.1%)	0.4%
Monomers 4)	2 978	878	3 447	837	3 513	832	(13.6%)	4.9%
Polymers 5)	2 341	482	2 953	592	2 541	510	(20.7%)	(18.6%)
Aromas 6)	930	358	1 662	413	1 528	381	(44.0%)	(13.3%)
Fertilizers 7)	1 057	1 146	1 065	1 143	1 004	1 034	(0.8%)	0.3%
Plastics 8)	1 492	445	1 424	418	1 464	423	4.8%	6.5%
PTA	1 532	587	1 767	571	2 048	556	(13.3%)	2.8%
Others 9)	5 457	4 508	8 284	4 490	7 313	4 357	(34.1%)	0.4%
Total	**56 987**	**30 380**	**70 549**	**27 706**	**77 047**	**28 376**	**(19.2%)**	**9.7%**

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

In 2015, 2014 and 2013, the ORLEN Group did not have any recipient whose share in total sales would exceed 10%.

DIAGRAM 22. Structure of revenues from the sale of the ORLEN Group downstream segment.



2.5.4 Markets

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

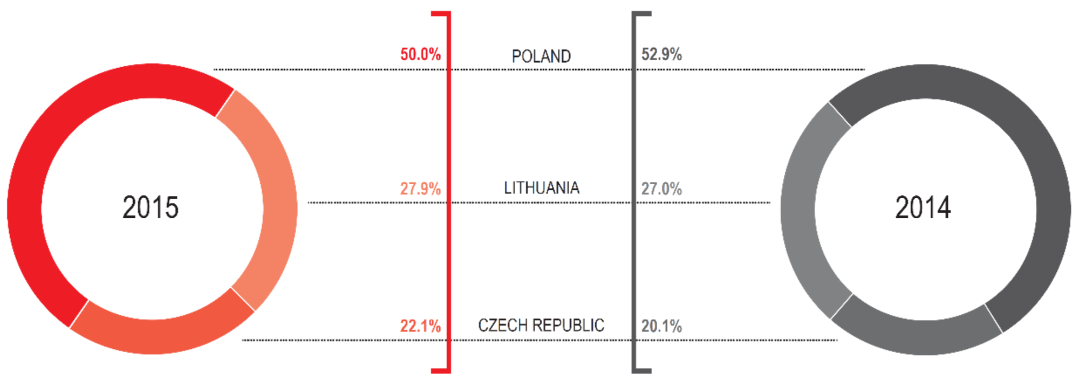
- **Polish market**: PKN ORLEN S.A., ORLEN Paliwa sp. z o.o., ORLEN Południe S.A., ORLEN Asfalt Sp. z o.o., ORLEN Oil Sp. z o.o., IKS SOLINO S.A., Petrolot Sp. z o.o., Ship-Service S.A., Anwil S.A.
- **Czech Republic market**: Unipetrol RPA s.r.o., Ceska Rafinerska a.s., Paramo a.s., Unipetrol Slovensko s.r.o., Mogul Slovakia s.r.o., Unipetrol Deutschland GmbH, Butadien Kralupy a.s., Unipetrol RPA Hungary Kft., ORLEN Asfalt Ceska Republika s.r.o., Spolana a.s.
- **Baltic countries market**: AB ORLEN Lietuva, ORLEN Latvija SIA (Latvia), ORLEN Eesti OU (Estonia).

TABLE 8. Sales volume of the ORLEN Group in the downstream segment on domestic markets (in thousands of tonnes)[1)]

SALES	2015	2014	2013	CHANGE	CHANGE %
1	2	3	4	5=(2-3)	6=(2-3)/3
Markets					
Poland	15 192	14 660	15 127	532	3.6%
Lithuania	8 462	7 475	8 862	987	13.2%
Czech Republic	6 726	5 571	4 387	1 155	20.7%
Total	**30 380**	**27 706**	**28 376**	**2 674**	**9.7%**

1) by country of headquarter of company carrying out the sales.

DIAGRAM 23. Structure of sales volume of the ORLEN Group in the downstream segment on domestic markets.



Polish market

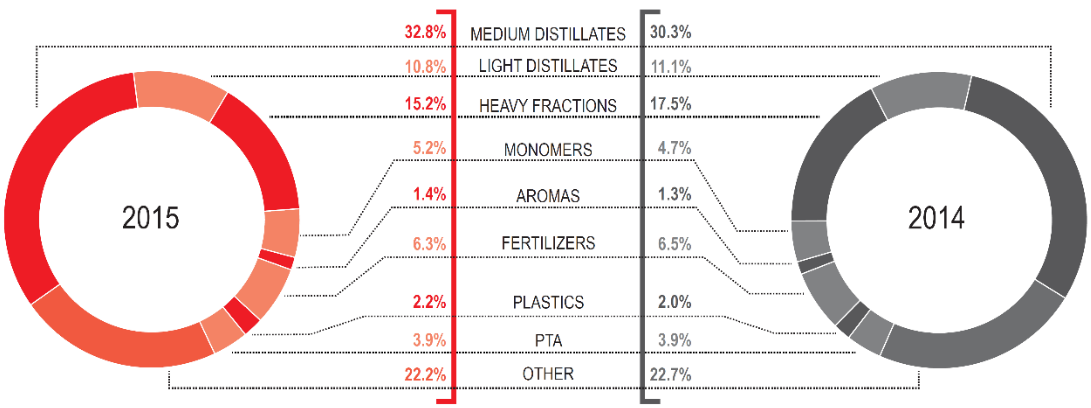
The year 2015 marked the continuation of the growth trend of the Polish economy. According to preliminary estimates of the Central Statistical Office of Poland, the GDP dynamic was 3.6% (y/y) in 2015 and was by 0.3 p.p. higher in comparison to 2014. Positive trends were also recorded on the labor market in the form of reduced unemployment rates. Good condition of the Polish economy translated into increase in the level of fuel consumption. Data published by the Energy Market Agency indicates that the long-term downward trend in the domestic gasoline and diesel oil consumption rates was reversed. In 2015, the consumption of these fuels grew, respectively, by 2.6% and 5.8% (y/y). Apart from the improvement in general market conditions, growth in demand was also stimulated by low fuel prices. Record-breaking crude oil price drops on international markets translated into lower fuel price levels, which additionally encouraged vehicle users to use this mean of transport more intensively.

A negative effect, which the entire Polish market has been struggling with is the so-called “shadow economy” in fuel trading. The illegally marketed diesel oil volume is estimated for more than a dozen or so per cent of the overall consumption of this fuel.
Further growth in diesel oil and gasoline consumption is expected in 2016. The scale of the growth will depend on whether the pace of the growth of the Polish economy will be maintained and on the effects of measures taken to counteract unfair competition
.

TABLE 9. Sales volume of the ORLEN Group in the downstream segment on the Polish market (in thousands of tonnes).

SALES	2015	2014	2013	CHANGE	CHANGE %
1	2	3	4	5=(2-3)	6=(2-3)/3
Polish Market					
Light distillates	1 634	1 624	1 878	10	0.6%
Medium distillates	4 980	4 437	4 636	543	12.2%
Heavy fractions	2 309	2 563	2 592	(254)	(9.9%)
Monomers	784	689	707	95	13.8%
Aromas	213	186	192	27	14.5%
Fertilizers	951	962	855	(11)	(1.1%)
Plastics	339	295	324	44	14.9%
PTA	587	571	556	16	2.8%
Other	3 395	3 333	3 387	62	1.9%
Total	**15 192**	**14 660**	**15 127**	**532**	**3.6%**

DIAGRAM 24. Structure of sales volume of the ORLEN Group in the downstream segment on the Polish market.



The ORLEN Group sales in the downstream segment on the Polish market increased in 2015 by 3.6% (y/y) and reached the level of 15,192 thousand tonnes. Thanks to a consistent sales strategy implemented in 2015, a 9.8% (y/y) growth in fuel wholesale was recorded.

Increase of sales of medium distillates results from high diesel oil and jet fuel volume, the sales of which grew, respectively, by 14.0% and 14.6% (y/y).
2015 was the next year marking significant growth in the sale of jet fuel, and consistent strengthening of the leading position among the suppliers of this fuel. The Polish market of air carriage is one of the fastest-developing in Europe. Last year, the number of passenger carriage increased in Poland by 13% (y/y), and according to the Civil Aviation Authority, successive growth is expected in the next years. Maintaining a leading position and increasing the sales volume on a such prospective market, is a significant element of the Concern's sales strategy.

Light distillate sales increased by 0.6% (y/y). Low level of gasoline price stimulated a 4.2% (y/y) growth in sales of this fuel, simultaneously resulting in reduced LPG sales by (-) 13.8% (y/y).

Strong competition on the domestic market and highly changeable macroeconomic environment prompted a search for the possibilities to optimize the fuel wholesale channel within the ORLEN Group. The formation of a specialist Office of International Trade was continued to concentrate the competences of marine trading and central chartering service within the ORLEN Group in one area of competence. Essential changes in the structure of companies in the wholesale area were introduced in 2015 – ORLEN Paliwa merged with ORLEN PetroTank and ORLEN Gaz. ORLEN Paliwa currently forms one of the country's largest sales organizations, offering a comprehensive portfolio of fuel products.

In the petrochemical area, the ORLEN Group recorded an increase in the sales of its core product groups including monomers, aromas, plastics and PTA, with the exception of slight reduction of volume of artificial fertilizers, resulting from limited availability of production installations.

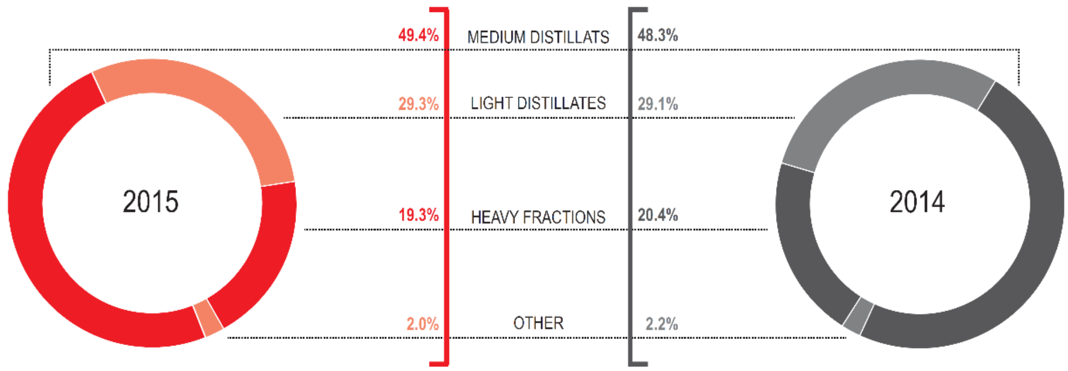
Baltic countries and Ukraine markets

In 2015, the volume sales of the ORLEN Group increased by 13.2% (y/y) and equaled 8,462 thousand tonnes. The sales increase (y/y) was achieved thanks to the high sales rate of products by sea and higher onshore sales volume in the Baltic States with limited gasoline sales in Ukraine.
The highest sales peaks were recorded for: gasoline by 13.4% (y/y), LPG by 20.9% (y/y) and diesel oil by 17.6% (y/y).

TABLE 10. The ORLEN Group volume sales in the downstream segment markets serviced by the ORLEN Lietuva Group (thousand tonnes).

SALES	2015	2014	2013	CHANGE	% CHANGE
1	2	3	4	5=(2-3)	6=(2-3)/3
ORLEN Lietuva's Markets					
Light distillates	2 480	2 178	2 734	302	13.9%
Medium distillates	4 179	3 611	4 150	568	15.7%
Heavy fractions	1 635	1 524	1 866	111	7.3%
Other	168	162	112	6	3.7%
Total	**8 462**	**7 475**	**8 862**	**987**	**13.2%**

DIAGRAM 25. Structure of sales volume of the ORLEN Group in the downstream segment on the markets serviced by the ORLEN Lietuva Group.



Fuel consumption in the aforementioned three Baltic States decreased by (-) 2.5% (y/y), including the largest drop on the Lithuanian market by (-) 4.8% (y/y). Lower gasoline consumption results from the long-term phenomenon of growing diesel popularity among the vehicle park in this region. Lowered on shore gasoline sales resulting from reduced consumption, was entirely covered by offshore sales, whereas the commercial terms were significantly improved in this distribution channel.
The demand for diesel oil increased by 7.1% in the Baltic States, including by 8.6% (y/y) on the Lithuanian market, by 7.4% (y/y) on the Latvian market, and by 4.0% (y/y) on the Estonian market. In 2015, the ORLEN Lietuva Group significantly improved its market share in diesel oil on the Latvian and Estonian markets. The share on the Lithuanian market of diesel oil was reduced mainly due to aggressive competition from Scandinavian suppliers.

The Ukrainian market was still overcome by a very difficult political and economic situation. The country is struggling with recession, reflected by a GDP dynamic drop by (-) 9.0% and inflation of 50% (according to estimated IMF data). Many Ukrainian clients of the ORLEN Lietuva Group lost their assets in the area of warfare, including fuel stations and warehouses. Compared to consumption levels on the Ukrainian market from 2013, that is before the beginning of the conflict, with estimated data from 2015, a drop in gasoline consumption by more than (-) 41% (y/y), and diesel oil by nearly (-) 10% (y/y), is evident.
Despite very difficult operating conditions and decreasing demand, the ORLEN Lietuva Group has maintained gasoline and diesel oil sales at the record level from 2014.

Czech Republic market

The year 2015 marked the continuation of economic growth in the Czech Republic, characterized by growing GDP dynamic at the level of 4.3% and low inflation level. Favourable macroeconomic environment stimulated the growth of market consumption of diesel oil by 4.4% (y/y), while the consumption of gasoline decreased by (-) 0.5% (y/y).

In May 2015, Unipetrol completed the process of consolidation of refinery assets in Ceska Rafinerska a.s., acquiring the remaining shares from ENI. The Czech company became the sole owner of the Litvinov and Kralupy refineries and has become the sole producer of fuels in the Czech Republic. Considerable increase in production potential and strengthening of the market leader position allowed the company to increase its sales by 20.7% (y/y). Excellent results were achieved in the sales of light distillates, thanks to increased gasoline sales by 54.0% (y/y). Growth in the sales of medium distillates was achieved thanks to an increase in the diesel oil sales volume by 40.7% (y/y).

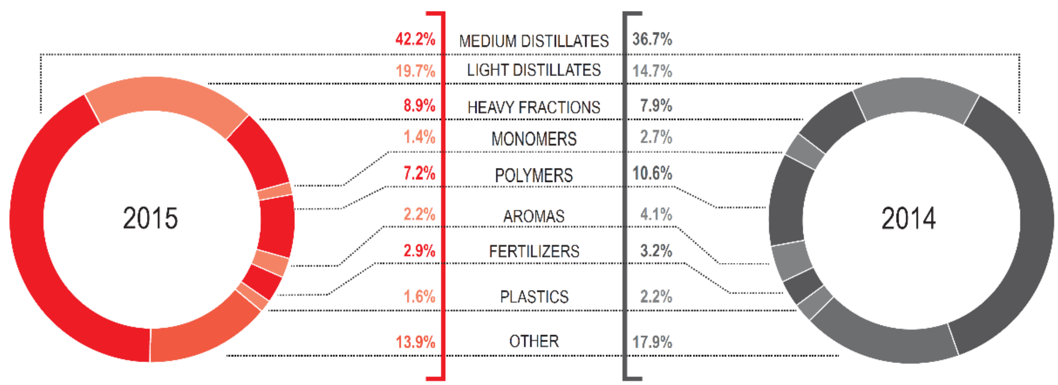
Increased production potential was temporarily limited due to a failure of the ethylene installation from August 2015, which resulted in lower (y/y) level of sales of petrochemical products. Installation shutdown forced the need to modify a series of processes to optimize the production and to limit the effect of the breakdown. Thanks to the coordination of product flows in the ORLEN Group, as well as the purchases of semi-products and finished products on the external market, the sales of petrochemical products was maintained at the level which allowed fulfilling all contractual obligations.

Thanks to increased sales potential after the purchase of the shares in Ceska Rafinerska, the Unipetrol Group has considerably increased its market share on the Czech market. Shares on the gasoline market increased by more than 18 percentage points, and on the diesel oil market by more than 10 percentage points. The Unipetrol Group is currently the leader on the Czech market, satisfying a half of the local demand for fuels.

TABLE 11. Sales volume of the ORLEN Group in the downstream segment on the Czech market (in thousands of tonnes).

SALES	2015	2014	2013	CHANGE	CHANGE %
1	2	3	4	5=(2-3)	6=(2-3)/3
Czech market					
Light distillates	1 323	821	618	502	61.1%
Medium distillates	2 836	2 044	1 454	792	38.7%
Heavy fractions	600	440	355	160	36.4%
Monomers	94	148	125	(54)	(36.5%)
Polymers	482	592	510	(110)	(18.6%)
Aromas	145	227	189	(82)	(36.1%)
Fertilizers	195	181	179	14	7.7%
Plastics	106	123	99	(17)	(13.8%)
Others	945	995	858	(50)	(5.0%)
Total	**6 726**	**5 571**	**4 387**	**1 155**	**20.7%**

DIAGRAM 26. Structure of sales volume of the ORLEN Group in the downstream segment on the Czech market.



In 2015, the Unipetrol Group expanded its client portfolio in result of significant growth of its sales potential. Cooperation with major fuel concerns and supermarket chains was continued. Unipetrol has been selling its products on the Slovakian, Hungarian, German and Austrian markets, taking full advantage of the cooperation capacity under the ORLEN Group with such companies as Unipetrol Slovakia and Unipetrol Deutschland.

2.5.5 Sources of supply

Crude oil

Crude oil deliveries to PKN ORLEN are realized through "Druzhba" pipeline and by sea using Gdańsk-Płock pipeline.

ORLEN Lietuva Group is supplied with raw material by the terminal in Butinge.

The main directions of supply of raw material for the production of Unipetrol Group are the southern section of the pipeline "Druzhba" for the refinery in Litvinov and TAL and IKL pipelines to refinery in Kralupy. Litvinov refinery can also be supplied using the TAL and IKL pipeline.

In 2015, there were two long-term contracts for the supply of crude oil by pipeline to refinery in Płock (executed respectively with companies Mercuria Energy Trading SA, Rosneft Oil Company) Each contract provides the possibility to re-negotiate prices annually; in case of lack of agreement on this matter, the contract may be terminated. Due to the long-term character of these contracts, agreement ensured safety and continuity of supplies of over 60% of purchased raw material for refineries and

contained supply guarantee clauses based on financial guarantees.
PKN ORLEN provides crude oil to the refinery in Płock and three ORLEN Group refineries located respectively in Litvinov and Kralupy in the Czech Republic and in Mazeikiai in Lithuania. In 2015 the crude oil supplies in all directions proceeded according to plan.

The raw material suppliers to all refineries were both manufacturers and companies operating in the Russian's crude oil market, including traders operating in the international crude oil market. Crude oil delivered to Płock came primarily from Russia, moreover, from Saudi Arabia, Kazakhstan, Norway and the United Kingdom. To refineries in the Czech Republic crude oil were supplied from Russia, Algeria, Azerbaijan, Kazakhstan and Libya. The supply of raw material to the Mazeikiu refinery came primarily from Russia, moreover, from Algeria, Azerbaijan, Iraq, Kazakhstan and Nigeria.

In 2015, the share of Rosneft Oil Company in crude oil supplies exceeded 10% of the overall revenues of the ORLEN Group.

Natural gas

Purchases of natural gas are based on a long-term contract between PKN ORLEN and PGNiG and on short-term contracts with alternative suppliers. Due to progressing liberalization of the gas market and development of trans-border infrastructure, prices in Poland came close to the marked on the liquid German market.
The ORLEN Group continues efforts to ensure stable supply and reduce the overall purchase cost of natural gas, mainly through diversification of supply sources. In 2015, more than 20% of natural gas in the ORLEN Group was supplied by alternative suppliers.
The ORLEN Group also implements a number of exploration and extraction projects in order to obtain their own sources of gas and crude oil.

2.6. Retail segment

Zbigniew Leszczyński, Member of the Management Board, Sales:
"Yet again, we have recorded a record-breaking EBITDA result for the retail segment, amounting to PLN 1.5 billion. The result was achieved thanks to increased fuel sales volume by 2.7% (y/y) and improvement of non-fuel margins on the Polish and Czech markets.
Last year, we focused on further development of our offer by launching another 154 Stop Café and Stop Café Bistro points. It is also worth to emphasize the increase of ORLEN Group shares on the Czech and Lithuanian market, and retain of market shares on the developed German market".

2015

RETAIL STATIONS

	units	ORLEN Group	Poland	Germany	Czech Republic	Lithuania
Market share	%	–	36.7	6.0	15.9	3.6
Number of retail stations	number	2 679	1 749	565	339	26
including:						
Premium	number	1 684	1 541	1	117	25
Economical	number	903	159	541	202	1
Other	number	92	49	23	20	–
TOTAL	number	2 679	1 749	565	339	26
CODO / COCO	number	2 130	1 307	465	332	26
DOFO / DODO	number	549	442	100	7	–
TOTAL	number	2 679	1 749	565	339	26

STOP CAFE AND STOP CAFE BISTRO OUTLETS

	units	ORLEN Group	Poland	Czech Republic	Lithuania
Number of outlets	number	1 558	1 404	131	23
Stop Cafe	number	1 027	905	99	23
Stop Cafe Bistro	number	531	499	32	–

2.6.1 Market trends

The 2015 was a year of considerable reductions in fuel retail prices as a result of crude oil price decrease. Lower prices on fuel stations reduced the attractiveness of economic chains. Premium stations began to gain customer esteem, and clients were more eager to refill using more expensive premium fuels and paid more attention to the non-fuel and gastronomy offer. The price ceased to be the most important element in the choice of place for refueling. As a result, the initiatives of particular chains were focused on development of stores, particularly their gastronomical parts. A similar direction was also recorded for economic chains.
ORLEN Group domestic markets did not display significant changes in the number of functioning fuel stations. A growing number of independent stations entered into cooperation with international chains or joined association that united them.

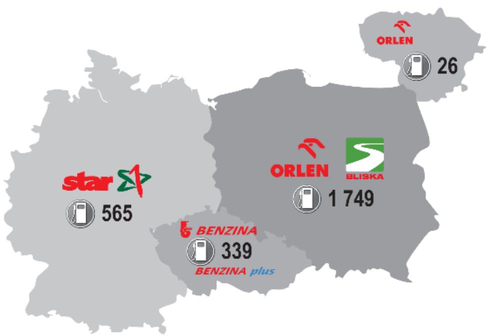
In 2015, Total company appeared on **Polish market** and ultimately plans to open 100 franchise stations in the successive years. In 2015, 10 fuel stations entered into cooperation with this French chain. The rebranding process ofthe Neste stations acquired in 2013 by Shell was completed.

On the **Czech market**, following the completed acquisitions (44 Lukoil and 125 AGIP stations) the Hungarian petroleum concern MOL commenced the rebranding process assuming these units.
The **German and Lithuanian markets** did not display any significant structural changes, and the current leaders, including ARAL and Lukoil, have maintained their prime position. Information regarding plans to sell a Russian concern chains in Lithuania and Latvia appearedin December 2015. The transaction is to be finalized in the second quarter of 2016. After the introduction of an obligation to provide constant reporting of fuel changes in Germany in 2014, the principles of establishing prices in all chains were changed. The reaction time for adaptation to competitors' prices has shortened, the method of monitoring competition was changed, and the number of daily shifts in fuel stations prices was increased. The main premium chains operating on the German market made a decision to rebrand a part of their stations and to enter the economy segment

2.6.2 Market position and environment

The ORLEN Group is an unquestionable leader on the fuel market in Central Europe, with a chain of 2 679 fuel stations operating in the Premium and economy segments.

SCHEME 6. The number of the ORLEN Group stations for the key markets at the end of 2015.

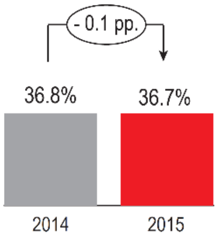


In Poland, fuel stations operate under the ORLEN brand in the Premium segment and under the BLISKA brand in the economy segment, whereas in the Czech Republic – under the Benzina Plus and Benzina brands, whereas in Lithuania – under the ORLEN and Ventus brands. On the German market, fuel stations have been operating primarily in the economy segment – under the STAR brand, and the chain is complemented / supplemented by a dozen of Familia market stations.

Poland

The ORLEN Group on the Polish market at the end of 2015 operates a network of 1 749 fuel stations. The implemented investment program was focused on the establishment of new fuel stations and highway facilities, upgrading of existing facilities and rebranding of the BLISKA stations to ORLEN. The main focus was still the development of the gastronomical offer, as well as new store formats. Corporate fleet and loyalty programs contributed to strengthening the market-leading position of the Group and increasing its total fuel sales volume by 3.8% (y/y).

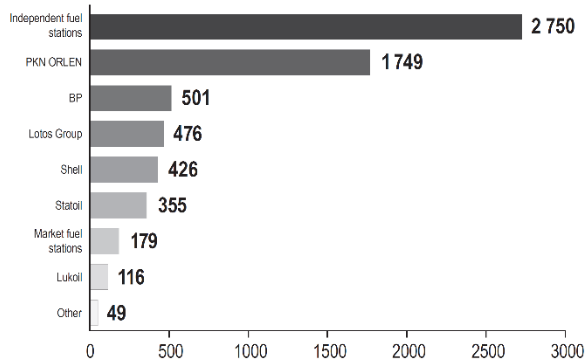
DIAGRAM 27. Share in the retail fuel market in Poland.



According to the data published by POPiHN (Polish Organization of Oil Industry and Trade) in 2015, more than 6.6 thousand fuel stations operated on the Polish market. The share of the ORLEN Group in the total number of stations was reduced by (-) 0.8 percentage points and reached the level of 26.5%.

The main competitors of PKN ORLEN on the Polish market include such foreign concerns as: Shell, BP, Statoil, Lukoil, which owned 21.9% of fuel stations as well as the Lotos Group with 7.2% of share in the number of stations. The share of foreign concerns and the Lotos Group in the number of stations increased, respectively, by 0.2 and 0.4 percentage points (y/y).

DIAGRAM 28. Fuel station network in Poland on 31.12.2015.

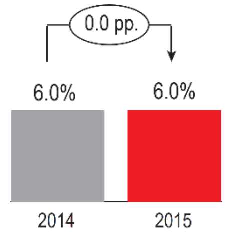


Source: Own calculations based on POPiHN data.

Germany

The ORLEN Group has been present on the largest retail market in Europe – in Germany – since 2003. As of the end of 2015, the STAR chain owned by the Group included 565 fuel stations managed by ORLEN Deutschland GmbH and maintained a 6.0% share on the German retail market in 2015.

DIAGRAM 29. Share in the retail fuel market in Germany.

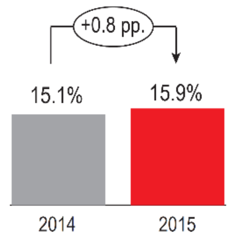


The main competitors of ORLEN Deutschland GmbH include such international chains as: Aral, Shell, Esso, Total and JET – the main competitor in the segment of economy stations.

Czech Republic

The ORLEN Group has retained its leading position in terms of number of fuel stations in the Czech Republic – as of the end of 2015, Benzina managed 339 stations. Effective operations and optimization of retail price management process contributed to an increase of the share on the Czech retail market by 0.8 percentage points (r/r) to the level of 15.9%.

DIAGRAM 30. Share in the retail fuel market in Czech Republic.

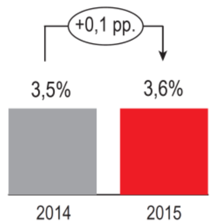


Second place in the Czech market in terms of number of fuel stations belongs to Hungarian MOL company (with 317 stations), focusing Slovnaft, Lukoil, Agip and Pap Oil stations. Ultimately, only two brands will be present in the chain: MOL (60% of the stations) and PapOil (40%). In 2015, approximately 80 stations were launched under the MOL brand. Important members of the fuel market are also OMV, Shell, Euro Oil.

Lithuania

As of the end of 2015, the ORLEN Group in Lithuania owned 26 fuel stations and increased its retail market share by 0.1 percentage point (y/y) to the level of 3.6%.

DIAGRAM 31. Share in the retail fuel market in Lithuania.

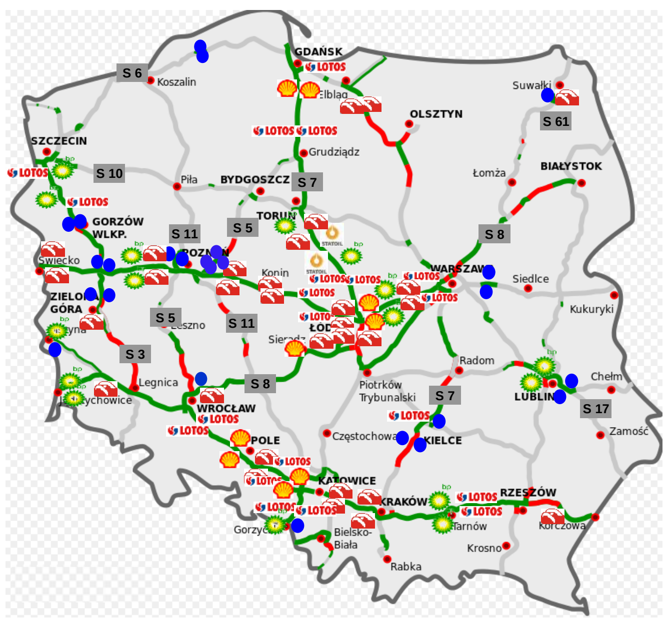


The ORLEN Group's main competitors in the Lithuanian market in this segment are Lukoil, Statoil and Neste.

Passengers service areas ("MOP")

Continued expansion of the road system in Poland creates a possibility for development that assumes the so-called Passenger Service Centers (MOP) located next to highways and expressways. As of the end of 2015, there were 69 MOPs on the Polish market, out of which 27 (39.1%) belonged to the ORLEN Group. Four facilities of this type are currently under construction, including 2 located next to A1 highway in the Stryków – Tuszyn section, and 1 located in the A4 highway next to Rzeszów – Korczowa section, as well as 1 next to expressway S8 in the Łódź – Wrocław section.

SCHEME 7. Passengers Service Areas in Poland at the end of 2015.



Source: Own preparation.

2.6.3 Sales volume of retail segment

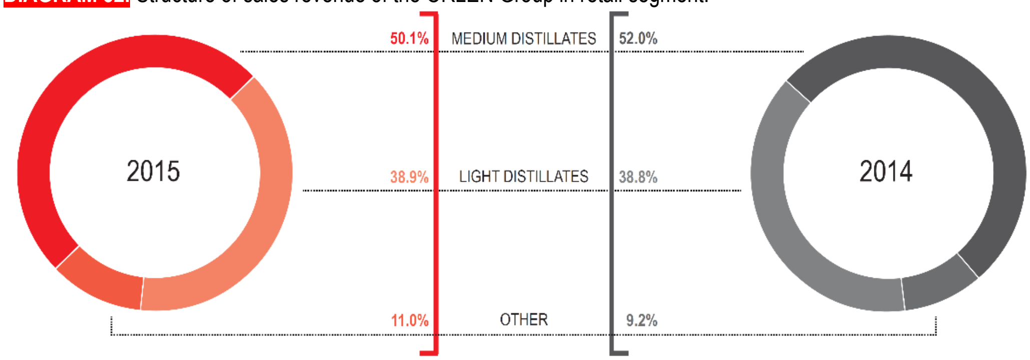
Sales volume of Retail Segment of the ORLEN Group in 2015 increased by 2.7% (y/y) and amounted to 7 986 thousand tonnes as a result of higher fuel sales on the Polish, Czech and Lithuanian market, with slightly lower volume on the German market.

TABLE 12. The ORLEN Group sales in retail segment (PLN million /thousand tonnes).

SALES	2015		2014		2013		CHANGE %	
	VALUE	VOLUME	VALUE	VOLUME	VALUE	VOLUME		
1	2	3	4	5	6	7	8=(2-4)/4	9=(3-5)/5
Retail Segment								
Light distillates 1)	12 084	3 000	13 951	2 916	14 229	2 832	(13.4%)	2.9%
Medium distillates 2)	15 567	4 986	18 659	4 860	19 079	4 684	(16.6%)	2.6%
Other 3)	3 401	0	3 303	0	3 154	0	3.0%	-
Razem	**31 052**	**7 986**	**35 913**	**7 776**	**36 462**	**7 516**	**(13.5%)**	**2.7%**

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

DIAGRAM 32. Structure of sales revenue of the ORLEN Group in retail segment.



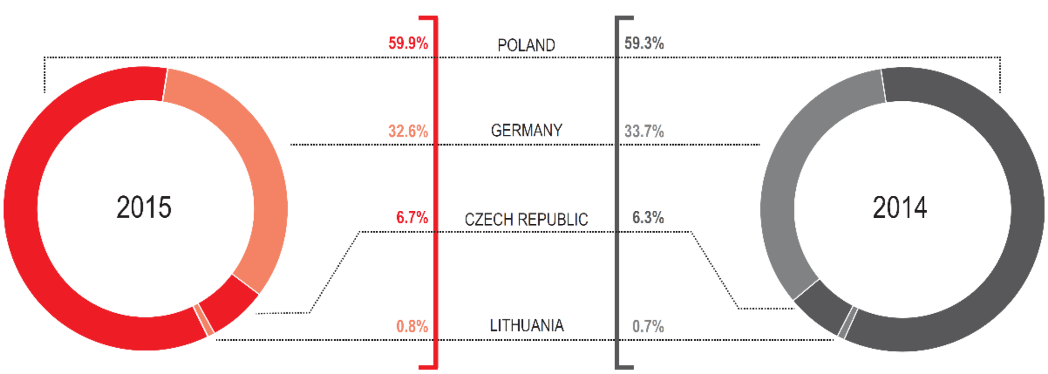
2.6.4 Sales markets

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

TABLE 13. Sales volume of the ORLEN Group in the retail segment on domestic markets (in thousands of tonnes).

SALES	2015	2014	2013	CHANGE	CHANGE %
1	2	3	4	5=(2-3)	6=(2-3)/3
Markets					
Poland	4 785	4 609	4 487	176	3.8%
Germany	2 602	2 621	2 524	-19	(0.7%)
Czech Republic	538	488	454	50	10.2%
Lithuania	61	58	51	3	5.2%
Total	**7 986**	**7 776**	**7 516**	**210**	**2.7%**

DIAGRAM 33. Structure of sales volume of the ORLEN Group in the retail segment on domestic markets.



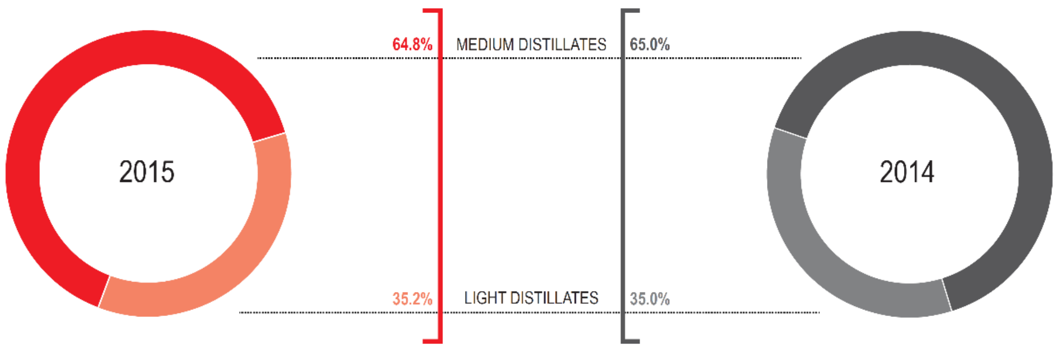
Polish market

Despite a reduction of the number of stations in the chain, the overall sales volume increased in 2015 by 3.5% (y/y) and amounted to PLN 4 785 thousand tonnes. Completion of a series of developmental projects and the implemented efficiency initiatives contributed significantly to the increase in the annual average sales volume on CODO fuel stations by 2.5% (y/y) to the level of 4.1 million liters.

TABLE 14. Sales volume of the ORLEN Group in the retail segment on the Polish market (in thousands of tonnes).

SALES	2015	2014	2013	CHANGE	CHANGE %
1	2	3	4	5=(2-3)	6=(2-3)/3
Light distillates	1 686	1 613	1 562	73	4.5%
Medium distillates	3 099	2 996	2 925	103	3.4%
Total	**4 785**	**4 609**	**4 487**	**176**	**3.8%**

DIAGRAM 34. Structure of sales volume of the ORLEN Group in the retail segment on the Polish market.



In 2015, measures aiming at further development of fleet sales were continued. Despite large competition in this segment of the fuel market and the persisting so called "shadow economy" the ORLEN Group increased the volume in this channel by nearly 4.5 percentage points (y/y) to the level of 30.2% of the total sales volume in the segment. In 2015, using the Flota and OpenDrive fleet cards, drivers were able to make payments on all Polish highways. A new functionality allowing for full control of GPS monitoring parameter, collated with the fuel expenses on ORLEN Group stations was launched. The introduced solution generates savings in the usage and carfleet management costs and increases the safety of transactions. Sales to the segment of small and medium companies increased by 9% (y/y). A significant achievement was recorded by the MikroFlota program, which sales volume increased by 147% (y/y) to reach 21 million liters.

In 2015, considerable increase in sales revenues of non-fuel products and services was achieved. The key driver of this success was further development of Stop Café and Stop Café Bistro, effective sales supporting marketing activities, and systematic expanding the offer with new products. In the 4th quarter of 2015, a new, pilot gastronomic format – Stop Café 2.0 was launched on 2 test stations. As a part of development of new store formats, tests of 10 convenience stores (5 under the O!Shop and 5 under the ORLEN brand) were commenced.
Modernization and development of automatic car washes, decrease of the malfunction ratios, shortening of devices standstills and measures supporting sales increased the revenues from these services by 13% (y/y).
Another important element of further improvement in the non-fuel area was the implementation of a system providing a detailed analysis of receipt data in the end of 2015, allowing a better match of the offer and new promotional activities with expectations of the clients.

As at the end of 2015, the retail network was reduced due to optimization measures by 19 units and therefore amounted to 1 749 fuel stations. This is the net effect of the opening of 22 new facilities and completion of liquidation processes for 36 stations, commenced in the previous years. Furthermore, in 2015 the number of fuel stations in the DOFO segment was reduced by 5 facilities. In 2015, the number of Premium stations operating under the ORLEN brand increased by 93 to 1 541. Increased number of ORLEN stations resulted from the opening of new units in both channels – owned and franchised, the modernization of existing stations and the continuation of the BLISKA – ORLEN rebranding project commenced in 2013. Customers gained improved access to the wider range of fuel (VERVA fuels) as well as non-fuel offer, including rich gastronomy offer not available on economic staions. This change also allowed for increasing the number of participants in VITAY loyalty program, available under the Premium network. As part of the rebranding project conducted in 2015, 57 BLISKA stations both owned and franchised changed brand to ORLEN (from the beginning of the project the brand was introduced in more than 300 stations). As at the end of 2015, PKN ORLEN had 159 economic stations operating at under the BLISKA brand in its station network. The remaining stations are stations with so-called simplified format. The number of these stations was reduced from 95 to 49 in 2015.
As part of an investment project, 22 new, owned fuel stations (including 4 MOP) were opened. Another 16 units were built from the begining in the current station locations, as part of the "Break

down and Build" project. 21 new stations were opened in 2015 as part of the PKN ORLEN franchise network. In result, as at the end of 2015, the overall number of stations in the DOFO network amounted to 442. One of the most important factors which impacted further development of this network was the implementation of new terms of cooperation with franchisees. In 2015, approximately 250 partners signed new agreements (apart from the stations incorporated into the network). This process will be continued throughout 2016.

After two years, the process of replacing the price pylons in nearly 1 170 owned stations was completed. As a result, 1 140 stations were included in the automatic repricing system and the process of fuel price management was significantly optimized.
In 2015, PKN ORLEN changed the method of monitoring service standards in its fuel station network on the Polish market. A new Customer Satisfaction Surveying System was introduced, which allowed for collecting a considerably higher number of individual customer surveys and information about their expectations, opinions and suggestions on possible changes.

The confirmation of retention of high customer standards of service at PKN ORLEN fuel stations, good perception of the ORLEN network by customers were awards acquired in 2015. The fuel station in Warsaw in Lazurowa Street was awarded in the Fuel Station Store category. The ORLEN, BLISKA and Stop Café brands received the Superbrands Created in Poland title, whereas PKN ORLEN was honored with the Business Superbrand title.
PKN ORLEN was also recognized in the area of fleet sales, which was confirmed by its victory in the Fleet Awards voting in the category of "Fuel Cards for Large Fleets".
In 2015, the ORLEN brand was honored by the consumers with the prestigious title "Customer Service Quality Star", awarded as part of the Polish Service Quality Program.

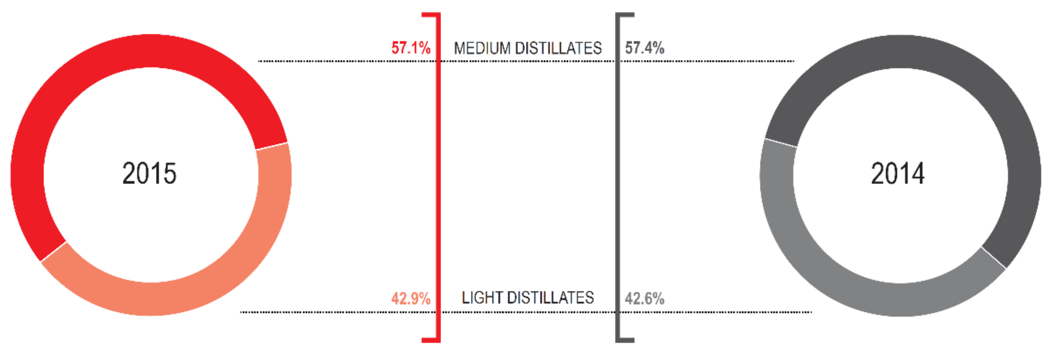
German market

In 2015, the ORLEN Group maintained the sales of light distillates on the German market at the same level as in previous year and increased the volume of diesel oil by 0.5% (y/y). Insignificant decrease of total sales by (-) 0.7% (y/y) was an effect of lower wholesale of light fuel oil, conducted by the German company ORLEN Deutschland. In 2015, the average annual flow per station maintained the level from the previous year and amounted to 5 million liters.

TABLE 15. Sales volume of the ORLEN Group in the retail segment on the German market (in thousands of tonnes).

SALES	2015	2014	2013	CHANGE	CHANGE %
1	2	3	4	5=(2-3)	6=(2-3)/3
Light distillates	1 117	1 117	1 097	0	0.0%
Medium distillates	1 485	1 504	1 427	(19)	(1.3%)
Total	**2 602**	**2 621**	**2 524**	**(19)**	**(0.7%)**

DIAGRAM 35. Structure of sales volume of the ORLEN Group in the retail segment on the German market.



In 2015, the situation on the German fuel market changed. In the recent years, the leading networks (Aral, Shell, Esso, Total) operating in the premium segment, lost their volume in favor of economic stations (such as STAR, Jet, Tamoil). To reverse this trend, some of the premium networks (Shell, Aral, Total) made a decision to rebrand a part of their stations and to enter the economic sector as well. Advertising activities were also taken, including offering price discounts for the customers.
Due to significant retail price reduction in 2015, a part of the volume lost in the preceding years was recovered by premium stations. With lower retail prices, a part of the clients started to purchase premium fuels and to take advantage of the non-fuel offer available on premium stations.

The results of ORLEN Deutschland were also significantly affected by the introduction of minimal wage in Germany in 2015. The negative effect of this change was generally compensated by development activities in the area of non-fuel sales, gastronomy and other fuel station services.
In the last quarter of 2015, the company purchased a package of 13 SUN fuel stations operating in the vicinity of Berlin from Germania Petrol. 6 units were taken over until the end of 2015. As of 31 December 2015, ORLEN Deutschland managed a network of 565 stations, out of which 541 operated in the economic segment under the STAR brand and 1 under the ORLEN brand, located in Hamburg. The remaining 23 stations are the acquired Sun stations and stations operating under supermarkets. 4 new

stations were opened under the STAR brand and an equal number of stations was closed.
As at the end of 2015, ORLEN Deutschland completed works on a new model of cooperation with dealers running fuel stations owned by the company. The new agreement standardizes the terms of cooperation in the entire network and was already approved by the majority of partners.

Czech market

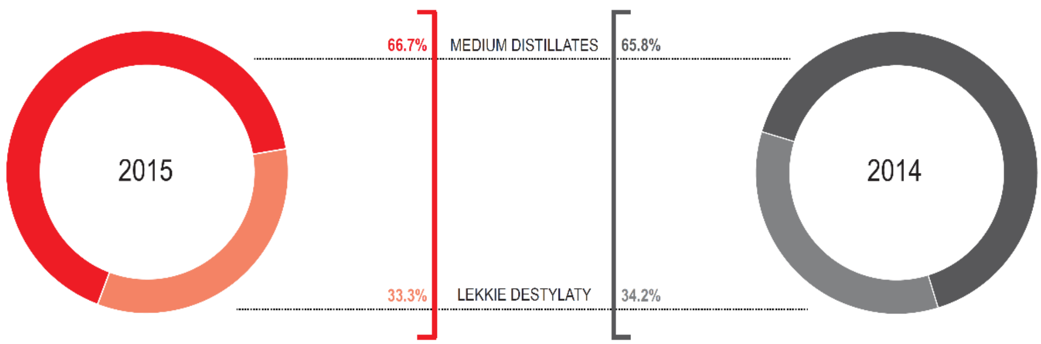
2015 was the consecutive year displaying high dynamic of fuel sales on the Czech market.

The average annual sales recorded by Benzina stations increased by 8.2% (y/y) and reached the level of 2 million liters.

TABLE 16. Sales volume of the ORLEN Group in the retail segment on the Czech market (in thousands of tonnes).

SALES	2015	2014	2013	CHANGE	CHANGE %
1	2	3	4	5=(2-3)	6=(2-3)/3
Light distillates	179	167	153	12	7.2%
Medium distillates	359	321	301	38	11.8%
Total	**538**	**488**	**454**	**50**	**10.2%**

DIAGRAM 36. Structure of sales volume of the ORLEN Group in the retail segment on the Czech market.



Very good operating results of the segment are the effect of implemented initiatives of efficiency. The appearance of stores and their offer were adapted to the current expectations of the customers and new market trends. The new operations model introduced in 2014 resulted in significant improvement of non-fuel revenues and reduction of station costs in 2015. In 2015, Benzina reached an increase in revenue from the sales of non-fuel products and services by nearly 25% (y/y).
Implementation of a new system for establishing fuel prices and optimization of the retail price management process had great impact on the improvement of unit margins and on volume increase. An important initiative to limit the costs of fuel losses was the installation of new measurement devices in nearly 200 stations and the update of software to monitor the condition of fuels in the next 135 activities.

A new Customer Satisfaction Surveying System was introduced in the entire Benzina network in 2015. The tool allows for collecting individual surveys and information on their expectations, opinions and suggestions and the level of their satisfaction during their visit to a specific station.
As at the end of 2015, Benzina s.r.o managed a network of 339 stations operating under two brands: Benzina Plus in the Premium segment (117 stations) and Benzina – in the economic segment (202 stations), as well as 16 stations in the simplified brand. These were completed by 4 self-service stations, which will ultimately operate under the Benzina Express brand.
In the end of 2015, an agreement for the purchase of 68 stations located in the Czech Republic from OMV was signed. All stations will be incorporated into the Benzina network with the beginning of 2017.
Since 2015, the ORLEN Group opened the next stage of development of Stop Café and Stop Café Bistro formats on the Czech market. 33 gastronomy facilities were opened in the entire network. As at the end of 2015, 131 stations with Stop Café and Stop Café Bistro facilities operated as part of Benzina stations. The project will be continued in 2016.

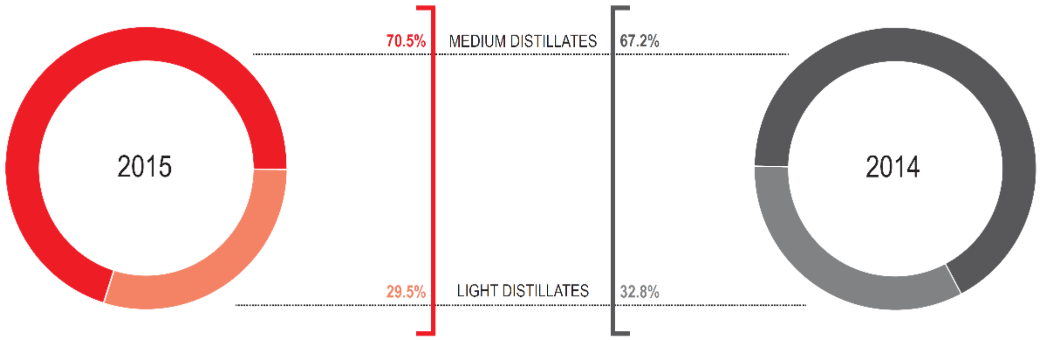
Lithuanian market

In 2015, the ORLEN Group recorded an increase of sales volume by a 5.2% (y/y) on the Lithuanian market. Noticeable diesel oil sales increase by 10.3% (y/y) and comparable (y/y) level of fuel sales entirely covered the lower sales of LPG. The average annual flow per station increased from 2.8 to 2.9 million liters.

TABLE 17. Sales volume of the ORLEN Group in the retail segment on the Lithuanian market (in thousands of tonnes).

SALES	2015	2014	2013	CHANGE	CHANGE %
1	2	3	4	5=(2-3)	6=(2-3)/3
Light distillates	18	19	20	(1)	(5.3%)
Medium distillates	43	39	31	4	10.3%
Total	**61**	**58**	**51**	**3**	**5.2%**

DIAGRAM 37. Structure of sales volume of the ORLEN Group in the retail segment on the Lithuanian market.



As at 31 December 2015 the retail network in Lithuania comprised of 26 own stations in COCO model. 25 stations operated under the ORLEN brand in the Premium segment and 1 station under the Ventus brand operated in the economic segment.

2.6.5 Sources of supply

The majority of fuels sold on the Polish, Czech and Lithuanian markets comes from production within the downstream segment of the ORLEN Group. An exception is the German market, on which the ORLEN Group did not have its own refining assets. The largest suppliers of this German company include the following sellers operating on the German market: such as Deutsche BP AG, Holborn European Marketing Company Limited, Total Deutschland GmbH, Raffinerie Heide GmbH, Shell Deutschland Oil GmbH. An important supplier of fuels to ORLEN Deutschland GmbH is also the Czech company Unipetrol RPS s.r.o., member of the ORLEN Group (12% of all supplies).

2.7. Upstream segment

Wiesław Prugar, President of the Management Board of ORLEN Upstream:
"*Changing macroeconomic conditions require continuous optimizations of the business model and revisions of our goals and adaptation of the pace of their implementation to make sure all of our resources are used in an optimal manner. On the one hand, they affect the re-allocation and optimization of capital expenditures and reduction of operational costs. On the other hand, the situation on the market of crude oil in 2015 created an opportunity for further development of the portfolio of assets through selected acquisitions*".

2015

CANADA

	units	
Natural gas and oil reserves (2P)	million boe	89.0
Output	million boe / year	2.6
Average production *	t boe / day	7.1
Output structure (liquid / gas)	%	44 / 56
Net drillings (performed in given year)	number	11.6

* average production in 4th quarter of 2015 amounted to 7.3 thousand boe/day

POLAND **

	units	
Natural gas and oil reserves (2P)	million boe	8.2
Drillings ***	number	14
Licences ****	number	15

** production from acquired assets of FX Energy will be included from year 2016
*** cumulatively
**** does not include licences owned by PGNIG on which ORLEN Upstream is partner

2.7.1 Market trends

According to the World Energy Outlook 2015 report prepared by IEA (International Energy Agency) significant changes matching the demand for primary energy will take place in the future. Economic policy will play a very important role in shaping the global energy sector. In all scenarios, global demand for primary energy is growing, but its pace depends on the emissions management policy.

According to the basic scenario, in 2013-2040 years the global demand will increase by 32%, and non-OECD economies will be primarily responsible for this increase. According to the forecasts, the demand for primary energy will drop by 3% in OECD countries.

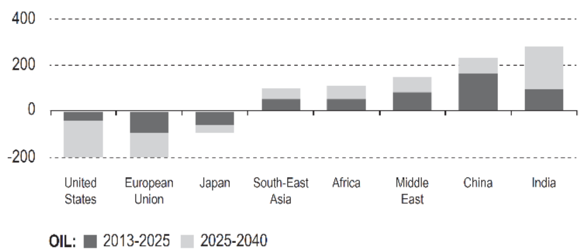
TABLE 18. Global energy demand by fuel type [million toe][1)].

Items	2000	2013	Current Policies Scenario		New Policies Scenario		450 Scenario	
			2020	2040	2020	2040	2020	2040
Coal	2 343	3 929	4 228	5 618	4 033	4 414	3 752	2 495
Oil	3 669	4 219	4 539	5 348	4 461	4 735	4 356	3 351
Gas	2 067	2 901	3 233	4 610	3 178	4 239	3 112	3 335
Nuclear	676	646	827	1 036	831	1 201	839	1 627
Hydro	225	326	380	507	383	531	384	588
Bioenergy	1 023	1 376	1 537	1 830	1 541	1 878	1 532	2 331
Other	60	162	297	694	316	936	333	1 470
Total	**10 063**	**13 559**	**15 041**	**19 643**	**14 743**	**17 934**	**14 308**	**15 197**

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

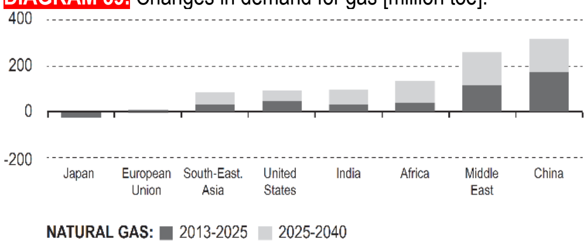
In 2040, global demand for energy will be nearly twice as high as in 2000, and the demand for gas and crude oil will constitute 50% of total demand, mainly from China, India and the Middle East.

DIAGRAM 38. Changes in demand for oil [million toe].



Source: IEA.

DIAGRAM 39. Changes in demand for gas [million toe].



Source: IEA.

Facing a surplus of the raw materials and dropping prices, crude oil manufacturers have been lowering operational costs and increasing the scale of new investments. In the basic scenario, WEO authors assume that crude oil production will increase by 8% to 2040 (to 104 million b/d), initially – to 2020 generally thanks to non-OPEC countries, and thanks to OPEC countries in the next following years as well.

In short-term, the impulse for the demand growth for crude oil is a derivative of low prices. However, it will be balanced by low expectations in terms of economic growth in several key economies, and the impact of improved effectiveness and the emissions policy. The largest crude oil consumer in the world – the United States – will record a significant decrease in demand, primarily due to introduction of restrictive fuel consumption standards in transport. India and China, in turn, will become the largest consumers of crude oil after 2030.

Currently, natural gas markets are displaying considerable diversification between particular regions, with strong demand for gas in the United States, in the Middle East and in China, and low demand in Europe. The basic scenario assumes that the world market of gas will display constant growth by 1.4% a year, reaching 5 160 billion m^3 in 2040, becoming in terms of share ,the second fuel in the global energy mix. The IEA scenario assumes the largest growth of demand for gas in China and in the Middle East. Latin America countries (Brazil, Argentina), African countries (Nigeria, Tanzania and other) as well as India will notice increased use of natural gas, but at varying pace. The United States remain the world's largest consumer of natural gas, and their demand for gas will increase by 15% in 2040.

Additionally, it is assumed that by 2020 the supply of natural gas extracted from unconventional deposits in the US will increase sufficient enough to exceed 50% of share on the global market of gas.

2.7.2 Position and competitive environment

The strategy of the ORLEN Group assumes the intensification of exploration and extraction activities in order to enable access to own resources of crude oil and natural gas.

The development of competences in the upstream segment stood for intensive works on the formation of an international team of specialists, capable of creating and managing a diversified portfolio of assets, with access to own resources and exploration of crude oil and natural gas, and capable of applying state of the art exploration methods and extraction technologies. Currently, ORLEN Upstream is conducting works in the area of eight regions in Poland and has become a recognizable operator in the Alberta province in Canada.

In years 2009-2012 the exploration process of unconventional hydrocarbons (especially shale gas) in Poland has developed rapidly. The intensification of investors activities was noted in 2012, when 20 extraction and exploration companies were operating on the market. The number of concessions reached 115, and in the 2012 alone, 24 exploration drillings were performed.

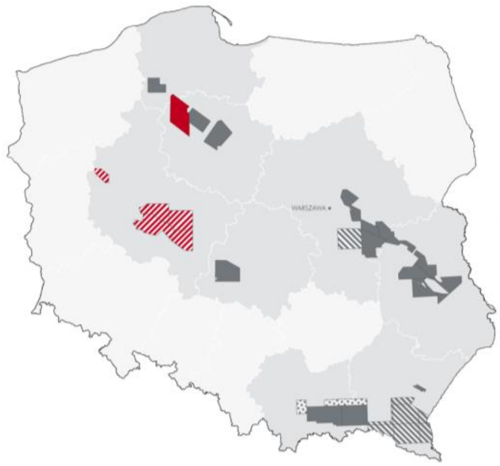
The results of works, published in the last few years appear to vary from the results obtained for key areas of hydrocarbon extraction from unconventional deposits in North America. The main differences resulted from geological conditions (i.e. higher depth of formation depositing and higher complexity level of geological formation). With the progress of exploration works, between 2013 and 2015, a great majority of operators made a decision to withdraw from the Polish market (such as ExxonMobil, Marathon Oil, Talisman Energy, ENI, Nexen, Total, Mitsui, RAG, Sorgenia, Dart Energy, 3Legs Resources, Chevron and ConocoPhilips) and the pace of works decelerated.

The similar situation took place in other European countries with potential sources of shale gas. In Romania, Bulgaria, Sweden, Hungary and Lithuania foreign companies from the industry have withdrawn from exploration and in Ukraine exploration works were suspended. Taking into account current results of reconnaissance exploration works and risk profile of shale gas projects, in the environment of low hydrocarbons prices, it is expected that extraction and exploration companies will be striving to reduce the exposure to high-risk, expensive exploration projects as much as possible.

2.7.3 Activities in Poland

2015 was marked by significant changes on the map of assets owned by ORLEN Upstream. This was related both to the acquisition of new exploration areas, and resignation from less prospective parts of the license portfolio.

SCHEME 8. Exploration projects of ORLEN Group in Poland.



Exploration assets

with cooperation: Warsaw South (51% of shares), Bieszczady (49% of shares)

ORLEN Upstream 100% of shares : Karbon, Lublin Shale, Mid-Poland Unconventional, Karpaty, Miocen, Edge

requested areas

Exploration and production assets

with cooperation: Sieraków (49% of shares), Płotki** (49% of shares)

ORLEN Upstream 100% of shares: Edge

** Production from Płotki project (100% gas)

Source: Own preparation

In 2015, ORLEN Upstream purchased two concessions owned by Deutsche Erdoel AG and negotiated a Joint Operations Agreement with PGNiG S.A. in the area of eight concessions blocks in the Karpaty region (the Bieszczady project). In October 2015, as part of a tender process, the Group obtained a concession from the Ministry of the Environment concerning the Siennów – Rokietnica area situated in the Podkarpackie region, in the geostructural unit referred to as Zapadlisko Przedkarpackie. On 31 December 2015, the purchase of transaction of 100% of shares in FX Energy Inc. was completed, and thus the portfolio of assets owned by the Group in Poland increased, among others, by a share in 7 production deposits. The total value of the transaction was approximately USD 125 million.
Currently, gas extraction is performed in cooperation with PGNiG (FX Energy share is 49%). 2P resources owned by the ORLEN Group in Poland equaled 8.2 million boe in the end of 2015. Apart from the extraction conducted, the potential of the acquired assets also includes exploration concessions. Part of one of the acquired concession (the Edge area in the Kujawsko-Pomorskie region), includes the Tuchola deposit discovered in 2013, which is currently prepared to be developed. Commercial extraction can start in 2018, and the Concern owns 100% of shares in this area.

Effects of the operating activity of the purchased FX Energy shares will be included in ORLEN Group statements for 2016.
ORLEN Upstream is currently conducting works, either individually or with partner, in the area of 29 concessions situated in 8 regions. The share of the Concern is: 100% on 14 concessions; 51% in 1 concession, and 49% in 14 concessions.

As part of works carried out in the Podlasie-Lublin Basin, the drilling of a vertical borehole in the Wołomin license area and an analysis of the data from the borehole were completed in 2015. In August 2015, the acquisition of 2D seismic data from the Wodyn-Łuków concession area was carried out, followed by the so-called processing of this data. In November 2015, the acquisition of 3D seismic data in the license area was initiated.
In 2015, the acquisition of new 2D seismic data from the Sieradz block was carried out followed by data interpretation. In the Wielkopolska region, preparatory works were carried in order to exploit a part of the Sieraków area.
The acquisition of new seismic data for the 2D Hoczew-Lutowiska area was carried out with a partner under the Bieszczady project. The completion of these works is planned for the first quarter of 2016.

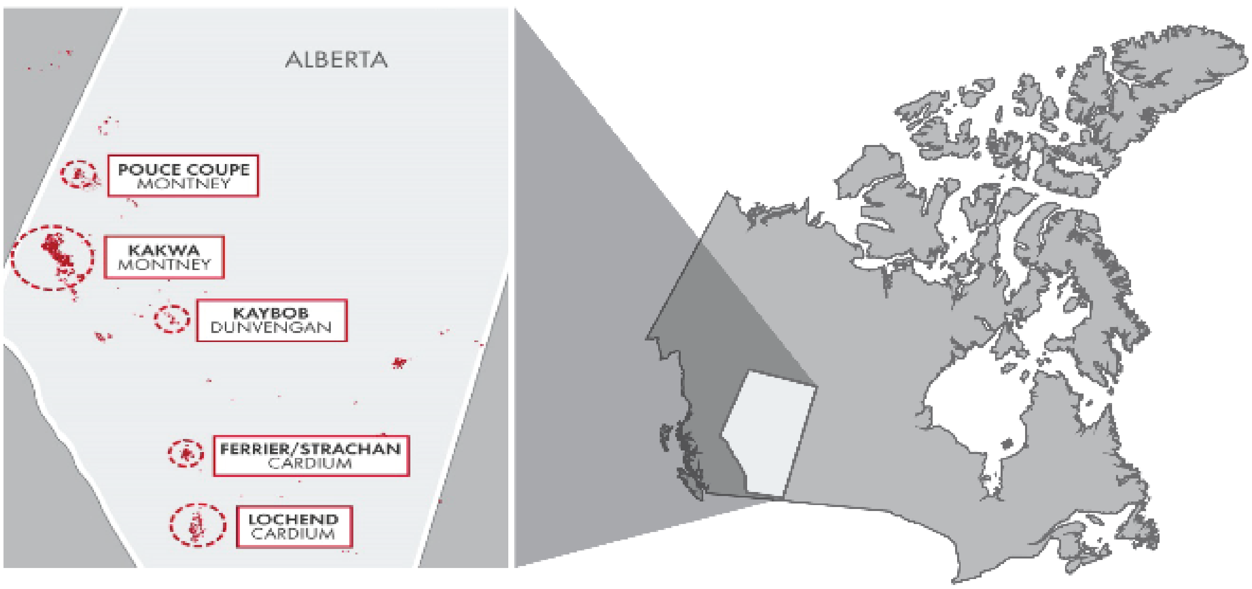
2.7.4 Activities in Canada

In Canada, PKN ORLEN runs extraction activities in the Alberta province, utilizing horizontal drilling and hydraulic fracturing techniques. In 2015, 16 such operations were started. As a result, in 4Q 2015 the production level of 7.3 thousand boe/day was reached and 45% of which accounted for liquid hydrocarbons (crude oil and condensate).
In December 2015, the acquisition of extraction assets belonging to Kicking Horse Energy, located primarily in the Kakwa area in Alberta, was carried out via a subsidiary of ORLEN Upstream Canada, a subsidiary of the company. The purchase of new assets increased the amount of 2P hydrocarbon reserves in Canada as well as their extraction levels. The total value of the transaction was approx. CAD 295 million. As at the end of the year, production from assets in the Kakwa area exceeded 4.5 thousand boe/day. The effect of operating activities of the purchased Kicking Horse Energy assets will be included in the ORLEN Group statements for 2016.

The transaction performed on stable Canadian market fits the risk profile established in PKN ORLEN strategy. The favourable deposits' parameters and development of operations in an already well-recognized regions minimize the operational risk of the investment. In addition, the efficiency of utilized horizontal drillings and multisectional hydraulic fracturing techniques enable exchange of experiences between Polish and Canadian teams and exploitations of synergies from utilized solutions. Canadian market is characterized by wide access to high-end drilling and maintenance services as well as access to qualified and experienced in unconventional deposits extraction personnel. The stable tax system and friendly regulatory environment are also significant.

ORLEN Upstream also owns 10.7% of shares in the project concerning the construction of a liquefied gas export terminal on the eastern shore of Canada (the Nova Scotia province) – Goldboro LNG, currently at the initial stage.

SCHEME 9. Assets in Canada.



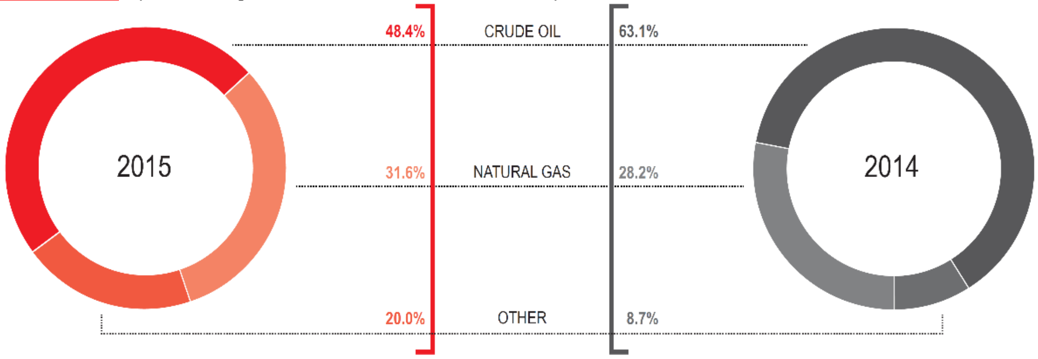
2.7.5 Sales volume of Upstream Segment

TABLE 19. The ORLEN Group volume sales in the upstream segment (thousand tonnes).

SALES	2015		2014		2013		CHANGE %	
	VALUE	VOLUME	VALUE	VOLUME	VALUE	VOLUME		
1	2	3	4	5	6	7	8=(2-4)/4	9=(3-5)/5
Upstream Segment								
Crude oil	104	96	188	100	10	8	(45%)	(4%)
Natural gas	68	179	84	133	3	6	(19%)	35%
Others	43	35	26	25	4	3	65%	40%
Total	**215**	**310**	**298**	**258**	**17**	**17**	**(28%)**	**20%**

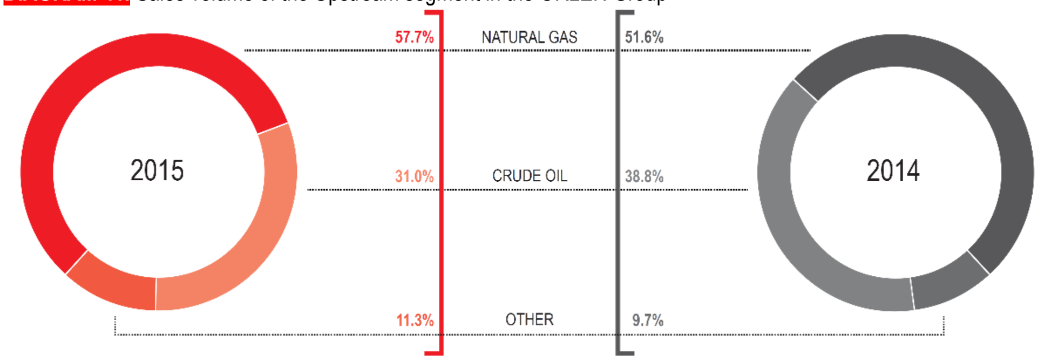
In 2015, the total sales of the extraction segment on the Canadian market reached the level of 310 thousand tonnes of crude oil, natural gas and NGL (natural gas liquids). Thanks to the acquisition of 100% shares of FX Energy in December 2015, an additional hydrocarbon sales volume from the Polish market will take place starting from 2016. In December 2015 average extraction from the acquired extraction assets of FX Energy amounted to 1.3 thousand tonnes boe/day. The prices of crude oil and gas had the largest effect on the level of hydrocarbon extraction.

DIAGRAM 40. Upstream segment revenues in the ORLEN Group



**) mainly Natural Gas Liquids*

DIAGRAM 41. Sales volume of the Upstream segment in the ORLEN Group



**) mailny Natural Gas Liquids*

2.8. Risk management

2.8.1 The functioning of the Corporate and Market Risk Management System

The functioning of the Corporate and Market Risk Management System in 2015 did not change.
The ORLEN Group within its operations monitors and assesses risks and undertakes activities in order to minimise their impact on the financial situation on the ongoing basis.
PKN ORLEN has an Audit and Corporate Risk Management Department, which coordinates the corporate risk management process at all levels of the organization. The main purpose of the office is to make an independent and objective evaluation of risk management and internal control as well as business process analysis. The Department conducts audit tasks based on the annual audit plans approved by the Management Board and accepted by the Audit Committee of the Supervisory Board and the Supervisory Board. The Department may also perform ad hoc audits commissioned by the Supervisory Board and the Management Board.

SCHEME 10. The Risk Management System structure in the ORLEN Group

<table>
<tr><th colspan="4">SUPERVISORY BOARD (including: AUDIT COMMITTEE)</th></tr>
<tr><td colspan="4">Performs an annual assessment of the effectiveness of the Enterprise Risk Management System, monitors the level of risks affecting the achievement of business objectives, submits to the General Meeting an evaluation of the internal control system and risk management system.</td></tr>
<tr><th colspan="4">MANAGEMENT BOARD</th></tr>
<tr><td colspan="4">Supervises the process of corporate risk management, accepts the assumptions, principles of risk management periodically reports the results of the risk assessment to the Management Board and the Audit Committee of the Supervisory Board.</td></tr>
<tr><th colspan="4">AUDIT AND CORPORATE RISK MANAGEMENT OFFICE</th></tr>
<tr><td colspan="4">Supervises the process of corporate risk management, develops policies and procedures for risk management at the corporate level, periodically reports the results of the risk assessment to the Management Board and the Audit Committee of the Supervisory Board.</td></tr>
<tr><th>Management team</th><th colspan="3">Financial Risk Committee</th></tr>
<tr><td rowspan="3">Management team involved in the process of risk management, is responsible for monitoring, identification, assessment and analysis of risks and the implementation of recommendations on the management of various types of risks in the context of the policies..</td><td>Market risk</td><td>Credit and liquidity risk</td><td>Operating risk</td></tr>
<tr><td>Manages the risk of changes in market prices of commodities (including refinery and petrochemical margins, differential of Brent/Ural, crude oil and products prices, prices of CO2 emission allowances), and the risk of changes in exchange rates and interest rates</td><td>Liquidity and credit risk management</td><td>Net working capital management</td></tr>
<tr><td>Market risk management policy</td><td>Internal policies and procedures</td><td>Internal policies and procedures</td></tr>
</table>

The objective of market risk management process is to reduce the undesirable effects of changes in market risk factors on the cash flows and results in the short and medium term. The ORLEN Group applies consistent hedging policy in the field of commodity, currency and interest rate risks. ORLEN Group manages the market risks resulting from the above factors on the basis of market risk management policy, which sets out the rules for measuring individual exposures, parameters and time of risk hedging and hedging instruments.

In PKN ORLEN market risk management principles are realized by the designated organizational units under the supervision of: PKN ORLEN's **Financial Risk Committee,** PKN ORLEN's Management Board and PKN ORLEN's Supervisory Board.
Financial Risk Committee of PKN ORLEN is responsible for the supervision and coordination of financial risk management process.

In order to ensure the efficiency and operational safety of the process in the PKN ORLEN's Office of Financial Management three areas were created responsible for carrying out financial transactions (Front Office), measurement and risk analysis (Middle Office), reporting and settlement of transactions (Back Office).

Management Boards are responsible for risk management in the ORLEN Group companies for each company under the supervision of the Supervisory Boards. For the execution of hedging transactions on behalf of individual companies of ORLEN Group covered by the common hedging policy corresponds to PKN ORLEN, which under the contracts was given appropriate powers of attorney. Effectiveness and performance of hedging transactions are monitored and presented to PKN ORLEN's Committee for Financial Risk Management and PKN ORLEN's Management Board through PKN ORLEN's Office of Financial Management.

The risk management process is a continuous process which, due to the changing economic environment is modified.
Since 2013 in PKN ORLEN and other entities of the ORLEN Group operate the **Enterprise Risk Management Policy and Procedures (ERM)** that comprehensively regulates the process of operation of the Integrated Enterprise Risk Management System.
According to these regulations Audit and Corporate Risk Management Department coordinates risk management process, providing tools and methodological support for process participants. The adopted methodology allows the identification of risks based on a common model, linking them with the strategic objectives and therefore the same business processes.

Entreprise Risk Management is one of the tools facilitating the effectiveness of realization of strategic and operational goals, as it allows for obtaining information on key risks of the organization and provides a guarantee that an effective method of their management was selected.

Risk assessment by two business areas is carried out at least one a year and aims at ensuring that the list of risk is updated to list the most significant risks. The assessment will be carried out by the owners of particular processes, risks and control measures. The assessment assumes the significance of each risk in reference to three states:

- when no control mechanisms have been implemented in reference to a specific risk – the gross risk assessment,
- existing with the effective control mechanisms applicable to a given risk – the net risk assessment, which depends on the results of effectiveness tests for the operation of control mechanisms limiting a given risk,
- expected risk level – the so-called appetite for risk, meaning the risk level accepted by the organization, one the organization should aim at.

The assessment will specify suitable repair plans for particular risks and their control measures, which can lead to equaling the net risk assessment (with functioning control mechanisms) to the appetite for risk desired by the organization.
Each risk assessment and control mechanism testing process is completed with a report, which is submitted to the Management Board Members and the Supervisory Board Audit Committee, which contains comprehensive information on the most significant risks for PKN ORLEN and the planned method of their limitation.
In 2015, the process of risk self-assessment and control mechanism testing was carried out in PLN ORLEN S.A. with the presence of the managerial staff, which allowed for updating the assessment of 675 risks by testing 1280 control mechanisms in 85 business processes.
The Corporate Audit and Risk Management Office also implements cyclic measures aiming at verifying the quality of the risk assessment process and the control mechanisms.
A process aiming at implementing the ERM system in key ORLEN Group companies has been also carried out for three years. In 2015, ERM was implemented in ORLEN Deutschland and ORLEN Gaz and implementation works were finalized in the ORLEN Lietuva Group.

2.8.2 Risks and threats of conducted operations of the ORLEN Group

The main financial risks, to which the ORLEN Group is exposed as part of its activity include:

1. **Market risks:**

- commodity risk – related with changes: in refinery and petrochemical margins charged on the sales of products, the level of Brent/Ural differential, the prices of crude oil and products, the prices of CO_2 emission licenses,
- exchange rate risk – related to the economical currency exposure,
- interest rate risk – related to the volatility of cash flows resulting from changes in interest rates and from the owned assets and liabilities recorded, for which revenues and interest cost depend on variable interest rates.

2. **Liquidity risk** – related to an unforeseeable shortage of cash or lack of cash and access to sources of financing.
3. **Loss of cash and deposits risk** – the risk of bankruptcy of domestic or foreign banks, in which the ORLEN Group deposits its cash.
4. **Credit risk** – related to the unsettlement of receivables delivered for the products and services supplied by the contract parties.

Detailed description of the above risks together with their determined way of its measurement on the ORLEN Group financial statements is presented in note 8.4.5 to Consolidated Financial Statements for 2015.

5. **Industry risks** - the ORLEN Group is additionally vulnerable to specific risks in fuel industry:

- **Fuel consumption.** General economic situation influences significantly on the level of the fuel consumption as well as the sales volume and prices of the ORLEN Group products and have material impact on the financial position. Changes in the diesel oil and gasoline consumption level recorded on the operating markets are presented in point 3.1. The ORLEN Group, operating on the fuel market, is exposed to the risk resulting from the activities of the so called "shadow economy" connected primarily with the distribution of fuel, disregarding the obligation to pay taxes. In accordance with the estimates of the Polish Organisation of Oil Industry and Trade (POPiHN), influence of „shadow economy" for diesel may exceed than 20% of its consumption.
- **Crude oil throughput / raw materials supplies.** The Company is exposed to disruptions in crude oil throughput due to irregular raw material supplies, lack of access to logistics services through the pipeline and unstable situation in countries where crude oil is extracted. Change in the

parameters of supplied crude oil and related lower white product yields as well as overhaul turnaround of production plants may also be of importance. Expansion of existing refineries and construction of new ones in Russia may result in lower volume of exported Russian crude oil and, consequently, lower availability of this raw material for European customers, including the ORLEN Group.

Gas purchases are based on the long-term agreement with PGNiG as well as short-term agreements with alternative suppliers. Due to no price mechanisms on liquid gas markets in Europe, prices of gas in Poland may be lower or higher than the prices on neighbouring deregulated markets (such as German or Czech market). The ORLEN Group takes measures to ensure stable raw materials supply, mainly through diversification of sources and adoption of the production installations to process various types of raw materials. Furthermore, the ORLEN Group implements a number of exploration and extraction projects in order to obtain own sources of gas and crude oil.

In the scope of product logistics, the ORLEN Group is largely dependent on local companies such as PERN and OLPP owned by PERN in Poland as well as ČEPRO in the Czech Republic. Product logistics of the refinery in Mazeiku is dependent on the sole provider of the railway transport service, that is AB Lietuvos Geležinkeliai.

- **Regulatory risk**
  Changes in current regulations or the new ones may have significant impact on the ORLEN Group, its financial condition and operating results.

– **Realization of National Indicative Target („NIT")**
Since 2008 the obligation to comply with the National Indicative Target (NIT) has been imposed on the fuel producers, which determines the minimum share of biocomponents and other renewable fuels calculated at the heating value in the general quantity of liquid fuels and biofuels consumed up in transport during the calendar year. Following 1 January 2012, it is possible to apply the reduced NIT – adjusted by the reduction index of 0.85 for a given year, if at least 70% of biocomponents obtained from domestic producers entered in the producer register maintained by the Agricultural Market Agency are used in fuel production. Starting from 2015, all bio-components used in order to fulfill the obligation must meet the criteria of sustainable development. In 2015, a decision on an extension of the operation of the NIT reduction mechanism for the years 2016 – 2017 was made. The level of NIT in 2016 for Poland will remain unchanged and will amount to 7.1%. The level for PKN ORLEN, after including the abovementioned reduction index, will be set at 6.035%. In case of non-compliance with NIT, penalty of PLN 17.5 thousand per tonne of not used biocomponents may be imposed.
Additionally the implement of the provisions of Directive 2009/30 / EC will force the realization of the National Target Reduction (NTR) related to the mandatory reduction of greenhouse gas emission (GHG) by 6% by the end of 2020 compared with 2010.

– **CO_2 emission rights.** On 26 February 2014, the European Commission approved the draft plant list with the preliminary number of CO_2 emission rights granted free-of-charge. The legislative process is being finalized on the domestic level. As a part of CO_2 emissions management, the ORLEN Group annually monitors CO_2 emission for the plants covered by the emission trade system and compares the number of rights, together with determination of the way of systematic balancing of the identified shortages/surpluses by way of intragroup transactions or forward and futures and spot transactions.

– **Industrial emissions.** The Industrial Emissions Directive introduces, following 2016, emission standards for sulphur dioxide, nitrogen dioxide and dust, more restrictive than the existing ones. In order to meet the above requirements, the ORLEN Group constructed the flue gases desulphurisation, denitrification and dedusting installation, which will reduce the emission of sulphur and nitrogen dioxide as well as dust from the Heat and Power Plant in Płock by more than 90%.

– **Color energy certificates.** Color certificates support electric energy producers of renewable sources and high efficiency cogeneration. The number of awarded free of charge color certificates depends on size of energy production and the structure of used fuel. The legislation work carried out on amending the Energy Law and other laws has been restored the certified system of supporting electricity generation in high-efficiency cogeneration in the horizon until 2018. In the following years, the ORLEN Group is exposed to risks associated with the number of certificates, price changes of certificates and the risk of increase in the cost of substitute fees.

– **Mandatory reserves.** In 2014 as a part of the implementation of Community legislation, the changes regulating the level of mandatory reserves have been made. Under the new regulations, manufacturers and traders in return for a gradual reduction of obligation in the level of reserves maintained (from 76 days to 53 days of average daily fuel production or import of crude oil or fuels at the end of 31 December 2017) for the reserves maintained by the for Material Reserves Agency, are required, starting 1 January 2015, to pay an additional fee concerning mandatory reserves. In 2015, mandatory reserves were reduced by 8 days to the level of 68 days, and the additional fee concerning mandatory reserves amounted to 43 PLN/tonne of crude oil and 99 PLN/tonne of LPG. During 2016, there will be further reduction of mandatory reserves level from 68 to 60 days. Change of the mandatory reserves system will have an influence on the partial release of capital frozen until now in physically maintained mandatory reserves of crude oil and fuels.
The ORLEN Group is exposed to an increase in operating costs due to an additional fee concerning mandatory reserves and paid to Material Reserves Agency, which amount will depend on the quantity of reserves maintained. Additional fee could have an influence on fuel prices and as a result on the level of domestic consumption. Moreover, the maintenance of mandatory reserves (despite a reduction in the proportion of reserves maintained by producers) is still connected with the costs of financing and storage and also creates a risk of non-cash impact on the ORLEN Group's operating results in case of changes in market prices leading to revaluation of the reserves' value.

– **Hydrocarbon tax** The act of 25 July 2014 on special hydrocarbon tax entered into force on 1 January 2016. The

act introduced a new tax and expanded the scope of extraction taxation for certain minerals to include the extraction of crude oil and natural gas.
According to the act, the special hydrocarbon tax will be charged on the profits from hydrocarbon extraction activity. According to the act, crude oil, natural gas and their natural derivatives will be treated as hydrocarbons. The act will also introduce several changes in the act on tax on the extraction of specific minerals. Its provisions will also assume extraction activity in terms of natural gas and crude oil.
The introduction of additional burdens resulting from the hydrocarbon act can act to the detriment of the ORLEN Group activity economy in the Upstream segment.

- **Liberalization of the gas market** The process of liberalization of the gas market implies a two-stage departure from the gas price tariffs (the I stage: institutional buyers, the II stage: households). The potential impact of the liberalization of the gas market for ORLEN Group may cause changes in gas prices resulting from the abolition of tariffs and the gradual reduction of the scope of long-term contracts for the construction of a portfolio of suppliers in the short-term contracts.

- **Sales tax.** The legislature is conducting works on the introducing a retail sales tax. The tax is to assume store chains and retail sellers who generate a defined level of sales revenue. According to the provisions of the draft, the retail sales tax will be progressive and will assume diverse rates, depending on the level of sales. Conducting retail sales as part of its fuel station network, the ORLEN Group can become a payer of the aforementioned tax.

- **New business areas.** According to the strategy, the ORLEN Group focuses on the construction of new business segments including upstream and energy. The development of these areas is aimed at diversification of the of the Group's operations, which currently focuses on downstream activities, which are related to the throughput of crude oil into petroleum products, including fuel, and the sale of these products to customers. Upstream projects are subject to a number of geological and operational risks, which may prevent the realization of expected profits. Implementation of these projects may be delayed or may not be successful, primarily because of the high exploration risk of this type of projects, exceed of costs, lower than expected crude oil and gas prices, high fiscal burden, adverse changes in the sectorial regulations, shortages of equipment and qualified personnel, harsh weather conditions, and the difficulty in finding experienced partners to share the risks and costs connected with conducting projects. These projects can also often require the use of new, advanced technologies, which are expensive to develop, acquire and implement, and may not function as expected.
  Energy projects are primarily exposed to the risk of an increase in natural gas prices and to the risk of an unfavourable changes in the regulations related to the loss of support for producers of electricity from renewable sources and produced in high-efficiency cogeneration.
- **Operations and unforeseen accident losses risk.** The ORLEN Group is exposed to operations and unforeseen accident losses. Any adverse effects of such risks are minimalised through adopted professional and tailored to the Group's individual needs insurance program. The program is created and operated by the entity formed specially for that purpose - ORLEN Insurance Ltd. Insurance coverage under ORLEN Insurance Ltd. polices is reinsured by the biggest international insurance and reinsurance companies under the program led by AIG Europe and Allianz, and where the biggest world and Polish insurance companies such as AIG, Allianz, SCOR, VIG, Munich Re, ACE and PZU and TUiR Warta are involved. In addition to comprehensive assets insurance, the ORLEN Group holds other insurances to ensure minimizing the adverse impact of damages i.e. third party insurance or property insurance in transport.
- **Court and regulatory tax proceedings, customs and excise duty inspections.** The ORLEN Group companies are currently engaged in proceedings referred to point 2.10 or may possibly be engaged in the future in other court or regulatory proceedings. The ORLEN Group has been a subject of a number of tax, customs and excise duty inspections. Although the Company does not expect at present that any of the above proceedings, to which it is a party, will possibly have negative impact on its financial standing and results on operations, it is uncertain whether the final result of current or future proceedings will not have such an impact on the ORLEN Group results or financial standing.

- **Risks related to the stability and security of IT systems and data.** Due to the functioning in the ORLEN Group the complex and advanced IT systems in many areas of activity, to the typical extend for corporate organization, identifies the risks associated with the proper information systems functioning. Information systems in the ORLEN Group are secured in accordance with the best world practices in IT security, but risks in this area cannot be excluded.

2.9. Significant contracts

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

JANUARY 2015

On 12 January 2015 PKN ORLEN signed one-year agreement with BP Europa SE for the sales by PKN ORLEN of gasoline and diesel oil for the period between 1 January 2015 and 31 December 2015. The total estimated net value of the agreement amounts to PLN 5 400 million.
The total value of agreements signed between PKN ORLEN and PKN ORLEN subsidiaries and companies from the BP Group in the period from 7 November 2014 to 12 January 2015 amounts to approximately PLN 5 560 million. Regulatory announcement no. 3/2015

On 12 January 2015 PKN ORLEN signed one-year agreement with Lukoil Polska Sp. z o.o for the sales by PKN ORLEN of gasoline and diesel oil for the period between 1 January 2015 and 31 December 2015. The total estimated net value of the agreement amounts to PLN 1 280 million.
The total value of agreements signed between PKN ORLEN and PKN ORLEN subsidiaries and companies from the Lukoil Group in the period from 11 January 2014 to 12 January 2015 amounts to approximately PLN 2 400 million. Regulatory announcement no. 4/2015

On 12 January 2015 it signed one-year agreement with Shell Polska Sp. z o.o for the sales by PKN ORLEN of gasoline and diesel oil to for the period between 1 January 2015 and 31 December 2015. The total estimated net value of the agreement amounts to PLN 1 820 million.
The total value of agreements signed between PKN ORLEN and PKN ORLEN subsidiaries and companies from the Shell Group in the period from 7 August 2014 to 12 January 2015 amounts to approximately PLN 3 430 million. Regulatory announcement no. 5/2015

FEBRUARY 2015

On 10 February 2015 ORLEN Deutschland GmbH signed an agreement with Lekkerland Deutschland GmbH & Co. KG. On the base of the agreement Lekkerland Deutschland delivers to gas stations of ORLEN Deutschland goods and services from the non-fuel categories in the period of 1 February 2015 until 31 January 2018.
Estimated net value of the agreement amounts to EUR 780 million, i.e. PLN 3 277 million based on EUR/PLN average exchange rate as of 10 February 2015, stated by the National Bank of Poland. Regulatory announcement no. 20/2015

On 16 February 2015 PKN ORLEN signed a spot agreement with Statoil ASA, for crude oil deliveries to PKN ORLEN.
The total estimated value of agreements signed between PKN ORLEN and PKN ORLEN subsidiaries and companies from the Statoil Group in the 12 months to 16 February 2015 amounts to approximately PLN 1 884 million. The agreements between ORLEN Group and companies from the Statoil group were concluded for the purchase of products and crude oil. Regulatory announcement no. 25/2015

MARCH 2015

On 2 March 2015 PKN ORLEN signed a spot agreement with Vitol S.A for crude oil deliveries to AB ORLEN Lietuva.
The total estimated value of agreements signed between PKN ORLEN and PKN ORLEN subsidiaries ("ORLEN Group") and companies from the Vitol group in the period from 23 December 2014 to 3 March 2015 amounts to approximately PLN 1 665 million. The agreements between ORLEN Group and companies from the Vitol group were concluded for the sales and purchase of products and purchase of crude oil. Regulatory announcement no. 32/2015

On 4 March 2015 within ORLEN Group there were concluded agreements with companies from Eni group.
The total estimated value of agreements signed between ORLEN Group and companies from the Eni group in the period from 18 June 2014 to 5 March 2015 amounts to approximately PLN 1 630 million. The agreements between ORLEN Group and companies from the Eni group were concluded for the purchase of products and crude oil Regulatory annoucement no. 34/2015

APRIL 2015

On 16 April 2015 within ORLEN Group there was concluded agreement with company from Trafigura Group. The total estimated value of agreements signed between ORLEN Group and companies from the Trafigura Group in the 12 months untill 16 April 2015 amounts to approximately PLN 1 600 million. The agreements between ORLEN Group and companies from the Trafigura Group were concluded for the sales of products and purchase of crude oil. Regulatory announcement no. 58/2015

On 30 April 2015 PKN ORLEN and Rosneft Oil Company, signed second annex to the agreement dated 21 June 2013 for crude oil deliveries to Unipetrol RPA s.r.o. The Annex provides increase of crude oil volumes deliveries to Unipetrol RPA s.r.o. by ca. 120 thousand tonnes of REBCO crude oil per month. The Annex will be valid from 1 May 2015 to 30 June 2016.
As of the day of signing of the Annex, the estimated total value of the deliveries, specified in the Annex, by 30 June 2016 amounts to approximately USD 700 million (i.e. approximately PLN 2 600 million, based on the average PLN/USD exchange rate as of 30 April 2015, as stated by the National Bank of Poland). Regulatory announcement no. 71/2015

MAY 2015

On 27 May 2015 within ORLEN Group there was concluded agreement with company from Lukoil Group. The total estimated value of agreements signed between ORLEN Group and companies from the Lukoil Group in the period from 13 January 2015 to 28 May 2015 amounts to approximately PLN 1 730 million. The agreements between ORLEN Group and companies from the Lukoil Group were concluded for the sales of products and purchase of crude oil. Regulatory announcement no. 83/2015

JUNE 2015

On 22 June 2015 within ORLEN Group there was concluded agreement with company from Mercuria Group. The total estimated value of agreements signed between ORLEN Group and companies from the Mercuria Group in the period from 29 July 2014 to 23 June 2015 amounts to approximately PLN 1 800 million. The agreements between ORLEN Group and companies from the Mercuria Group were concluded for the purchase of crude oil. Regulatory announcement no. 94/2015

On 23 June 2015 within ORLEN Group, there was concluded agreement with company from Glencore Group. The total estimated value of agreements signed between ORLEN Group and companies from the Glencore Group in the period from 15 October 2014 to 24 June 2015 amounts to approximately PLN 1 800 million. The agreements between ORLEN Group and companies from the Glencore Group were concluded for the purchase of crude oil. Regulatory announcement no. 95/2015

On 25 June 2015 ORLEN Deutschland GmbH signed yearly agreement with BP Europe SE. The agreement was signed for the sale of fuels to ORLEN Deutschland fuel stations in Germany till 31 December 2015. The estimated net value of the agreement amounts to EUR 1 220 million (i.e. approximately PLN 5 070 million based on EUR/PLN average exchange rate as of 25 June 2015, stated by the National Bank of Poland).
The total estimated value of agreements signed between ORLEN Group and companies from the BP Group in the period from 13 January 2015 to 25 June 2015 amounts to approximately PLN 5 550 million. The agreements between ORLEN Group and companies from the BP Group were concluded for the purchase and sales of products and purchase of crude oil. Regulatory announcement no. 96/2015

JULY 2015

On 27 July 2015 within ORLEN Group there was concluded agreement with company from Total Group. The total estimated value of agreements signed between ORLEN Group and companies from the Total Group in the period from 24 October 2014 to 28 July 2015 amounts to approximately PLN 1 790 million. The agreements between ORLEN Group and companies from the Total Group were concluded for the sales of products and purchase of crude oil. Regulatory announcement no. 110/2015.

On 30 July 2015 within ORLEN Group there was concluded agreement with company from Vitol Group. The total estimated value of agreements signed between ORLEN Group and companies from the Vitol Group in the period from 4 March 2015 to 31 July 2015 amounts to approximately PLN 1 710 million. The agreements between ORLEN Group and companies from the Vitol Group were concluded for purchase of crude oil. Regulatory announcement no. 111/2015

SEPTEMBER 2015

On 22 September 2015 within ORLEN Group there was concluded agreement with company from Trafigura Group. The total estimated value of agreements signed between PKN ORLEN and companies from the Trafigura Group in the period from 18 April 2015 to 23 September 2015 amounts to approximately PLN 1 200 million. The total estimated value of agreements signed between PKN ORLEN subsidiaries and companies from the Trafigura Group in the period from 18 April 2015 to 23 September 2015 amounts to approximately PLN 1 000 million. The agreements between ORLEN Group and companies from the Trafigura Group were concluded for the sales of products and purchase of crude oil. Regulatory announcement no. 134/2015

On 23 September 2015 within ORLEN Group there were concluded agreements with company from Gunvor Group. The total estimated value of agreements signed between PKN ORLEN and companies from the Gunvor Group in the last 12 months amounts to approximately PLN 1 100 million. The total estimated value of agreements signed between PKN ORLEN subsidiaries and companies from the Gunvor Group in the last 12 months amounts to approximately PLN 1 300 million. The agreements between ORLEN Group and companies from the Gunvor Group were concluded for the sales of products and purchase of crude oil. Regulatory announcement no. 135/2015

OCTOBER 2015

On 2 October 2015 within ORLEN Group there was concluded agreement with company from Vitol Group. The total estimated value of agreements signed between ORLEN Group and companies from the Vitol group in the period from 1 August 2015 to 2 October 2015 amounts to approximately PLN 1 760 million. The agreements between ORLEN Group and companies from the Vitol Group were concluded for purchase of crude oil and natural gas. Regulatory announcement no. 140/2015

On 12 October 2015 within ORLEN Group there was concluded agreement with company from Socar Group. The total estimated value of agreements signed between ORLEN Group and companies from the Socar Group in the last 12 months amounts to approximately PLN 1 700 million. The agreements between ORLEN Group and companies from the Socar Group were concluded for purchase of crude oil. Regulatory announcement no. 146/2015

NOVEMBER 2015

On 9 November 2015 within ORLEN Group there was concluded agreement with company from Glencore Group. The total estimated value of agreements signed between ORLEN Group and companies from the Glencore Group in the period from 25 June 2015 to 10 November 2015 amounts to approximately PLN 1 850 million. The agreements between ORLEN Capital Group and companies from the Glencore Group were concluded for the purchase of crude oil and rapeseed oil. Regulatory announcement no. 155/2015

On 20 November 2015 within ORLEN Group there was concluded agreement with company from Mercuria Group. The total estimated value of agreements signed between ORLEN Capital Group and companies from the Mercuria Group in the period from 24 June 2015 to 20 November 2015 amounts to approximately PLN 2 100 million. The agreements between ORLEN Group and companies from the Mercuria Group were concluded for the purchase of crude oil and natural gas. Regulatory announcement no. 160/2015

DECEMBER 2015

On 23 December 2015 PKN ORLEN signed an agreement with Tatneft Europe AG, for crude oil deliveries, in the quantity from 3.6 million tonnes to 7.2 million tonnes, to PKN ORLEN. The deliveries will be realized starting from 1 January 2016 to 31 December 2018. In the Agreement there have been set liquidated damages in the amount not higher than ca. PLN 2 million monthly. The estimated maximum value of the deliveries by 31 December 2018 will amount to approximately PLN 7 400 million .Regulatory announcement no. 177/2015

On 30 December 2015 PKN ORLEN signed with Rosneft Oil Company an annex to the agreement signed on 1 February 2013 for crude oil deliveries to PKN ORLEN, in the quantity from 18 million tonnes to 25.2 million tonnes. The deliveries will be realized starting from 1 February 2016 to 31 January 2019. The estimated maximum value of the deliveries, in current market conditions, by 31 January 2019 will amount to approximately PLN 26 000 million. Regulatory announcement no. 178/2015

Specification of significant contracts in 2016 until publication date of the following Management Board Report's.

JANUARY 2016

On 11 January 2016 within ORLEN Group there were concluded agreements with companies from Shell Group. On the basis of yearly agreement signed between PKN ORLEN and Shell Polska Sp. z o.o., PKN ORLEN will be selling gasoline and diesel oil to Shell Polska in the period from 1 January 2016 to 31 December 2016. The total estimated net value of the agreement amounts to PLN 2.1 billion.
The total estimated value of agreements signed between ORLEN Group and companies from the Shell Group in the period from 13 January 2015 to 11 January 2016 amounts to approximately PLN 4 200 million. The agreements between ORLEN Group and companies from the Shell Group were concluded for the purchase of crude oil as well as purchase and sales of products. Regulatory announcement no. 3/2016

On 11 January 2016 within ORLEN Group there was concluded agreement with company from BP group. On the basis of yearly agreement signed today between PKN ORLEN and BP Europa SE, PKN ORLEN will be selling gasoline and diesel oil to BP Europa in the period from 1 January 2016 to 31 December 2016. The total estimated net value of the agreement amounts to PLN 4 500 million. The total estimated value of agreements signed between ORLEN Group and companies from the BP group in the period from 26 June 2015 to 11 January 2016 amounts to approximately PLN 5 800 million. The agreements between ORLEN Group and companies from the BP Group were concluded for the purchase of crude oil as well as purchase and sales of products. Regulatory announcement no. 4/2016

On 11 January 2016 within ORLEN Group there was concluded agreement with company from Lukoil Group. On the basis of yearly agreement signed today between PKN ORLEN and Lukoil Polska Sp. z o.o., PKN ORLEN will be selling gasoline and diesel oil to Lukoil Polska in the period from 1 January 2016 to 31 December 2016. The total estimated net value of the agreement amounts to PLN 1 300 million. The total estimated value of agreements signed between ORLEN Group and companies from the Lukoil Group in the period from 29 May 2015 to 11 January 2016 amounts to approximately PLN 1 900 million. The agreements between ORLEN Group and companies from the Lukoil Group were concluded for the purchase of crude oil and sales of products. Regulatory announcement no. 5/2016

On 18 January 2016 within ORLEN Group there was concluded agreement with company from Vitol Group. The total estimated value of agreements signed between ORLEN Group and companies from the Vitol Group in the period from 3 October 2015 to 19 January 2016 amounts to approximately PLN 1 830 million. The agreements between ORLEN Group and companies from the Vitol Group were concluded for purchase of crude oil and gas as well as sales of products. Regulatory announcement no. 10/2016

Agreement with the entity authorized to conduct audit of financial statements

The entity authorized to conduct audit of financial statements of ORLEN Group for 2015 is KPMG Audyt Sp. z o.o.

For further details on the abovementioned agreement see note 8.5.8 to the Consolidated Financial Statements for the year 2015.

2.10. Information on significant court, arbitration and administrative proceedings

Proceedings in which the ORLEN Group entities act are the defendant

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

- **Risk connected with the disposal of assets and liabilities related to purchase of Unipetrol shares**

The claim regarding the payment of compensation for losses related among others, to alleged unfair competition of PKN ORLEN included in Agrofert Holding a.s.' (Agrofert) claim and alleged illegal violation of reputation of Agrofert in relation to purchase by PKN ORLEN of UNIPETROL a.s. shares. On 21 October 2010 the Court of Arbitration in Prague overruled the entire claim of Agrofert against PKN ORLEN regarding the payment of PLN 3 069 million translated using the exchange rate as at 31 December 2015 (representing CZK 19 464 million) with interest and obliged Agrofert to cover the cost of proceedings born by PKN ORLEN. On 3 October 2011 PKN ORLEN received from the common court in Prague (Czech Republic) Agrofert's claim which overruled the sentence of the Arbitration Court attached to the Economic Chamber of the Czech Republic and Agricultural Chamber of the Czech Republic in Prague issued on 21 October 2010. The complaint was dismissed by the court in Prague with the ruling of 24 January 2014. On 7 April 2014 Agrofert filed an appeal against that judgement. On 7 April 2015 the court of appeals dismissed the appeal of Agrofert and therefore confirms the earlier judgment of the court of 24 January 2014 dismissing Agrofert's claim which overruled the sentence of the Arbitration Court attached to the Economic Chamber of the Czech Republic and Agricultural Chamber of the Czech Republic in Prague of 21 October 2010.
In the opinion of PKN ORLEN, the decision included in the judgment of the Arbitration Court dated 21 October 2010, in the judgment of the common court in Prague dated 24 January 2014 and in the judgment of the court of appeals dated 7 April 2015 are correct and the company will take all necessary means to retain the judgment in force.

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

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

On 14 May 2014 and 20 May 2014 the company received the decisions of the Director of the Customs Office in Kraków determining excise tax liabilities for the periods: May, June, July and August 2004 at the amount of PLN 132 million. Rafineria Trzebinia S.A. paid the entire liability with accrued interest. At the same time, provisions recognized for this purpose in prior years were used. Rafineria Trzebnia S.A. appealed to the Voivodship Administrative Court (VAC) in Kraków the decisions of tax liability for the months May – August 2004. On 26 February 2015 the VAC in Kraków announced a judgment dismissing the company's claim. On 5 May 2015 the company submitted to the Supreme Administrative Court in Warsaw annulment claims against the judgement of the VAC, that were not recognized until the date of approval of the foregoing financial statements.
Pursuant to a decision issued by the European Court of Justice in Luxembourg in a similar case, the company submitted application for the reopening of its administrative procedure. Under decisions issued on 23 July 2015, the director of the Customs Office in Kraków refused to reopen the procedure due to ongoing proceeding with the SAC in matters closed with ultimate decisions for May – August. The company appealed against the decisions of the Director of the Customs Office in Kraków, which were however denied. The company complained against these decisions on 16 November 2015, however, they have not been recognized until the date of the financial statements.

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

PKN ORLEN participates in a court proceeding concerning the settlement of a disputed system fee with ENERGA – OPERATOR S.A. for the period from 5 July 2001 to 30 June 2002. ENERGA – OPERATOR S.A. claims from PKN ORLEN payment of PLN 46 million plus accrued interest. During the retrial, an opinion was prepared by an expert witness for the variant damages calculation. The District Court in Warsaw (as the initial court) by its judgment from 27 October 2014 ordered PKN ORLEN to pay to ENERGA - OPERATOR S.A. the amount of PLN 46 million, together with accrued interest from 30 June 2004 to the date of payment. This judgment is not binding. PKN ORLEN filed an appeal against this judgment. The first hearing with the Appeals Court took place on 12 November 2015. The court is expected to set the date of the next hearing.
On 29 June 2015, PKN ORLEN received the next lawsuit in the case, in which ENERGA – OPERATOR S.A. claimed an additional sum of approx. PLN 13.3 million. The court is proceeded by the District Court in Łódź. On 10 July 2015, a reply to the lawsuit was submitted, in which the lawsuit was questioned as illegitimate. On 22 December 2015, the District Court in Łódź announced its sentence, in which it dismissed the claim of ENERGA-OPERATOR S.A. regarding the payment of the sum of PLN 13 million by PKN ORLEN and adjudged that ENERGA-OPERATOR S.A. paid the costs of the trial.

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

On 23 May 2012, UNIPETROL RPA s.r.o. received from the District Court in Ostrava a claim brought by I.P.-95 s.r.o. for compensation related to the filing by UNIPETROL RPA s.r.o. a motion for bankruptcy of the company I.P.-95 s.r.o. in November 2009. The total amount of the claim is approximately PLN 282 million, translated using the exchange rate as at 31 December 2015 (representing CZK 1 789 million). UNIPETROL RPA s.r.o. is one of 8 defendants against which the claim was brought. According to UNIPETROL RPA s.r.o the claim is without merit. Based on a Supreme Court decision, on the jurisdiction of the court proceedings is continued in the District Court in Ostrava. The court shall give procedural issues.

– **Claim of OBR S.A. for compensation**

On 5 September 2014, the company OBR S.A. filed an action against PKN ORLEN with the District Court in Łódź for a claim for payment in respect of an alleged breach by PKN ORLEN of patent rights: 'The technique of the separation of hydrodesulfurization products of heavy residue after extractive distillation of crude oil'. The amount of the claim in the lawsuit has been estimated by the OBR S.A. of approximately PLN 83 million. The claim covers the adjudged sum of money from PKN ORLEN for the OBR S.A. in the amount corresponding to the market value of the license fee for the use of the solution under the above patent and adjudge the obligation to repay the benefits derived from the use of this solution. On 16 October 2014, PKN ORLEN responded to the lawsuit. The value of the dispute was referred to by the plaintiff in a procedural document from 11 December 2014 in the amount of PLN 247 million. By the court order from 21 May 2015 the parties were directed to mediation. Mediations are in progress. In the opinion of PKN ORLEN, the patent infringement claim is illegitimate.

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

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

ORLEN Południe S.A. acts as an auxiliary prosecutor in proceedings started in 2010 concerning abuses associated with the realization of an investment - installation for the esterification of biodiesel oils, in which Rafineria Trzebinia S.A. claims to have incurred a loss of approximately PLN 79 million. The Company filed a motion requesting to oblige the defendants to compensate the incurred damages. There is an criminal investigation in progress concerning the alleged accused acting to the detriment of the company. A hearing took place on 26 January 2016, during which one of the defendants presented their explanations. The court set the next hearing for 11 February 2016 to continue the defendant's hearing.

– **Proceeding of ORLEN Lietuva for compensation in respect of an accident at the Terminal in Butingė**

AB ORLEN Lietuva is a plaintiff in a court proceeding against RESORT MARITIME S.A., The London Steamship Owners' Mutual Insurance Association Limited, Sigma Tankers Inc., Cardiff Maritime Inc., Heidenreich Marine, Heidenreich Maritime Inc. and Heidmar Inc. regarding compensation payment for damage caused by a collision of a tanker ship into a terminal buoy in Butinge Terminal on 29 December 2005. The legal proceedings were started in December 2006. The total compensation claim amounts to approximately PLN 74 million, translated using the exchange rate as at 31 December 2015 (representing approximately EUR 17.26 million). In October the parties agreed to change the jurisdiction to English courts. The company expects the next hearing date to be announced.

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

UNIPETROL RPA s.r.o., acting as a legal successor of CHEMOPETROL a.s. claims a refund of income taxes paid in 2006 for the year 2005 by CHEMOPETROL a.s.. The claim concerns unused investment relief attributable to CHEMOPETROL a.s.. The value of the claim amounts to approximately PLN 52 million, translated using the exchange rate as at 31 December 2015 (representing approximately CZK 325 million). On 11 December 2013, the Court in Usti by the Elbe River (Czech Republic) issued a judgement in which it dismissed the decisions of the tax authorities regarding income tax liability of UNIPETROL RPA s.r.o. UNIPETROL RPA s.r.o. submitted an annulment claim against the sentence of the Court in Usti by the Elbe River seeking to dismiss the decision of the tax authorities and to state that they are invalid, as such statement would improve the company's position against the tax authorities in this particular case. On 19 March 2014 the Czech supreme administrative court overruled the annulment claim of UNIPETROL RPA, s.r.o and at the same time dismissed the Court in Usti by the Elbe River judgment and decided to return the case to the Court in Usti for re-examination. At a hearing on 25 February 2015 the Court in Usti by the Elbe River rejected of an annulment claim of UNIPETROL RPA s.r.o regarding dismissal of the tax authorities' decision. On 8 April 2015 UNIPETROL RPA s.r.o. submitted an annulment claim against this sentence. On 14 October 2015, the Supreme Administrative Court repealed the sentence of the Court of Usti by the Elbe River and decided to return the case to this Court for reconsideration.

– **Arbitration proceedings against Basell Europe Holdings B.V.**

On 20 December 2012 PKN ORLEN sent an arbitration request to Basell Europe Holdings B.V. regarding an ad hoc proceeding before the Court of Arbitration in London relating to Joint Venture Agreement signed in 2002 between PKN ORLEN and Basell Europe Holdings B.V. The claims arising from the use by Basell Sales & Marketing Company so-called Cash Discounts which effectively led to a lower product price payable to Basell ORLEN Polyolefins Sp. z o.o. On 27 February 2014 PKN ORLEN submitted its statement on this case, according to which, it requests payments from Basell Europe Holdings B.V. to Basell ORLEN Polyolefins Sp. z o.o. in the amount of PLN 128 million, translated using the exchange rate as at 31 December 2015 (representing approximately EUR 30 million) plus interest, or alternatively, from Basell Europe Holdings B.V. to PKN ORLEN the amount of approximately PLN 57 million, provided that the amounts may be adjusted during arbitration proceedings. On 10 April 2014 PKN ORLEN submitted an application for suspension of the arbitration proceedings until 1 November 2014. Basell Europe Holdings B.V. accepted this request. On 23 April 2014 the parties received the Tribunal's decision regarding the suspension of the proceeding until 1 November 2014. On 1 November 2014, the arbitration proceedings were resumed. On 24-26 March 2015 an evidentiary hearing was held in London in which the parties summarized their case positions and some witnesses and experts were interviewed. On 27 March 2015, the Court of Arbitration issued a procedural ordinance which established the schedule for further proceedings, including the order of submission of further pleadings by the parties. On 29 May 2015 the two parties submitted letters in which they referred to the position of the opposing party in terms of summaries of the case. Additionally, the parties requested expenditures and costs incurred in arbitration proceedings. Further proceedings are not envisaged. Parties are awaiting a judgment.

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

On 31 December 2014, ORLEN Lietuva filed a motion for arbitration against the company Lietuvos Gelezinkeliai ("LG") in the court of arbitration in Vilnius. Currently in this proceeding ORLEN Lietuva seeks the recalculation of rail transport tariffs in line with the agreement with LG. Taking into account the claim would result in obtaining the savings (compensation) in the amount of at least approx. PLN 162 million, translated with the exchange rate as at 31 December 2015 (equivalent of EUR 38 million) due to a breach of contract of rail transport by LG because of excessive rates. The amount of the claim will increase continuously in accordance with the activity on the base of the agreement.

At the same time, 4 court proceedings were instituted until 31 December 2015, in which LG claimed the payment of approx. PLN 77 million by ORLEN Lietuva, as translated at the exchange rate of 31 December 2015 (which corresponds to approx. EUR 18 million), of charges for railway transport. Three of the aforementioned proceedings were merged, and then the court decided that the merged case would be proceeded by a state court, since the jurisdiction of a court of arbitration is given top priority. The proceeding in the fourth case was suspended by the court until the court of arbitration decides on the action brought by Orlen Lietuva. LG appealed against the aforementioned decisions of state courts. A date of the appeal hearing it to be set.

Significant transactions in the ORLEN Group concluded on the 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 2015

2.11. Employment, policy and personel programmes

Mirosław Kochalski, Vice-President of the Management Board of PKN ORLEN, Corporate Affairs:
"The human resources policy in 2015 was focused on the implementation of a strategy based on three pillars: competent, committed and motivated employees, properly chosen and effective tools supporting human resources processes and efficient organization.
The effects of these measures were recognized by independent institutions which honoured PKN ORLEN with a series of distinctions, including again, the prestigious certificate awarded for the Group's human resources policy – Top Employers Polska 2015".

In 2015, the human resources policy adopted by the ORLEN Group focused on three key aspects. The first of them concerned the ORLEN Group consolidation processes (ORLEN Serwis, ORLEN Południe, ORLEN Paliwa) and the acquisition of production assets of ORLEN Oil and ORLEN Asfalt by PKN ORLEN. As part of these processes, the employees of these entities were transferred to new or the acquiring entities. The second element is restructuring processes, assuming the implementation of a four-brigade shift system in PKN ORLEN and the optimization of employment in the rest of companies, mainly in the ORLEN Lietuva Group and in ORLEN Oil. The third area includes developmental initiatives related to expanding the scale of activity, primarily in upstream (the ORLEN Upstream Group) and in the maintenance area (ORLEN Serwis S.A.).
Consequently, employment in the ORLEN Group decreased by 373 people, resulting in a total of 19 932 people at the end of 2015.

DIAGRAM 42. Employment at the end of 2015 and 2014 in the ORLEN Group companies

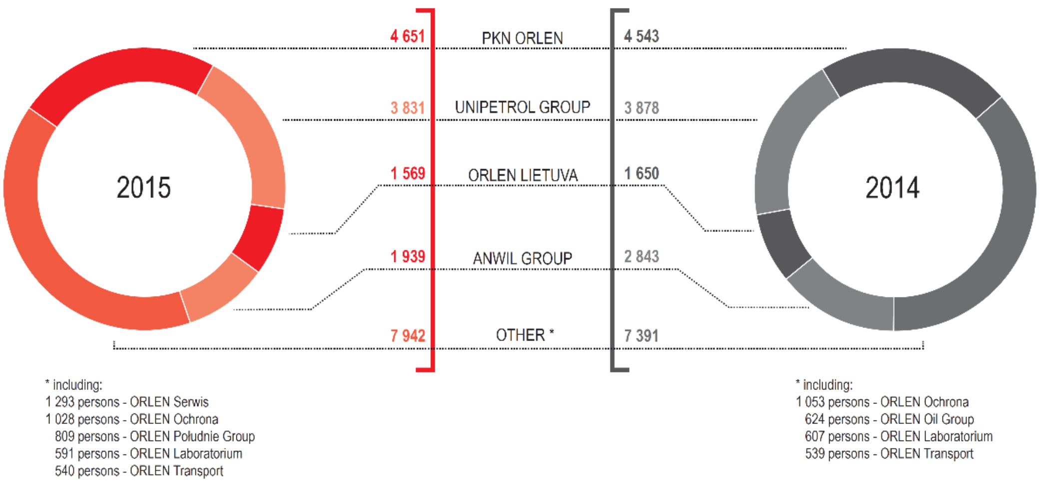


DIAGRAM 43. Employment structure in the ORLEN Group in professional groups in 2015.

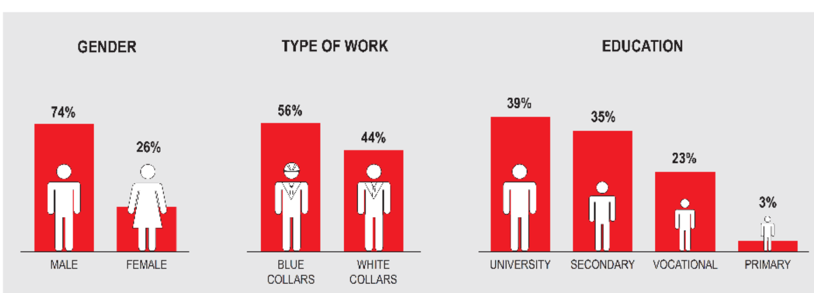
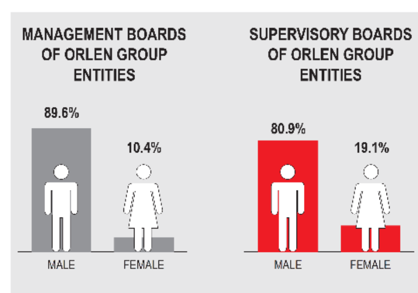


DIAGRAM 44. Employment structure of men and women in Management and Supervisory Boards in 2015.



Realized personnel programs

Personnel policy ("HR")

The measures implemented in 2015 in the HR area were focused on the fulfillment of a strategy based on three pillars: competent, committed and motivated employees, effective and simple tools and human resources processes and cost-effective organization. Works related to building the commitment of ORLEN Group's employees were continued. An employee opinion survey was carried out in 11 companies of the ORLEN Group, and initiatives to raise their commitment were implemented, including: simplification of procedures, preparation of solutions in development and the use of employees potential, facilitation of communication, implementation of pro-community initiatives. Furthermore, negotiations were conducted and payroll solutions were implemented according to the standard adopted for the ORLEN Group.

Recruitment policy

In 2015 the recruitment policy of the ORLEN Group was continued and focused on acquiring high-class specialists whose knowledge and competences together with an experience and professionalism of the current employees will ensure continuity and the highest level of business processes realized by the ORLEN Group. Undertaken actions were focused on recruiting employees whose attitude and values were consistent with ethical values and standards of conduct in PKN ORLEN.

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

The so-called Adaptation Programme was continued, thanks to which newly hired employees become familiar with the ORLEN Group's activities and organizational culture and realize e-learning training including the history as well as current organizational and labour issues, values and principles of conduct.

Development and training

To guarantee their continuous development, exchange of knowledge and experience, employees can take advantage of numerous initiatives facilitating their participation in interdepartmental projects, stimulating their further involvement in the process of mobility, and guaranteeing their self-improvement and cooperation in the implementation of best practices and uniform standards.

The development and training activities in PKN ORLEN were focused, both on strengthening of the employees abilities in the area of securing the achievement of business goals and shaping of the desired organizational culture supporting strategy execution and enhancing employees' engagement. The leading trends of 2015 were: diversity management, commitment and innovativeness.

To stimulate the development of leadership skills, the Group launched the Leader Zone program, i.e. a multi-module program for the development of leadership skills in the form of workshops shaping managerial abilities in the area of team management, team potential, commitment and innovativeness building, and managerial authority. As part of the Leader Zone, pro-development initiatives directed at female managers were initiated in the form of discussion panels devoted to the role of women in business, attended by experts in motivation, diversity management and business psychology.

Furthermore, a new talent program titled the ORLEN Talent Academy was launched. The program is dedicated to managers at PKN ORLEN and selected ORLEN Group companies.

Thematic lectures for employees called Wektor were continued, and new forms of inspiration in the form of meetings with authorities from various disciplines were introduced.

As part of the Narzędziownik program, employees were proposed to develop their abilities in terms of: cooperation in a diverse team, strengthening of innovativeness in everyday work, development of presentation abilities, counteracting the effects of shift work and promotion of pro-health behaviors in the workplace.

In 2015, a new development tool in the form of a mentoring program titled Ex-Change was implemented. The tool is based on the concept of peer mentoring and reverse mentoring. The program assumes the preparation of a database of mentors from various disciplines, the development of their abilities to share their knowledge with others, and the use of their potential in the development of other employees.

In 2015, PKN ORLEN's employees took part in various training-development initiatives, including internal and foreign conferences, specialist training courses, international development programs, M.Sc. courses, postgraduate courses or MBA courses. Employees continued their education in foreign languages, particularly in English, as part of the PKN ORLEN Language Academy and holiday courses.

Employees also took part in training courses aiming at guaranteeing them safe-working conditions. Employees developed their skills by participating in training not only traditional, but also using the training available on an e-learning platform.

In 2015, PKN ORLEN has trained over 4 thousand employees, most of whom participated in several training.

Students and internship programmes

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

For years PKN ORLEN organizes internships in the cooperation with schools and universities and by participation in nationwide and international contests. The practical training and internships performed in 2015 was even more focused on substantive aspects of the programme and interns and trainees could actively and substantively participate in tasks and projects performed. In 2015, in total around 100 students took part in internships and traineeships in PKN ORLEN.

Apart from internship or traineeship programmes for pupils and students in 2015, there were also other educational and informational activities conducted in the form of meetings, open days, representation of PKN ORLEN on job fairs or seminars.

HR Function development

The main challenge for HR function is to adjust administration-payroll solution and IT systems to support business processes in an effective and proper manner. In 2015, the significant activity in this area was a consolidation and restructuring of ORLEN Group companies. The development of Transactional Center (TC) has been continued, which as of the end of 2015, provided services for 30 ORLEN Group companies.

Competency Centres and HR Business Partners in PKN ORLEN supported ORLEN Group companies in preparation of new solutions in the area of remuneration and bonus system. In 2015, they were implemented in 8 ORLEN Group companies.

Social dialogue and benefits

PKN ORLEN cares for social dialogue based on the independence of parties, acting in compliance with law, as well as trust, will to compromise and obeying the adopted rules.

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

Medical care

The Company provides a widely understood preventive care, including preventive medical care falling beyond the scope of occupational medicine: consultations with specialist physicians, ambulatory treatment, diagnostic tests, rehabilitation, vaccination, preventive health care programmes offered in cooperation with Centrum Medyczne Medica Sp. z o.o. in Płock and Military Institute of Medicine in Warsaw. In 2015, there were preventive medical examinations in the workplace organized within "Prevention for the asking" project.

Family Friendly Employer

Being a company, which implements modern solutions aimed at keeping balance between professional activity and family life, PKN ORLEN realized project "Family Friendly Employer" offering such solutions as: two additional days for taking care of a child up to 3 years old, an additional hour for breastfeeding a baby, quick access to the pediatrician, complex medical care during the pregnancy, rooms for breastfeeding mothers, gift for employees' newborn children, providing people staying on maternity and parental leaves with information on the firm's life. The activities aimed at ensuring the work-life balance are also implemented in the ORLEN Group. In 2015, there was an opening of nursery for the ORLEN Group employees' children.

Awards and certificates

Personnel policy and practices in PKN ORLEN were surveyed by independent organizations. Basic benefits, additional benefits, working conditions, trainings and development, professional career development and the company's organizational culture management were analyzed. The assessments resulted in awarding the following distinctions:

- "Top Employers Poland 2015" certificate – PKN ORLEN has been awarded this prestigious certificate awarded by the personnel policy implemented for the fourth time.
- „Employer for Engineer" title – PKN ORLEN was awarded as one of top three most respected employers in Poland.
- The title „The most desired employer by specialists and managers" in the category: Power Industry, Gas, Fuels, Chemistry.

2.12. Remuneration of the Company's bodies.

2.12.1 Remuneration of management and supervisory bodies

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

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

All remuneration components and additional benefits are regulated by agreement between a Board Member and the Company.

TABLE 20. Remuneration paid to the Company's Management Board Members fulfilling their function in 2015 (in PLN thousand).

ITEM	2015	2014
Remuneration of Members of the Company's Management Board, including:		
- remuneration and other benefits	**7 177**	**6 826**
Dariusz Krawiec 1)	1 696	1 674
Sławomir Jędrzejczyk	1 584	1 517
Piotr Chełmiński	1 380	1 275
Krystian Pater	1 224	1 180
Marek Podstawa	1 224	1 180
Wojciech Jasiński 2)	69	-
- bonuses for prior year	**6 335**	**4 949**
Dariusz Krawiec	1 493	1 240
Sławomir Jędrzejczyk	1 434	1 137
Piotr Chełmiński	1 216	889
Krystian Pater	1 096	796
Marek Podstawa	1 096	887
Total:	**13 512**	**11 775**

1) Remuneration for the fulfilling position of President of the Management Board for the period to 16 December 2015.
2) Remuneration for the fulfilling position of President of the Management Board for the period from 16 December 2015.

TABLE 21. Bonuses potentially due to the Company's Management Board Members fulfilling position in a given year to be paid in the next year (in PLN thousand).

ITEM	2015	2014
Dariusz Krawiec [1)]	1 620	1 591
Sławomir Jędrzejczyk	1 500	1 434
Piotr Chełmiński	1 260	1 216
Krystian Pater	1 140	1 096
Marek Podstawa	1 140	1 096
Total:	**6 660**	**6 433**

1) bonus potentially due to fulfilling a position till 16 December 2015.

TABLE 22. Remuneration and other benefits paid and due for former Members of the Company's Management Board (in PLN thousand).

ITEM	2015	2014
Dariusz Krawiec [1)]	3 360	-
Marek Serafin [2)]	-	1 351
Total:	**3 360**	**1 351**

1) remuneration from severance pay and compensation for non-competition due to payment in the next year.
2) severance pay and bonus paid for 2011.

2.12.2 General terms and conditions for granting annual bonuses

Members of the Management Board are entitled to annual bonus on the principles established in the Bonus System Regulations of the Management Board, which is part of the contract with the Board Member. The Supervisory Board approves the rules of appointing and assessment of individual bonus tasks for Board Members for the particular year. The level of annual bonus is determined by the performance of individual activities (qualitative and quantitative). Individual bonus tasks are recorded in Goals Charter of Board Member and approved by the Supervisory Board,

The assessment of individual bonus tasks' implementation (quantitative and qualitative) by the particular Member of Management Board is made yearly by the Supervisory Board on the basis of the President of the Management Board's recommendation, report on the performance of bonus activities by the particular Member of the Management Board, the ORLEN Group's financial statements and other documents, the investigation of which the Supervisory Board deems appropriate.

The assessment of the performance of quantitative individual bonus tasks is made by awarding percentage points. The assessment of the performance of qualitative bonus tasks is made by granting a level of achievement according to the principles contained in the Bonus System Regulations of the Management Board. Execution of individual tasks is expressed as the sum of the weighted percentage points granted by the Supervisory Board for each bonus task.

The Supervisory Board adopts a resolution to grant or not Board Member of the annual bonus for the financial year, and its amount, by 30 April of the following year. The annual bonus will be paid if the Company's consolidated financial statements for the financial year will be approved by the General Meeting.

For 2015 the Supervisory Board set for all Members of Management Board following six quantitative targets:

- Reported EBIT of the Concern,
- EBITDA LIFO of the Concern (% of plan realization in real macro),
- Maintenance CAPEX of the Concern + overhead and personnel costs of the Concern (% of plan realization in real macro),
- Development CAPEX of the Concern (% of plan realization in real macro),
- Stock exchange rate: TSR of PKN ORLEN relative to the market,
- Accident rate: TRR of the Concern,

and attributed to them the relevant bonuses thresholds. The Supervisory Board for each of the Members of the Management Board also established qualitative objectives related to their areas of supervised activities. The Supervisory Board added a qualitative goal for all Members of the Management Board related to the level of innovations in the Company.

TABLE 23. Remuneration of key executive personnel of the ORLEN Group (PLN thousand).

ITEM	2015	2014
Remuneration and other benefits of members of key executive personnel:		
- other key executive personnel of the Company	37 128	34 950
- key executive personnel of the subsidiaries of the ORLEN Group	140 365	139 902
Total:	**177 493**	**174 852**

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

The regulations applicable to the PKN ORLEN Management Board, directors reporting directly to the Management Board of PKN ORLEN and other key positions have certain common features. The persons subject to the above mentioned systems are remunerated for the accomplishment of individual goals set at the beginning of the bonus period by the Supervisory Board for the Management Board Members and by the Management Boards for the key executive personnel members. Bonuses systems are consistent with the Company's Values, promote the cooperation between individual employees and motivate to achieve the best possible results for the ORLEN Group.
The targets set are qualitative as well as quantitative and are settled after the end of the year for which they were set. Moreover, there is a possibility to distinguish employees, who significantly contribute to generated results.

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

Members of PKN ORLEN Management Board who in 2015 and 2014 were acting as the Management and the Supervisory Boards of the subsidiaries, jointly controlled entities belonging and associate of the ORLEN Group did not receive any remuneration, except for Unipetrol a.s., wherein the payments were transferred to the ORLEN's Foundation Dar Serca.

TABLE 24. Remuneration of the Members of the Supervisory Board of PKN ORLEN (PLN thousand).

ITEM	2015	2014
Remuneration of the Company's Supervisory Board members, including:		
Angelina Sarota 1)	210	202
Adam Ambrozik 2)	164	100
Maciej Bałtowski 2)	147	100
Cezary Banasiński	164	159
Grzegorz Borowiec	164	159
Artur Gabor	164	159
Radosław Kwaśnicki 2)	165	100
Cezary Możeński	164	159
Leszek Pawłowicz	164	161
Remigiusz Nowakowski 3)	17	-
Michał Gołębiowski 4)	-	48
Total:	**1 523**	**1 347**

1) From 27 June 2013 President of the Supervisory Board.
2) In Supervisory Board from 15 May 2014.
3) For the period of performing the function from 23 November 2015.
4) For the period of performing the function to 21 April 2014.

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

In accordance with applicable agreements, members of the Management Board of PKN ORLEN S.A. are required for a period of 6 or 12 months from the date of termination or expiry of the contract, to refrain from competitive activities. During this period, the Board members are entitled to receive compensation in the amount of six or twelve monthly basic salary, paid in equal monthly installments. The Company may dismiss the President, Vice President and Members of the Board of the non-competition clause applicable after the termination or expiration of the contract or reduce the duration of the ban. In the case of an exemption from the prohibition of competition, the Company does not pay compensation. In case of shortening the duration of the non-compliance clause, the payment of the compensation shall be in proportion to the duration of the non-compliance. In addition, the agreements predict for the payment of compensation in case of termination due to dismissal from the position. In this case the salary amounts to six or twelve months of remuneration. The Supervisory Board may authorize the use of these provisions also in case of resignation from the position of Member of the Management Board.
Management Board Members from other ORLEN Group companies are required from the date of termination or expiry of the agreement to refrain from competitive activity for a period of six-months. During this period they receive remuneration in the amount of 50% of six-month basic salary, payable in six equal monthly installments. In contrast, the severance allowance of appeal from the position is typically three or six monthly remuneration.

2.13. Corporate Social Responsibility

Year 2015 brought an essential change in PKN ORLEN's process of social initiatives. In February 2015, the Management Board of the Company adopted a CSR strategy for 2015 – 2017, which constitutes a practical interpretation of the "Values and principles of PKN ORLEN S.A." Listing the goals undertaken by the Concern, the Strategy also specified the approach to various groups of stakeholders.

The CSR Strategy assumed that corporate value growth should converge with the interest of the environment and should be based on a sustainable and responsible use of the resources. This means that at the stage of designing the business strategy, the principles of corporate responsibility will be taken into account. Defining measurable CSR goals will allow for analyzing and assessing the effects derived from these measures in the Concern and its environment.

The strategy basing on "Values and principles" is also to motivate employees to seek new ideas and innovative solutions. Supporting business, the strategy is building a sense of co-responsibility for the implementation of CSR in the organization and promotes the idea of responsibility and involvement among the stakeholders.

The document indicated three basic fields of action. The first one is Organization, where the goal is to build permanent relations with employees, basing diversity, the sense of safety, development possibilities, and the combination of social and professional roles. Issues of employment policy and human resources programs were further described in point 2.11 of this Report. In turn, in the Direct environment, the priority is to develop social sensitivity and responsibility for business partners and clients by sharing good practices, knowledge and implementing the highest CSR standards. In turn, in terms of Indirect environment, PKN ORLEN embarked on implementing a strategy and promoting the innovative attitude, setting the highest standards in the industry in terms of business ethic and environment protection. Environmental issues have been discussed in detail in point 2.14 of this report.

The key elements for the implementation of the Strategy include full implementation of the adopted initiative, education and inspiration of employees to build the sense of responsibility for the effect of activities performed and decisions made on the environment.
The CSR strategy is implemented with a pre-assumed plan. 55 CSR projects/measures have been implemented in PKN ORLEN, and 488 – in the ORLEN Group. The Management Board of PKN ORLEN and the Supervisory Board CSR Committee periodically review the completion of CSR strategy objectives.

The CSR strategy and the projects implemented thereunder are a logical consequence and continuation of social initiatives from previous years. One of the most essential events was the official endorsement of the initiative by the Secretary General of the United Nations, Kofi Annan's Global Compact organization of 2003. PKN ORLEN declared the respect for principles of observance of human rights, work standards, protection of natural environment and counteracting corruption. Signing the declaration was a public obligation to respect them and undergo public verification, and the next step in the corporate policy adopted by the Concern.

As part of the corporate social responsibility activities are also oriented to the realization of "Charity policy of Polski Koncern Naftowy ORLEN S.A.", which are the protection of health and life, education and upbringing. PKN ORLEN independently initiates and conducts charitable activities, but also participates in them as a partner. In achieving the objectives, the Foundation ORLEN – DAR SERCA plays a key role, which in 2001 was established to implement the social mission of the Founder - PKN ORLEN.
Since the beginning of the activity, the Foundation has been providing universal help to foster homes, consistently promoting this form of foster care as the most effective method of providing proper conditions for personal growth to children devoid of their natural families. The Foundation is currently maintaining 2 500 children in more than 300 foster homes. Furthermore, the foundation has also launched several scholarship programs. Their goal is to support young people in the process of education and to strengthen their motivation. The Corporate Foundation has also taken active part in projects aiming at improving safety and health protection, e.g. the "NIE DLA DYMU" ("SAY NO TO SMOKE") campaign. The Foundation has been closely cooperating with PKN ORLEN in its program to support fire brigades. A major part of the Foundation's activity includes projects aimed at the local community.

In community initiatives of PKN ORLEN and ORLEN's foundation – DAR SERCA also participate PKN ORLEN's clients and the members of the VITAY loyalty program. They have been increasingly interested in devoting their points to charity purposes: foster care support or environmental projects.

One of the fixed elements of the system of communication of PKN ORLEN pro-community initiatives is social reporting, which has been changing along with the changes taking place inside the Concern and its environment to meet the expectations of stakeholders. In 2015, PKN ORLEN issued its first Integrated statements. This new formula combines financial reporting with CSR reporting and guidelines of the International Integrated Reporting Council. The formula also considers the directions of new EU legislation in reference to the disclosure of non-financed information and information regarding diversity.
The report titled "Napędzamy Przyszłość" ("Fueling the Future") presents the relations and mutual dependences between financial and non-financial aspects of PKN ORLEN activity as well as selected ORLEN Group companies. The pillars serving as the basis for integrated reporting – value-building, financial strength, people – present the processes which take place in the company and the measures focused on building its value in a holistic manner. Non-financial data was presented according to international guidelines of the Global Reporting Initiative (GRI) in version G 4.

2.14. Environmental protection

Piotr Chełmiński, Member of the Management Board, Business Development/ Power and Heat Generation Officer
„Both caring for the environment and sustainable development are the significant part of developing competitive advantage by the ORLEN Group. In the past year, the Concern has been continuing environmental activities, which went hand in hand with the strengthening market position and uncompromising approach to matters related to environmental protection.”
“Our ambition is for PKN ORLEN to be a safe workplace, and the goal we target is total elimination of accidents and occupational diseases. Last year, we progressed in integrating companies from the ORLEN Group in terms of work safety. We have been continuing our activities devoted to the optimization of processes for the exchange of information on threats, accidents, inspections, fires and failures. Thanks to the efforts of all employees, in 2015, we managed to achieve a comparable TRR rate to the year before. We introduced the so-called total accident rate, which also includes information on the accident rates among our colleagues, since the safety of contracted employees is as important as the safety of our employees”.

The main purpose of the environment protection measures taken is to fulfill business strategies, maintaining the highest ecological neutrality possible, and to promote the “green” image of the ORLEN Group, effectively manage waste and consolidate and reinforce competences in the area of environmental services.
The environmental projects carried out in 2015 were primarily related to the adaptation of installations to the new environmental requirements and standards effective as of 1 January 2016. These were both administrative activities, such as obtaining indefinite integrated permits for the use of installations, as well as investments related to the construction of pro-environmental installations.

The most important environmental investment continued in 2015 in the Production Plant in Płock was the construction of systems for denitrification and dedusting systems for individual and joint Power Plant boiler and flue gas desulphurization installation. Next two K1 and K4 boilers are equipped with systems to reduce emissions of nitrogen oxides and dusts. Currently 6 of 8 boilers are equipped with reducing installations. In 2016 another boiler will be opened after the modernization. In December 2015 was launched flue gas desulphurization, which allowed for reduction of SO_2 emissions from Heat and power plant by more than 11% (y/y) in 2015.
The most important projects carried out in the remaining ORLEN Group companies in 2015 included the replacement of contamination emission measurement analyzers and modernization of sewage installations in the Unipetrol Group, installation of new heaters utilizing secondary heat from hot water in the ORLEN Lietuva HP Plant, modernization of technological tanks and extension of hydro-geological monitoring in IKS SOLINO S.A., as well as liquidation of the Freon system in the Anwil Group.

2015 was another year of the third trading period of the Community system for greenhouse gas emissions trading. Emission reports for chemical plants in all ORLEN Group companies were verified by an independent auditor. In 2015 free CO_2 emission allowances were obtained on the basis of the Article 10a of Directive 2003/87/EC and due to production of electricity on the basis of the Article 10c of this Directive.

In 2015, PKN ORLEN signed an updated version of the World Responsible Care Card (RC), which expresses support and confirms the company’s commitment in the development of the RC Program in the world. As a leader of the chemical industry, PKN ORLEN has been putting the RC Program to life for more than 18 years. In addition, the Company obtained a prolongation of the RC Management System Framework Certificate, which confirms the conformity of the implemented system with guidelines of the European Chemical Industry Council and principles and criteria approved by the Polish Chemical Industry Chamber.

2.15. Occupational health and safety

The main task of the occupational health and safety (“OSH”) in the ORLEN Group is to create proper working conditions and continuous identification and elimination of occupational safety threats. System is implemented in PKN ORLEN and all the ORLEN Group companies

In 2015, works were commenced to perfect the existing work safety model in force in the ORLEN Group by implementing the “OSH strategy for 2016-2017”, which serves as a tool for providing effective management of planned measures in terms of widely understood work safety culture. It is dedicated to all companies of the ORLEN Group and guarantees their development and perfection in two main directions: building the standard of the ORLEN Group and fulfilling the individual needs of particular companies.

As a result of implemented measures aiming at the improvement of work safety, in 2015, we achieved an accident rate (Total Recordable Rate – TRR) comparable to the year before, that is 1.34.
To permanently increase the effectiveness of measures in the area of safe work, the so-called Total Recordable Rate was implemented in all companies of the ORLEN Group in 2015. The new rate contains information on the accident rate both among ORLEN Group employees and among the contracted and outsourced companies. The value of the overall TRR rate in 2015 in the ORLEN Group was 0.86, and the total number of accidents at work – for both employees and contractors – decreased by 6% (y/y) and equaled 72.

To standardize the safety management system in the ORLEN Group, new process safety event rates (T1 PSER, T2 PSER) were introduced in August 2015. Reporting with the use of these rates allows for comparing the ORLEN Group to other companies from the group in terms of process safety. Furthermore, a Process Safety Platform was created and contains information on the implementation of new initiatives, the current value of process safety rates and recorded emergency events in the ORLEN Group and in other companies from the chemical industry.
The method of rate calculation is presented in "Glossary of selected technical and financial definitions" at the end of the Report.

3. FINANCIAL RESULTS

Sławomir Jędrzejczyk, Vice President of the Management Board of PKN ORLEN, CFO:
„Results for 2015 present how effectively we take advantage of favourable macroeconomic conditions in order to strengthen our financial fundamentals.

The EBITDA LIFO profit before non-cash effect of impairment allowances of non-current assets reached the record level of PLN 8.7 billion, and was higher by PLN 3.5 billion in comparison to the previous year. Net financial leverage ratio at the end of 2015 was below safe level of 30% established in the ORLEN Group strategy.

It enabled the company to carry on the investment program persistently as well as consecutively pay out a dividend to the Shareholders.

Simultaneously, we continue integration of the operating segments and perpetually increase effectiveness, what strengthen our market position and flexibility in volatile market environment."

3.1. Macroeconomic situation

The ORLEN Group operates within variable macroeconomic environment, which has impact on the level of revenues and generated results. Economic situation, labour market and macroeconomic trends have significant impact on the level of the fuel and petrochemical products consumption and consequently on the volume and sales prices.

Basic indicator reflecting economic situation is GDP index, which is determined by consumption, capital expenditures and export allow to assess at what stage the economy is. Changes of GDP ratio are generally correlated with the unemployment rate.

DIAGRAM 45. GDP in Poland (y/y).

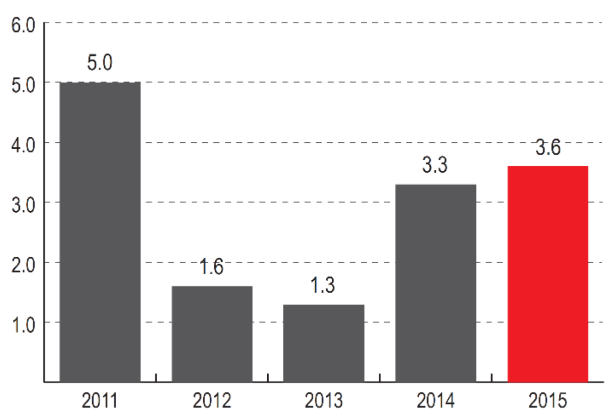


DIAGRAM 46. GDP in the Czech Republic (y/y).

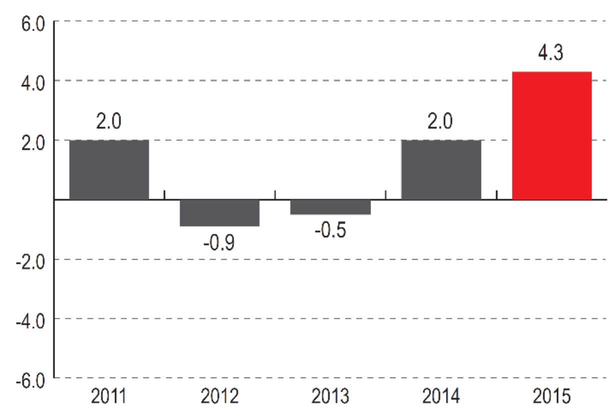


DIAGRAM 47. GDP in Lithuania (y/y).

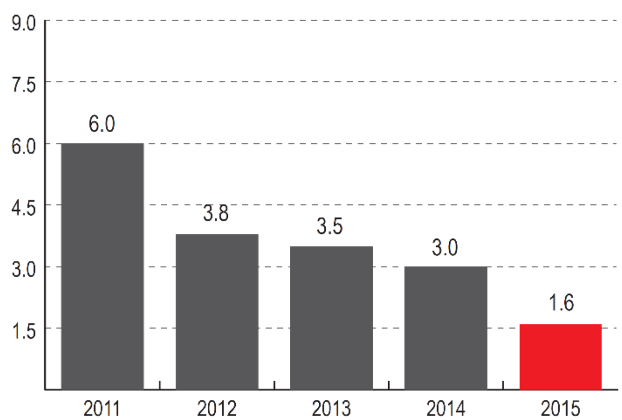
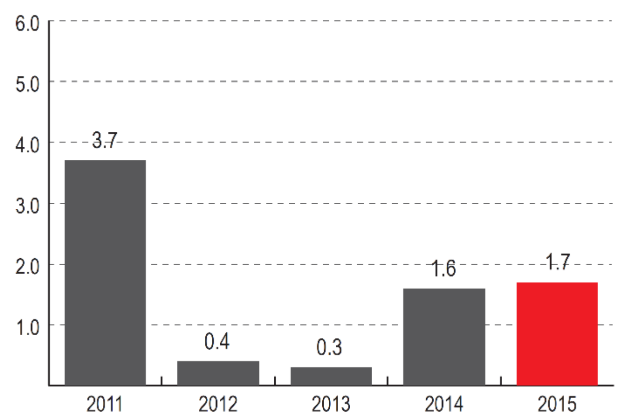


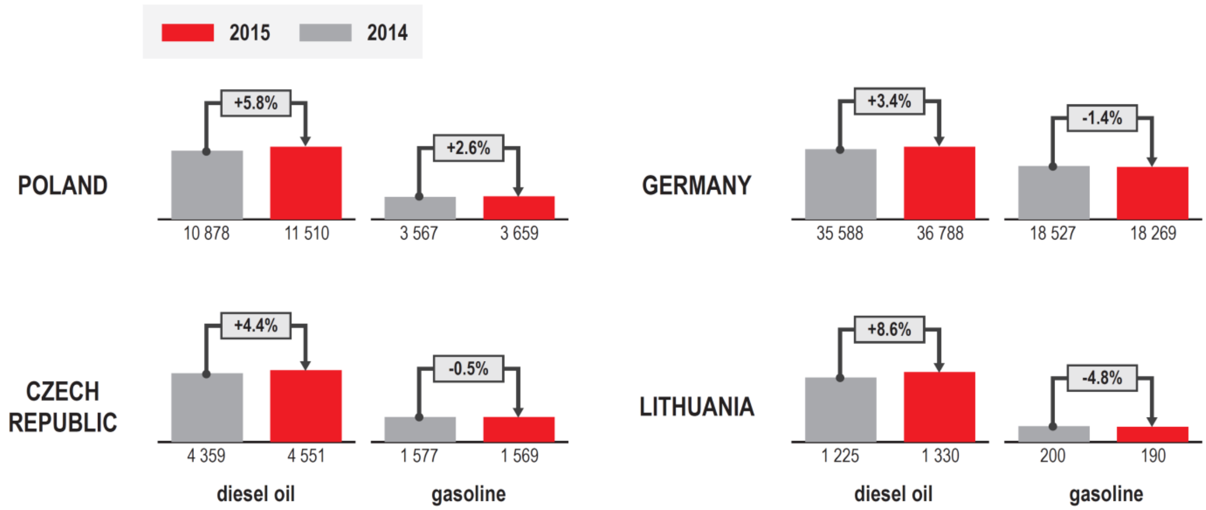
DIAGRAM 48. GDP in Germany (y/y).



Source: Data for Poland, Germany, the Czech Republic and Lithuania based on EUROSTAT. Data for the Czech Republic for the year 2015 based on the Czech Statistical Office forecasts.

Fuel consumption in the ORLEN Group operating markets is an derivative of the individual countries economic situation. The overall condition of the economy, e.g measured with GDP, has an influence on current and future customer behaviours.

DIAGRAM 49. Consumption of gasoline and diesel oil in countries operated by the ORLEN Group.



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

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

DIAGRAM 50. USD/PLN average exchange rate.

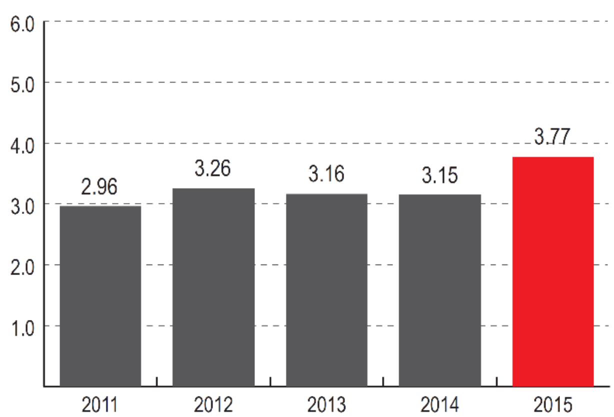
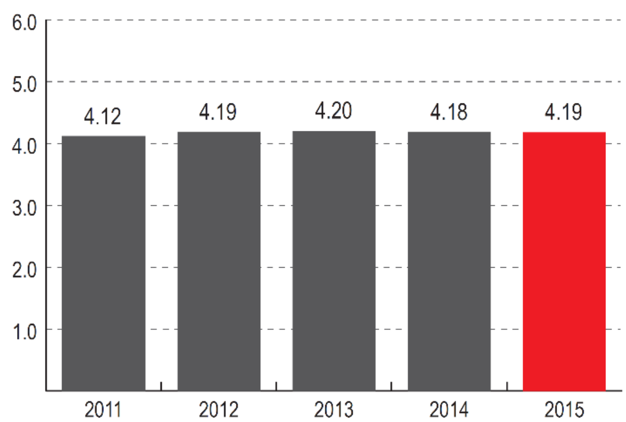


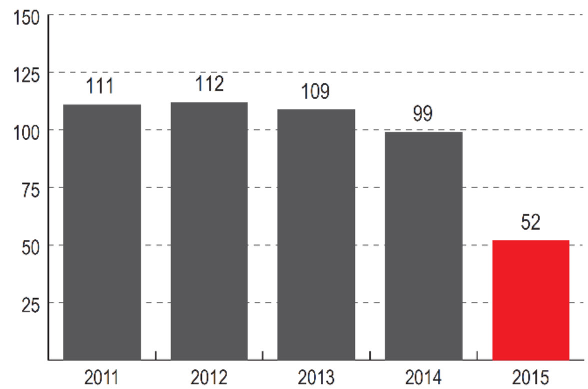
DIAGRAM 51. EUR/PLN average exchange rate.



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

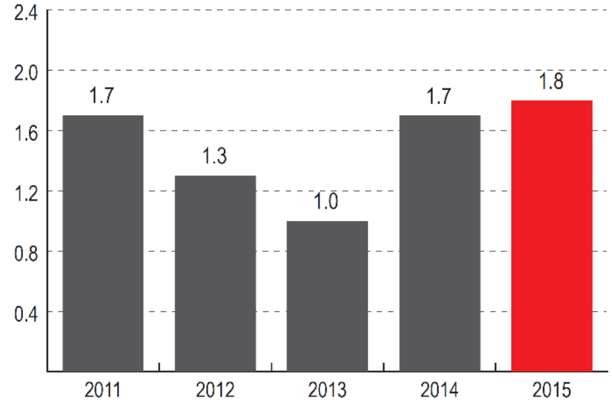
Among the external factors typical for the refining and petrochemical industry, key macroeconomic factors are as follows: crude oil prices, so-called Brent/Ural differential and margins on refining and petrochemical products offered by the ORLEN Group. The basic raw material used in the production by the ORLEN Group is crude oil, which international prices are subject to fluctuations caused by changes in global demand and supply and political factors. As a result of 85% share of the Ural sulphated crude oil in the processing structure of the ORLEN Group, the level of the Brent/Ural differential has an influence on the operating results as well.

DIAGRAM 52. Brent oil quotations (USD/bbl).



Source: Own calculations based on Platts data.

DIAGRAM 53. Brent/Ural differential (USD/bbl).

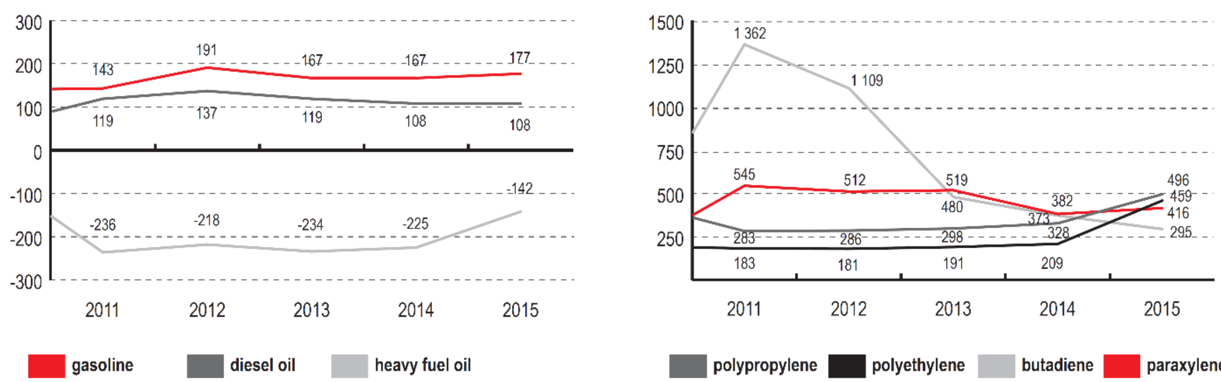


Source: Own calculations based on Platts data.

The ORLEN Group operating results are largely dependent on the difference between the market prices of petroleum products a crude oil prices and also other raw materials needed to manufacture the products. The purchase costs of raw materials and the price at which the ORLEN Group may eventually sell refined petroleum products depends on many factors which are beyond its control, including:

- changes in the supply / demand for refinery and petrochemical products,
- development of the production capacity of the world refining industry,
- changes in the operating costs associated with technological processes (energy costs, media, modernizations),
- amendments to environmental protection law, and others that might be associated with significant expenses for the ORLEN Group.

DIAGRAM 54. Refining margins ("crack") quotations (USD/t) and petrochemical margins ("crack") quotations (EUR/t).



Source: Own calculations based on Platts and ICIS data .

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

Integration of the high-class production assets and an extended value chain due to full integration of the refinery, petrochemical and power activities of the ORLEN Group was the basis to determine **model downstream margin** that reflects typical structure of the basic raw materials and refinery and petrochemical products. Changes at the model downstream margins allow to estimate an impact of macroeconomic factors on operating results of downstream segment. The method of calculation of model downstream, refinery and petrochemical margins is presented in Glossary of selected technical and financial definitions at the end of the foregoing Report

DIAGRAM 55. Model downstream margin [USD/bbl].

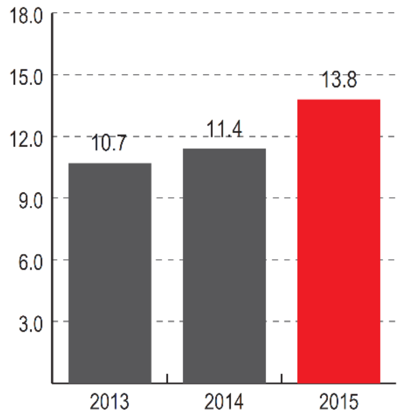


TABLE 25. The product structure of the downstream margin – margins (crack) from quotations.

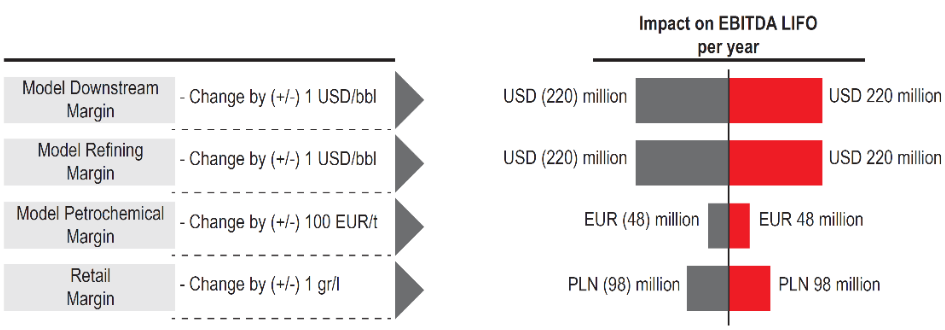
Product	2015	2014	CHANGE %
Refinery products (USD/t)			
Gasoline	177	167	6%
Diesel oil	108	108	0%
Heavy fuel oil	(142)	(225)	37%
SN 150	177	161	10%
Petrochemical products (EUR/t)			
Ethylene	602	589	2%
Propylene	488	543	(10%)
Benzene	278	432	(36%)
Paraxylene	416	382	9%

Sensitivity analysis

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

- Estimates of change in impact of the model downstream and refining margin is performed assuming full processing capacity of crude oil of the ORLEN Group amounting around 220 million bbl.
- Estimates of impact of change in the model petrochemical margin are performed assuming the sale of polymers in the ORLEN Group of approximately 480 thousand tonnes per year.
- Estimates of impact of change in retail margin are performed assuming the sale of fuels in the ORLEN Group of approximately 9.8 billion litres per year.

DIAGRAM 56. Sensitivity analysis of the change in the key macroeconomic parameters (USD/EUR/PLN million).



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

3.2. Financial results

3.2.1 Principles of presentation of the consolidated financial statements.

The consolidated financial statements have been prepared in accordance with accounting principles contained in the International Financial Reporting Standards (IFRS), comprising International Accounting Standards (IAS) as well as Interpretation of Standing Interpretation Committee (SIC) and the International Financial Reporting Interpretations Committee (IFRIC), which were adopted by the European Union (EU) and were in force as at 31 December 2015. The scope of the Management Board Report is in line with the Minister of Finance Regulation of 19 February 2009 on current and periodic information provided by issuers of securities and conditions for recognition as equivalent information required by the law of a non-Member state (uniform text in Official Journal of Laws 2014, item 133).

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

The consolidated financial statements, have been prepared assuming initially the amendment to IAS1 – Presentation of Financial Statements: Disclosure initiative. Main elements of scope and format modification included: materiality issue, aggregation / disaggregation of line items and accounting policy.

3.2.2 Consolidated statement of profit or loss and other comprehensive income and operating segments

TABLE 26. Consolidated statement of profit or loss and other comprehensive income.

ITEM, PLN million	2015	2014	2013	change	change %
1	2	3	4	5=(2-3)	6=(2-3)/3
Sales revenues	88 336	106 832	113 597	(18 496)	(17.3%)
Cost of sales	(77 792)	(101 010)	(107 853)	23 218	23.0%
Gross profit on sales	**10 544**	**5 822**	**5 744**	**4 722**	**81.1%**
Distribution expenses	(3 971)	(3 920)	(3 883)	(51)	(1.3%)
Administrative expenses	(1 552)	(1 512)	(1 451)	(40)	(2.6%)
Other operating income	420	766	571	(346)	(45.2%)
Other operating expenses	(1 354)	(5 924)	(714)	4 570	77.1%
Share in profit from investments accounted for under equity method	253	57	40	196	343.9%
Profit / (Loss) from operations under LIFO increased by amortisation and depreciation (EBITDA LIFO) before impairment allowances1)	**8 738**	**5 213**	**3 086**	**3 525**	**67.6%**
Profit / (Loss) from operations increased by amortisation and depreciation (EBITDA)	**6 235**	**(2 720)**	**2 418**	**8 955**	**-**
Profit/ (Loss) from operations	**4 340**	**(4 711)**	**307**	**9 051**	**-**
Finance income	390	354	460	36	10.2%
Finance costs	(1 032)	(1 889)	(610)	857	45.4%
Net finance income and costs	**(642)**	**(1 535)**	**(150)**	**893**	**58.2%**
Profit / (Loss) before tax	**3 698**	**(6 246)**	**157**	**9 944**	**-**
Tax expense	(465)	418	(67)	(883)	-
Net profit /(loss)	**3 233**	**(5 828)**	**90**	**9 061**	**-**

1) The impairment of non-current assets recognized in 2015 of PLN (993) million, includes: ORLEN Lietuva of PLN (1) million, the Unipetrol Group of PLN (111) million, the Anwil Group of PLN (7) million, Baltic Power sp. z o.o. of PLN (18) million and the ORLEN Upstream Group of PLN (852) million.
The impairment of non-current assets recognized in 2014 of PLN (5 360) million, includes: ORLEN Lietuva of PLN (4 181) million, the Unipetrol Group of PLN (752) million, the Anwil Group (Spolana) of PLN (64) million, the Rafineria Jedlicze Group of PLN (42) million and the ORLEN Upstream Group of PLN (322) million.

Sales revenues

Sales revenues of the ORLEN Group amounted to PLN 88 336 million and decreased by PLN (18 496) million (by (-) 17.3%) (y/y), as result of the lower quotations of a crude oil and the ORLEN Group products. Sales volume of the ORLEN Group increase by 8.2% (y/y) and amounted to 38 676 thousand tonnes.

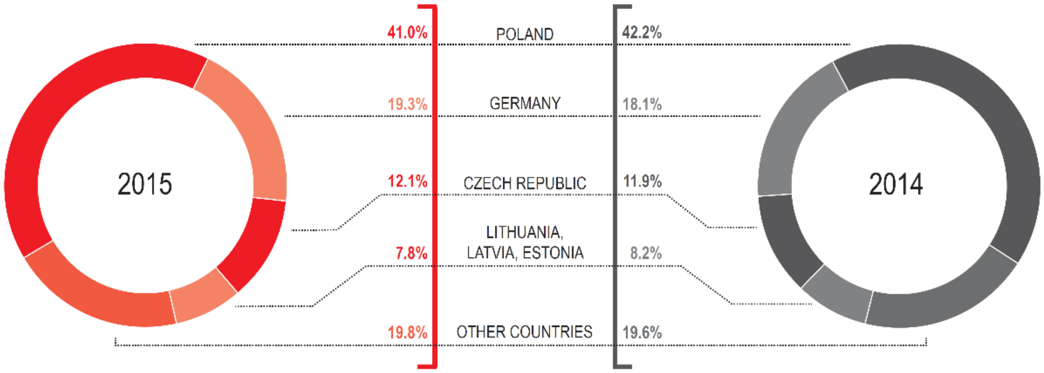
Lower by PLN (13 562) million (by (-) 19.2%) (y/y) sales revenues of downstream segment result mainly from lower crude oil and products quotations and higher by 9.7% (y/y) sales volume. In comparison with prior year the average annual gasoline quotations decreased by (-) 37.4% (y/y), diesel oil by (-) 41.1% (y/y), Jet A-1 fuel by (-) 42.0% (y/y), light heating oil by (-) 41.6% (y/y) and LPG by (-) 45.5% (y/y). Additionally, quotations decreased for products: ethylene by (-) 16.7% (y/y), propylene by (-) 23.5% (y/y), benzene by (-) 36.0% (y/y), toluene by (-) 26.9% (y/y), butadiene by (-) 30.2% (y/y), paraxylene by (-) 18.1% (y/y), xylene by 25.1% (y/y), polypropylene homo by (-) 6.4% (y/y) and polypropylene copo by (-) 6.2% (y/y).

Revenues of retail segment decreased by PLN (4 861) million (by (-) 13.5%) (y/y) mainly due to lower products quotations and therefore lower fuels prices on fuel stations accompanied by higher by 2.7% (y/y) sales volume.

In 2015 revenues of Upstream segment generated PLN 215 million of revenue compared to PLN 298 million in 2014, accompanied by higher by 52 thousand tonnes (by 20.2%) (y/y). Decrease of sales revenues is related to lower quotations of crude oil on global markets.

Detailed information relating to sales volume changes of the particular segments are described in Chapter 2.

DIAGRAM 57. Geographical structure of sales revenues in the ORLEN Group.



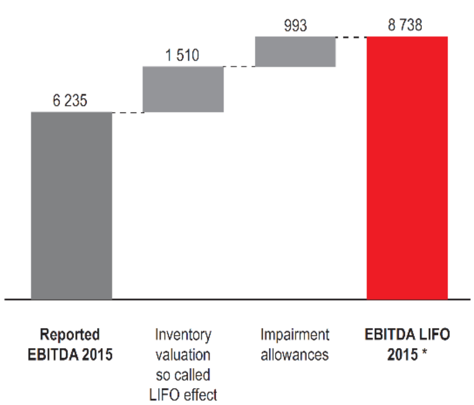
Other countries item contains mainly sales realized to customers from Switzerland, Ukraine, Denmark, Slovakia, Great Britain and Austria.

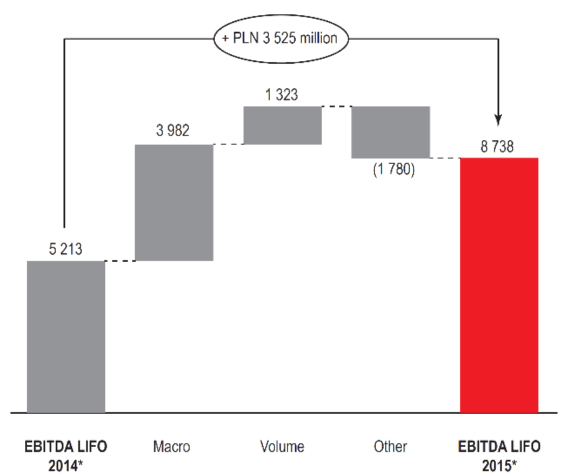
Information relating to the geographic distribution of sales revenues is also presented in point 8.1.2 of the Consolidated Financial Statements for 2015.

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

In 2015, the ORLEN Group achieved again a record EBITDA LIFO result, before recognition of impairment allowances of non-current assets, of PLN 8 738 million.

DIAGRAM 58. EBITDA LIFO before impairment of non-current assets in 2015 [PLN million].





*) EBITDA LIFO before impairment of non-current assets in the amount of PLN (993) million in 2015 and PLN (5 360) million in 2014.

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

EBITDA LIFO of the ORLEN Group increased by PLN 3 525 million (y/y).

Positive effect of macroeconomic factors related mainly to increase in model downstream margin by 2.4 USD/bbl (y/y) as well as decrease in average USD/PLN rates amounted to PLN 3 982 million (y/y).

The positive impact of higher sales volume in all operating segments amounted to PLN 1 323 million (y/y).

The impact of other factors amounted to PLN (1 780) million (y/y) and related mainly to:

- PLN (1 323) million (y/y) – the impact of settlement of repurchase of the V and VI tranche of mandatory reserves in 2015 amounting accordingly to PLN (297) and (860) million (y/y) and a lack of positive effects from 2014 including profit totaling PLN (166) million (y/y) on the repurchase of the IV tranche and the sales of the VI tranche of reserves,
- PLN (290) million (y/y) – a lack of positive effects in 2014 related to the optimization of the level of operating reserves and as an effect of the rotation of crude oil purchased in previous years,
- PLN (140) million (y/y) – negative impact of change of balance on other operating activity, before impairment allowances of non-current assets, including mainly decrease by PLN (117) million (y/y) of gain on the bargain purchase of Ceska Rafinerska shares by Unipetrol a.s. from ENI in 2015 in comparion to the purchase of shares from Shell in 2014.

Impairment allowances of non-current assets in 2015 amounted to PLN (993) million and concerned mainly included in the 2nd quarter of 2015 the impairment allowance of exploration assets of ORLEN Upstream Group in Poland of PLN (429) million, included in the 3rd quarter of 2015 the impairment allowance of petrochemical assets of Unipetrol Group related to the accident on installation for ethylene production in August 2015 in the amount of PLN (93) million and impairment allowance of exploration assets in Canada of PLN (423) million from 4th quarter 2015.
Impairment allowances of the non-current assets in 2014 amounted to PLN (-) 5 360 million and related mainly to the allowances recognized in ORLEN Lietuva Group of PLN (4 181) million, Unipetrol Group in the amount of PLN (752) million and impairment of the ORLEN Upstream Group assets in Canada of PLN (311) million.

Taking into account the above mentioned impairment allowances, EBITDA LIFO of the ORLEN Group for 2015 amounted to PLN 7 745 million.

The negative impact of crude oil prices on inventory valuation amounted to PLN (-) 1 510 million.

As a result EBITDA of the ORLEN Group for the 12 months of 2015 amounted to PLN 6 235 million.

Segments` results of the ORLEN Group

DIAGRAM 59. EBITDA LIFO segments' results in 2015 [PLN million].

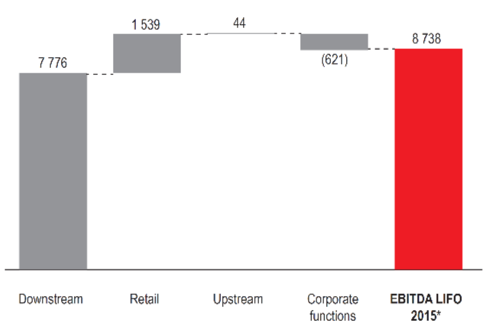
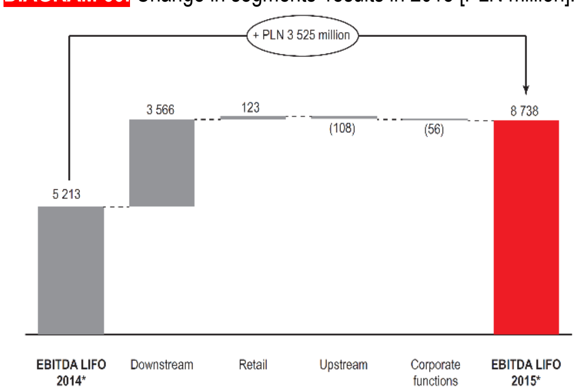


DIAGRAM 60. Change in segments' results in 2015 [PLN million].



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

Downstream Segment

TABLE 27. Basic financial data of downstream segment.

DOWNSTREAM SEGMENT, PLN million	2015	2014	2013	change	change %
1	2	3	4	5=(2-3)	6=(2-3)/3
Segment revenues, including:	**69 611**	**85 941**	**92 986**	**(16 330)**	**(19.0%)**
Sales revenues from external customers	56 987	70 549	77 047	(13 562)	(19.2%)
Sales revenues from transactions with other segments	12 624	15 392	15 939	(2 768)	(18.0%)
Segment expenses	**(64 963)**	**(85 971)**	**(92 710)**	**21 008**	**24.4%**
Other operating income/expenses, net	(40)	(4 861)	(211)	4 821	99.2%
Share in profit from investments accounted for under equity method	253	58	41	195	336.2%
Operating Profit/(Loss) under LIFO increased by depreciation and amortisation (EBITDA LIFO) before impairment allowances[1)]	**7 776**	**4 210**	**2 407**	**3 566**	**84.7%**
Operating Profit/(Loss) under LIFO increased by depreciation and amortisation (EBITDA LIFO)	**7 640**	**(852)**	**2 407**	**8 492**	**-**
Profit/(Loss) from operations increased by depreciation and amortisation (EBITDA)	**6 130**	**(3 425)**	**1 739**	**9 555**	**-**
Operating Profit/(Loss) under LIFO	**6 371**	**(2 260)**	**774**	**8 631**	**-**
Profit/(Loss) from operations	**4 861**	**(4 833)**	**106**	**9 694**	**-**
CAPEX	2 242	2 714	1 596	(472)	(17.4%)

1) The impairment of non-current assets recognized in 2015 of PLN (136) million mainly in the Unipetrol Group of PLN (111) million, Baltic Power sp. z o.o. of PLN (18) million. The impairment of non-current assets recognized in 2014 of PLN (5 062) million, includes: ORLEN Lietuva of PLN (4 181) million, the Unipetrol Group of PLN (752) million, the Anwil Group (Spolana) of PLN (64) million, the Rafineria Jedlicze Group of PLN (42) million

In 2015, EBITDA LIFO of the ORLEN Group in downstream segment, before impairment allowances of non-current assets of PLN (136) million, amounted to PLN 7 776 million and increased by PLN 3 566 million (y/y).

The growth of model downstream margin reflecting the changes in macroeconomic conditions and the impact of decrease in average USD/PLN rates contributed to the increase of EBITDA LIFO of the segment by PLN 4 044 million (y/y).

The increase on Polish market sales of refinery and petrochemical products as a result of favourable market situation caused by low fuel prices and limitations of maintenance standstills (y/y).

The growth of sales in the ORLEN Lietuva Group due to high seaborn sales and higher sales volume in Lithuania, Latvia and Estonia with limited sales in Ukraine.

The increase in sales of the refinery products of the Unipetrol Group on the Czech market was possible due to the greater production capacity after purchase of the 32% Ceska Rafinerska shares from ENI and favourable market conditions. The breakdown of ethylene production installation in August 2015 resulted in decrease of petrochemicals volume.

Consequently, the growth of sales volume by 9.7% (y/y) on all market in downstream segment caused increase of EBITDA LIFO by PLN 1 265 mln (y/y).

The impact of other factors amounted to PLN (1 743) million (y/y) and related mainly to:

- PLN (1 323) million (y/y) – the impact of settlement of repurchase of the V and VI tranche of mandatory reserves in 2015 amounting accordingly to PLN (297) and (860) million (y/y) and a lack of positive effects from 2014 including profit totaling PLN (166) million (y/y) on the repurchase of the IV tranche and the sales of the VI tranche of mandatory reserves,
- PLN (290) million (y/y) – a lack of positive effects in 2014 related to the optimization of the level of operating reserves and as an effect of the rotation of crude oil purchased in previous years,
- PLN (105) million (y/y) – negative impact of change of balance on other operating activity, before impairment allowances of non-current assets, including mainly decrease by PLN (117) million (y/y) of gain on the bargain purchase of Ceska Rafinerska shares by Unipetrol a.s. from ENI in 2015 in comparion to the purchase of shares from Shell in 2014.

Impairment allowances of assets in 2015 amounted to PLN (136) million and concerned mainly included in the 3rd quarter of 2015 impairment allowance of petrochemical assets of Unipetrol Group related to the accident on installation for ethylene production in August 2015 in the amount of PLN (93) million.
Impairment allowances of assets in 2014 amounted to PLN (5 062) million and related mainly to the allowances recognized in the 2nd quarter of 2014 on the ORLEN Lietuva Group of PLN (4 181) million, the Unipetrol Group of PLN (-) 752 million and petrochemical assets of the ANWIL Group in the amount of PLN (64) million.

Taking into account the above mentioned impairment allowances, EBITDA LIFO of the ORLEN Group for 2015 amounted to PLN 7 640 million.

The negative impact of crude oil prices on inventory valuation amounted to PLN (1 510) million and, in result, EBITDA of the ORLEN Group for 2015 amounted to PLN 6 130 million.
In 2015, compared to the previous year, capital expenditures of

the segment decreased by PLN (472) million (y/y) to reach the level of PLN 2 242 million.

The most important capital expenditures were described in point 3.4.

Retail Segment

TABLE 28. Basic financial data for retail segment.

RETAIL SEGMENT, PLN million	2015	2014	2013	change	change %
1	2	3	4	5=(2-3)	6=(2-3)/3
Segment revenues, including:	**31 122**	**36 104**	**36 624**	**(4 982)**	**(13.8%)**
Sales revenues from external customers	31 052	35 913	36 462	(4 861)	(13.5%)
Sales revenues from transactions with other segments	70	191	162	(121)	(63.4%)
Segment expenses	**(29 934)**	**(35 015)**	**(35 695)**	**5 081**	**14.5%**
Other operating income/expenses, net	(17)	(4)	(12)	(13)	(325.0%)
Profit/(Loss) from operations increased by depreciation and amortisation (EBITDA) before impairment allowances 1)	**1 539**	**1 416**	**1 268**	**123**	**8.7%**
Profit/(Loss) from operations increased by depreciation and amortisation (EBITDA)	**1 539**	**1 440**	**1 268**	**99**	**6.9%**
Profit/(Loss) from operations	**1 171**	**1 085**	**917**	**86**	**7.9%**
CAPEX	448	345	467	103	29.9%

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

In 2015, EBITDA of the retail segment of the ORLEN Group achieved record level of PLN 1 539 million in comparison to PLN 1 440 million in 2014.

Increase of fuel margins on Czech Republic market, accompanied by the limitations on other markets and increase of results from sale of non-fuel products and services contributed to the improvement EBITDA segment by PLN 57 million.

Increase in retail sales volume (y/y) on Polish and Czech Republic markets with slight decrease on German market increased segment's EBITDA by PLN 81 million (y/y).

The negative impact of the other factors amounted to PLN (39) million (y/y) and related mainly to increased costs of operations of fuel stations resulting from the higher by 2.7% (y/y) sales volume and negative impact of balance on other operating activities.

In 2015 the segment's capital expenditures increased by PLN 103 million. The most significant capital expenditures in the segment were described in point 3.4.

At the end of 2015, the ORLEN Group operated 2 679 fuel stations, which represent a decrease of (-) 13 (y/y), compared to the previous year. Due to an acquisition project implemented in Germany, the number of stations managed by ORLEN Deutschland GmbH increased by 6 (y/y). The number of stations operating in the Czech Republic and Lithuania has not changed. As a result of completed liquidation process assuming 36 stations shut down at the turn of 2013 and 2014, the number of fuel stations on the Polish market decreased by (-) 19 (y/y).

In the end of 2015, the development of non-fuel offer was continued. At the end of 2015, the number of Stop Café and Stop Café Bistro increased by 154 (y/y) and amounted to 1 404. Thanks to the initiation of development of the Stop Café project in the Benzina chain, the number of stations with their own gastronomy sections (Stop Café or Bistro) increased by 33 (y/y) and amounted to 131. On the Lithuanian market, the number of Stop Café and Stop Café Bistro has not changed (y/y) and amounted to 23.

Upstream Segment

TABLE 29. Basic financial data for upstream segment.

UPSTREAM SEGMENT, PLN million	2015	2014	2013	change	change %
1	2	3	4	5=(2-3)	6=(2-3)/3
Segment revenues, including:	**215**	**298**	**17**	**(83)**	**(27.9%)**
Sales revenues from external customers	215	298	17	(83)	(27.9%)
Sales revenues from transactions with other segments	0	0	0	0	-
Segment expenses	**(347)**	**(271)**	**(48)**	**(76)**	**(28.0%)**
Other operating income/expenses, net	(849)	(319)	(7)	(530)	(166.1%)
Profit/(Loss) from operations increased by depreciation and amortisation (EBITDA) before impairment allowances 1)	**44**	**152**	**(32)**	**(108)**	**(71.1%)**
Profit/(Loss) from operations increased by depreciation and amortisation (EBITDA)	**(808)**	**(170)**	**(32)**	**(638)**	**(375.3%)**
Profit/(Loss) from operations	**(981)**	**(292)**	**(38)**	**(689)**	**(236.0%)**
CAPEX	288	499	304	(211)	(42.3%)

1) The impairment of non-current assets recognized in 2015 of PLN (852) million and in 2014 of PLN (322) million related mainly to the ORLEN Upstream Group's assets.

In 2015, upstream segment's EBITDA, before impairment allowances of non-current assets, amounted to PLN 44 million and decreased by PLN (108) million (y/y), including PLN (62) million (y/y) as a result of macroeconomic factors - a decline in crude oil prices on world markets.

The observed decline in crude oil prices on the world markets, had influenced on the Upstream segment. As a result of the tests performed in accordance with IAS 36 — Impairment of Assets, in 2015 an impairment allowance of property, plant and equipment amounting to PLN (852) million had been recognized and related mainly to exploration assets of the ORLEN Upstream Group in Poland of PLN (429) million recognized in 2nd quarter of 2015 and exploration assets in Canada of PLN (423) million recognized in 4th quarter of 2015.
In 2014 the total value of impairment allowance of non-current assets of upstream segment amounted to PLN (322) million and consisted mainly of impairment allowance of assets related to development and extraction of mineral resources in Canadian TriOil, belonging to the ORLEN Upstream Group.

In 2015, the ORLEN Upstream Group signed an agreement to acquire the canadian company Kicking Horse Energy Inc. engaged in the exploration and production of crude oil and gas in Canada. It has also signed an agreement of merger with the American company FX Energy, Inc. leading exploration development and production of crude oil and natural gas primarily in Poland.
The situation on the oil and gas market in 2015 contributed to the rationalization of capital expenditures in the upstream segment by PLN (211) million, compared to the previous year, reaching the level of PLN 288 million. The capital expenditures in the segment were described in point 3.4.

Corporate functions

TABLE 30. Basic financial data for corporate functions.

CORPORATE FUNCTIONS, PLN million	2015	2014	2013	change	change %
1	2	3	4	5=(2-3)	6=(2-3)/3
Segment revenues, including:	**288**	**311**	**314**	**(23)**	**(7.4%)**
Sales revenues from external customers	82	72	71	10	13.9%
Sales revenues from transactions with other segments	206	239	243	(33)	(13.8%)
Segment expenses	**(971)**	**(1 007)**	**(1 078)**	**36**	**3.6%**
Other operating income/expenses, net	(28)	26	87	(54)	-
Share in profit from investments accounted for under equity method	0	(1)	(1)	1	-
Profit/(Loss) from operations increased by depreciation and amortisation (EBITDA) before impairment allowances 1)	**(621)**	**(565)**	**(557)**	**(56)**	**(9.9%)**
Profit/(Loss) from operations increased by depreciation and amortisation (EBITDA)	**(626)**	**(565)**	**(557)**	**(61)**	**(10.8%)**
Profit/(Loss) from operations	**(711)**	**(671)**	**(678)**	**(40)**	**(6%)**
CAPEX	205	230	117	(25)	(10.9%)

1) The impairment of non-current assets recognized in 2015 of PLN (5) million related mainly to PKN ORLEN's assets.

In 2015, EBITDA of corporate functions decrease by PLN (61) million (y/y) mainly as a result of negative impact of other operating activities in the amount of PLN (54) million (y/y), which includes primarily the effects of the reversal of actuarial provisions in 2014 and recognition of provision for possible negative results of litigation in 2015.
The capital expenditures of corporate functions in 2015 were described in point 3.4.

Financial expenses and net result

In 2015, the net financial expenses amounted to PLN (642) million and included mainly the net negative exchange differences of PLN (317) million, settlement and valuation of the financial instruments in the net amount of PLN (177) million net and interests of PLN (123) million.

Taking into account tax charges of PLN (465) million, net profit generated by the ORLEN Group for 2015 amounted to PLN 3 233 million.

3.2.3 Statement of financial position

TABLE 31. Consolidated statement of financial position – assets.

ASSETS, PLN million	31.12.2015	31.12.2014	31.12.2013	change	change%
1	2	3	4	5=(2-3)	6=(2-3)/3
ASSETS					
Property, plant and equipment	24 536	22 644	24 904	1 892	8.4%
Intangible assets	1 298	703	823	595	84.6%
Investments accounted for under equity method	774	672	615	102	15.2%
Deferred tax assets	365	385	151	(20)	(5.2%)
Other financial assets	147	327	158	(180)	(55.0%)
Other assets	242	240	256	2	0.8%
Non-current assets	**27 362**	**24 971**	**26 907**	**2 391**	**9.6%**
Inventories	10 715	9 829	13 749	886	9.0%
Trade and other receivables	6 641	7 092	7 827	(451)	(6.4%)
Other financial assets	974	862	165	112	13.0%
Cash and cash equivalents	2 348	3 937	2 689	(1 589)	(40.4%)
Non-current assets classified as held for sale	97	34	15	63	185.3%
Current assets	**20 775**	**21 754**	**24 445**	**(979)**	**(4.5%)**
Total assets	**48 137**	**46 725**	**51 352**	**1 412**	**3.0%**

As at 31 December 2015 the ORLEN Group total assets amounted to PLN 48 137 million and increased by PLN 1 412 million in comparison to the 31 December 2014.

Current assets decreased by PLN (979) million to the level of PLN 20 775 million, mainly as an effect of decrease by PLN (1 589) million of cash and cash equivalents and an increase by PLN 886 million of inventories value. The change of inventories included mainly the effect of repurchase of two tranches of mandatory reserves as well as declining quotation of crude oil and thus prices of the ORLEN Group products.

Total value of non-current assets as at 31 December 2015 amounted to PLN 27 362 million and was higher by PLN 2 391 million compared to the end of the previous year, mainly due to capital expenditure on property, plant and equipment, intangible assets in the amount of PLN 3 183 million, the acquisition of exploration assets in Canada and Poland as part of the purchase of shares of Kicking Horse Energy and FX Energy in the amount of PLN 1 775 million, depreciation and amortization in the amount of PLN (1 895) million and impairment allowances in the total amount of PLN (993) million.

TABLE 32. Consolidated statement of financial position – equity and liabilities.

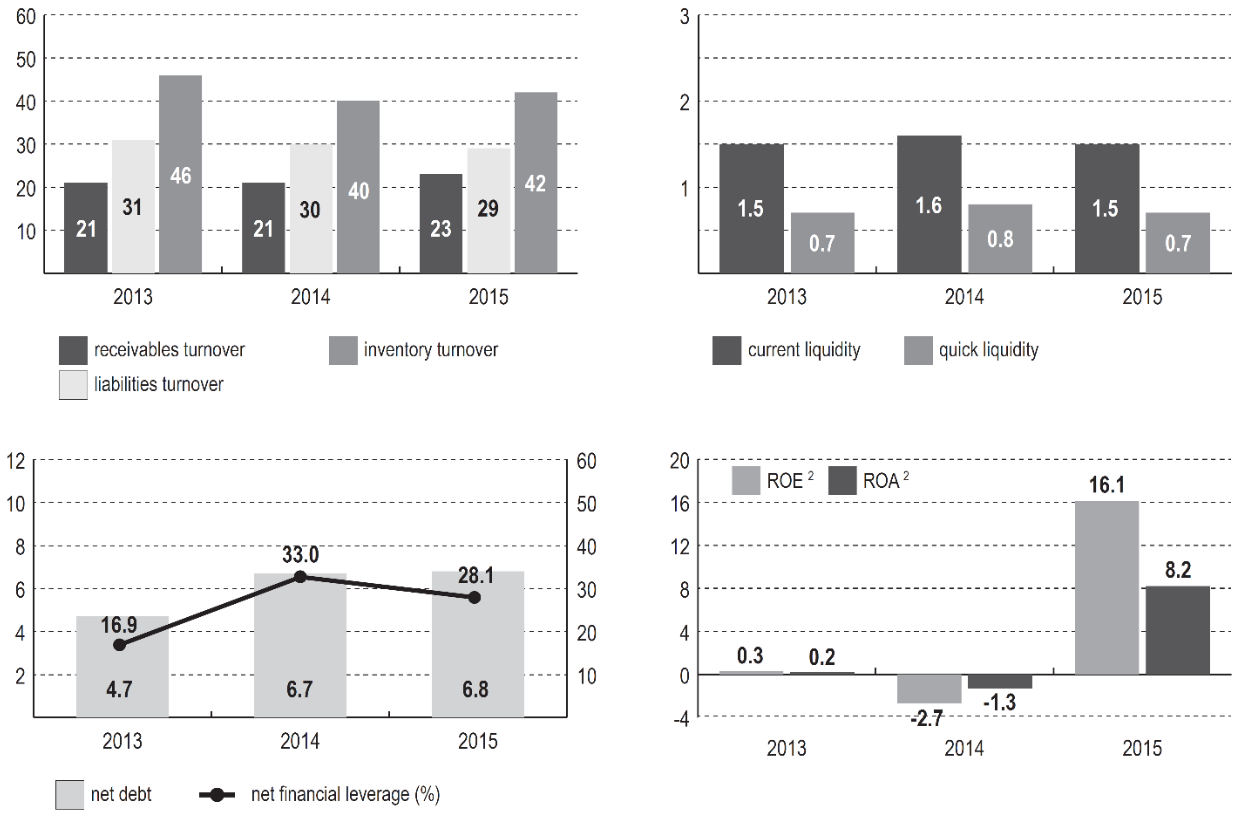
EQUITY AND LIABILITIES, PLN million	31.12.2015	31.12.2014	31.12.2013	change	change %
1	2	3	4	5=(2-3)	6=(2-3)/3
EQUITY					
Share capital	1 058	1 058	1 058	0	0.0%
Share premium	1 227	1 227	1 227	0	0.0%
Hedging reserve	(80)	(1 319)	148	1 239	93.9%
Foreign exchange differences on subsidaries from consolidation	537	509	(201)	28	5.5%
Retained earnings	19 431	17 296	23 716	2 135	12.3%
Equity attributable to equity owners of the parent	**22 173**	**18 771**	**25 948**	**3 402**	**18.1%**
Non-controling interest	**2 071**	**1 615**	**1 603**	**456**	**28.2%**
Total equity	**24 244**	**20 386**	**27 551**	**3 858**	**18.9%**
Loans, borrowings and bonds	8 131	9 670	6 507	(1 539)	(15.9%)
Provisions	710	709	658	1	0.1%
Deferred tax liabilities	674	75	538	599	798.7%
Deferred income	8	8	10	0	0.0%
Other non-current liabilities	704	1 843	133	(1 139)	(61.8%)
Non-current liabilities	**10 227**	**12 305**	**7 846**	**(2 078)**	**(16.9%)**
Trade and other liabilities	10 820	11 257	14 049	(437)	(3.9%)
Loans, borrowings and bonds	1 027	987	850	40	4.1%
Provisions	749	648	821	101	15.6%
Other financial liabilities	870	1 020	110	(150)	(14.7%)
Other liabilities	200	122	125	78	63.9%
Current liabilities	**13 666**	**14 034**	**15 955**	**(368)**	**(2.6%)**
Total liabilities	**23 893**	**26 339**	**23 801**	**(2 446)**	**(9.3%)**
Total shareholders' equity and liabilities	**48 137**	**46 725**	**51 352**	**1 412**	**3.0%**

Total equity as at 31 December 2015 amounted to PLN 24 244 million and was higher by PLN 3 858 million in comparison to the balance at the end of the prior year, mainly as a result of:

- net profit attributable to equity owners of the Parent Company for 2015 in the amount of PLN 2 837 million and an increase of PLN 456 million of equity attributable to non-controlling interest,
- dividend payment in the amount of PLN (706) under the decision of the Ordinary General Shareholders' Meeting of PKN ORLEN S.A. on 28 April 2015,
- Positive impact of change of balance of hedging reserve by PLN 1 239 million.

As at December 2015, net indebtedness of the ORLEN Group amounted to PLN 6 810 million and was higher by PLN 90 million in comparison to the end of 2014. The increase is a resultof accommodation of net indebtedness of purchased companies in the upstream segment in total amount of PLN 374 million and repayment of loans and borrowings, decrease of cash and cash equivalents balances and the net impact of negative exchange differences from revaluation, indebtedness valuation as well as recalculation of balances of foreign entities in the total amount of PLN (284) million.

DIAGRAM 61. Financial ratios[1)]



1) The methodology of calculating ratios is presented in Glossary of selected financial term at the end of the foregoing Report.
2) Before the impairment allowances of non-current assets.

3.2.4 Statement of cash flows

TABLE 33. Consolidated statement of cash flows.

ITEM, PLN million	2015	2014	2013	change	change %
1	2	3	4	5=(2-3)	6=(2-3)/3
Cash flows – operating activities					
Net profit/(loss)	**3 233**	**(5 828)**	**90**	**9 061**	**-**
Adjustments for:					
Share in profit from investments accounted for under equity method	(253)	(57)	(40)	(196)	(343.9%)
Depreciation and amortisation	1 895	1 991	2 111	(96)	(4.8%)
Foreign exchange loss	24	880	64	(856)	(97.3%)
Interest, net	199	241	272	(42)	(17.4%)
Dividends	(2)	(2)	(2)	0	0.0%
Loss on investing activities	1 106	5 015	94	(3 909)	(77.9%)
Tax expense	465	(418)	67	883	-
.Change in provisions	463	141	391	322	228.4%
Change in working capital	(1 320)	1 752	2 815	(3 072)	-
inventories	*(655)*	*4 106*	*974*	(4 761)	-
receivables	*1 258*	*924*	*405*	334	36.1%
liabilities	*(1 923)*	*(3 278)*	*1 436*	1 355	41.3%
Other adjustments	(252)	(360)	(215)	108	30.0%
Income tax (paid)	(204)	(168)	(107)	(36)	(21.4%)
Net cash provided by operating activities	**5 354**	**3 187**	**5 540**	**2 167**	**68.0%**
Cash flows – investing activities					
Acquisition of property, plant and equipment, intangible assets and perpetual usufruct of land	(3 079)	(3 700)	(2 382)	621	16.8%
Acquisition of shares adjusted by cash taken over	(1 195)	(792)	(536)	(403)	(50.9%)
Disposal of property, plant and equipment, intangible assets and perpetual usufruct of land	131	400	164	(269)	(67.3%)
Dividends received	192	2	22	190	9500.0%
Other	(145)	70	291	(215)	-
Net cash (used) in investing activities	**(4 096)**	**(4 020)**	**(2 441)**	**(76)**	**(1.9%)**
Cash flows – financing activities					
Proceeds from loans and borrowings received	1 896	9 639	3 589	(7 743)	(80.3%)
Bonds issued	0	2 350	700	(2 350)	-
Repayments of loans and borrowings	(3 771)	(9 023)	(5 433)	5 252	58.2%
Interest paid	(258)	(245)	(310)	(13)	(5.3%)
Dividends paid	(706)	(617)	(642)	(89)	(14.4%)
Other	(27)	(21)	(342)	(6)	(28.6%)
Net cash provided by/(used in) financing activities	**(2 866)**	**2 083**	**(2 438)**	**(4 949)**	**-**
Net increase/(decrease) in cash and cash equivalents	**(1 608)**	**1 250**	**661**	**(2 858)**	**-**
Effect of exchange rate changes on cash and cash equivalents	19	(2)	(1)	21	-
Cash and cash equivalents, beginning of the period	3 937	2 689	2 029	1 248	46.4%
Cash and cash equivalents, end of the period	**2 348**	**3 937**	**2 689**	**(1 589)**	**(40.4%)**
Restricted cash	*22*	*37*	*47*	***(15)***	***(40.5%)***

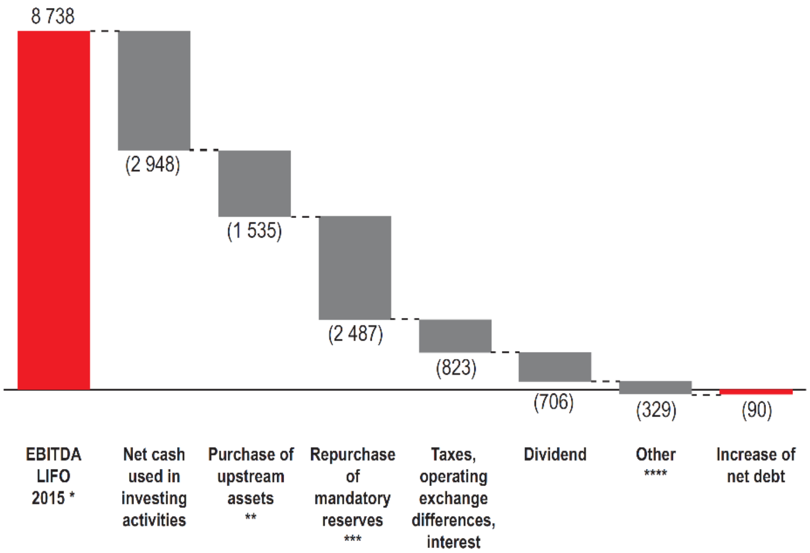
Net cash flows from operating activities in 2015 amounted to PLN 5 354 million and comprised mainly EBITDA result before impairment allowances of property, plant and equipment of PLN 7 228 million and negative impact of net working capital increase of PLN (1 320) million, negative operating net foreign exchange differences of PLN (293) million and paid income taxes in the amount of PLN (204) million.
The increase of net working capital in 2015 is mainly a result of an increase of value of inventory, including the repurchase of 2 tranches of mandatory reserves and reduction of their value due to lower crude oil prices and also prices of petroleum products accompanied by decrease of mutually compensating receivables and liabilities.

Net cash used in investing activities in 2015 amounted to PLN (4 096) million and included mainly net expenses for the acquisition of property, plant and equipment, intangible assets and perpetual usufruct of land of PLN (2 948) million, shares acquisition of Ceska Rafinerska a.s from ENI adjusted by acquired cash and cash equivalents of PLN (35) million and shares acquisition of upstream companies Kicking Horse Energy Inc. and FX Energy Inc. in the amount of PLN (1 161) million.

The cash used in financing activities in 2015 amounted to PLN (2 866) million and comprised mainly net repayment of the loans and borrowings of PLN (1 875) million, the dividend payment of PLN (706) million and interest payments of PLN (258) million.

Taking into account the revaluation of cash due to exchange differences, the cash balance in 2015 decreased by PLN (1 589) million and as at 31 December 2015 amounted to PLN 2 348 million.

DIAGRAM 62. Free cash flow [PLN million].



**) EBITDA LIFO 2015 before impairment allowances of value of assets of PLN (993) million.*
***) Including PLN (374) million net indebtedness of upstream companies taken over in Q4 2015.*
****) Total repurchase amounted to PLN (3 644) million, of which PLN (1 157) million impact was recognized in EBITDA LIFO.*
*****) Including PLN 1 320 million changes in working capital adjusted by LIFO effect of PLN (1 510) million.*

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

The ORLEN Group did not publish forecasts of financial results for 2015.

The ORLEN Group operating results for 2015 did not change in comparison to the results published on 28 January 2015 in consolidated quarterly report for the IV quarter of 2015.

3.3. Financial resources management

3.3.1 General management rules

Liquidity management
The ORLEN Group takes advantage of a cash-pooling system to optimize finance costs and effectively manage the current financial liquidity within the ORLEN Group.
In 2015 the following cash polling systems were in operation:

– PLN cash-pooling system which as at 31 December 2015 included 27 members of the ORLEN Group,
– international cash-pooling system for EUR, USD, CZK and PLN held for foreign companies of the ORLEN Group (ORLEN Finance, ORLEN Lietuva Group, ORLEN Deutschland, Unipetrol Group, Ventus Nafta).

As a part of liquidity management, the Parent Company may issue bonds up to the agreed limits and to acquire bonds issued by the ORLEN Group companies.

In 2015 the ORLEN Group invested funds in bank deposits. Decisions concerning bank deposits are founded on the maximum return on investment and current assessment of the financial standing of the banks based on the short-term rating assessment for deposits on the investment level.

Working capital management

The ORLEN Group manages the working capital in a flexible way in the unstable market conditions with a range of tools used to its level optimization.
One of those tools were sale transactions of part of mandatory crude oil reserves connected with concluding the agreement to maintain those mandatory reserves for PKN ORLEN.

On 29 January 2015 the agreement for gathering and keeping of crude oil mandatory reserves, which PKN ORLEN SA concluded on the 27 June 2013 between PKN ORLEN and Neon Poland Sp.z o.o has expired. In addition, on the 12 August 2015 there was an early repurchase of mandatory reserves, which were sold to the Cranbell Sp. z. o.o. on the 26 June 2014.

The ORLEN Group uses also factoring agreements. PKN ORLEN uses factoring services without recourse that rely on discount sale of short-term trade receivables due to the Company prior to their maturity and taking over its insolvency risk by the bank.

The level of net working capital at the end of 2015 amounted to PLN 10 682 million and was higher by PLN 1 964 million compared to the level at the end of 2014 as a result of buy back two tranches of mandatory reserves.

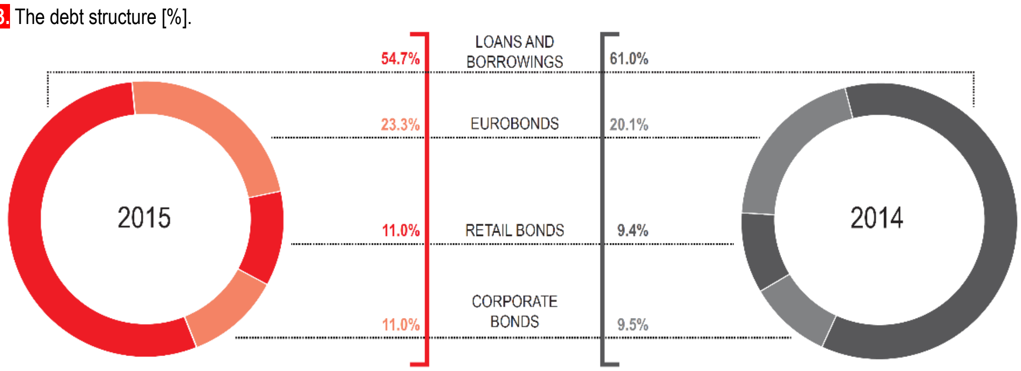
3.3.2 Loans, borrowings, and debt securities

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

TABLE 34. Sources of financing.

ITEM, PLN million	2015	2014	2013	change	change %
1	2	3	4	5=(2-3)	6=(2-3)/3
Bank loans	5 000	6 491	5 638	(1 491)	(23.0%)
Borrowings	3	5	1	(2)	(40.0%)
Debt securities	4 155	4 161	1 718	(6)	(0.1%)
Financial indebtedness	**9 158**	**10 657**	**7 357**	**(1 499)**	**(14.1%)**
By maturity:					
Non-current	8 131	9 670	6 507	(1 539)	(15.9%)
Current	1 027	987	850	40	4.1%

DIAGRAM 63. The debt structure [%].



The most significant loans in 2015 in the ORLEN Group are the following (in excess of PLN 100 million):

– long-term syndicate loan for the amount of EUR 2 000 million (approximately PLN 8 523 million at the average National Bank of Poland exchange rate for EUR/PLN as at 31 December 2015), signed by PKN ORLEN in April 2014. This loan has replaced the funding of EUR 2 625 million. Currently balance of the loan is EUR 1 500 million (PLN 6 392 million at the average National Bank of Poland exchange rate for EUR/PLN as at 31 December 2015). The loan is in the form of a multicurrency revolving credit line extended by the syndicate of 17 banks. The loan term is 5 years (i.e. until 2019) with two extension options, each by 1 year. In August 2015, PKN ORLEN used the first prolongation option, due to which the crediting period was extended until April 2020. PKN ORLEN may allocate the funds obtained for general corporate and financial purposes of the ORLEN Group companies. The loan may be used in EUR, USD, CZK, CAD and PLN;

- 2 bilateral loan agreements allocated to fund the investments signed by PKN ORLEN with the European Investment Bank (EIB) in 2007 and the European Bank for Reconstruction and Development (EBRD) in 2011. The amount of EUR 210 million (approximately PLN 895 million at the average National Bank of Poland exchange rate for EUR/PLN as at 31 December 2015) was granted by EIB for investments in the development of fuel stations network and environmental protection. The agreement is being repaid. The amount of EUR 250 million (PLN 1 065 million at the average National Bank of Poland exchange rate for EUR/PLN as at 31 December 2015) was granted by EBRD for investments in the development and modernization of the Power and Heat Plant in Płock and for general corporate purposes. The loan maturity is 7 years (until 2018). According to the agreement, the loan amount will be reduced down to EUR 167 million and down to EUR 83 million respectively in June 2016 and in June 2017. Available currencies of the loan are: EUR, USD and PLN;
- long-term loan as a part of the "Polish Investments" program of Bank Gospodarstwa Krajowego of PLN 1 000 million. The funds will be used by the Company to support an implementation of the energy strategy. The final maturity date is on December 2025;
- 5 bilateral agreements of short-term overdraft in PKN ORLEN's current account in the total amount of PLN 1 551 million for financing current activities;
- 9 overdraft agreements in the Unipetrol Group's current account in the total amount of PLN 1 668 million for financing current activities, base currency for most of loans is CZK;
- Loans incure by the ORLEN Upstream Group: 3 loan agreements in amout of CAD 290 million (PLN 815 million at the average National Bank of Poland exchange rate for CAD/PLN as at 31 December 2015) and syndicated loan agreement in amount of EUR 90 million (PLN 384 million at the average National Bank of Poland exchange rate for EUR/PLN as at 31 December 2015);
- loan to ORLEN Finance AB for EUR 200 million (approximately PLN 852 million at the average National Bank of Poland exchange rate for EUR/PLN as at 31 December 2015) as part of international cash pool system, taken in Nordea Bank Finland, the agreement will remain in force until June 2016;
- investment loan to IKS Solino of PLN 176 million extended by the consortium of 2 banks in August 2004 for the construction of underground warehouse of crude oil and fuels, the agreement will remain in force until 2017. As at 31 December 2015, the loan balance amounted to PLN 6 million.

After taking into account cash and cash equivalents net financial indebtedness at the end of 2015 amounted to PLN 6 810 million.

As regards the loan agreements in force, the ORLEN Group subsidiaries are obliged to maintain selected financial indicators within brackets agreed in the loan agreements.
In 2015 the financial ratios assessed by the lending banks remained at the safe level. The covenant level included in loan agreements (net debt/EBITDA before impairment allowances of non-current assets) was 0.88
The financial indicators attained in 2015, presented in point 3.2.3 confirm the full ability to perform payment obligations resulting from the loan agreements and other agreements with banks and financial institutions.

Additional information on the debt structure of the ORLEN Group was presented in point 8.2.9 to the Consolidated Financial Statements for 2015.

3.3.3 Issue of securities and usage of the proceeds from the issue

PKN ORLEN S.A. continues to use the non-public bond issue programme, which is in operation in accordance with agreement Bond Issue Programme ("Programme Agreement") , executed with a consortium of Polish banks in November 2006 with a debt limit up to PLN 2 000 million. Funds obtained from the issue are allocated to financing ongoing operations.
In 2012, within the Programme Agreement PKN ORLEN issued 7-year corporate bonds with variable interest rate, the nominal value of PLN 1 000 million and a maturity date on 27 February 2019.
In 2015 as part of the Programme Agreement, PKN ORLEN issued short-term bonds in PLN for ANWIL, ORLEN Asfalt, ORLEN Centrum Usług Korporacyjnych, ORLEN KolTrans, ORLEN Oil, ORLEN Południe, ORLEN Transport, ORLEN Upstream and Ship-Service. Each time bonds profitability is determined on arm's length conditions.
In 2015 PKN ORLEN S.A. used the funds raised in 2013-2014 from the implementation of a public bond issue programme ("Programme") to finance the current operations. Acting on a basis of the agreement with UniCredit CAIB Poland S.A., Powszechna Kasa Oszczędności Bank Polski S.A. and Bank Pekao S.A., in 2013 PKN ORLEN directed 4 series of medium-term bonds (4-year) with a total nominal value of PLN 700 million to retail investors, and then, continuing the Programme in 2014, the Company issued two consecutive series of 4-year bonds with a nominal value of PLN 200 million and 6-year bonds with a nominal value of PLN 100 million and interest at a fixed interest rate. Emissions conducted in 2014 allowed the Company to realize the Programme for the full amount. Rating of bonds issued under the Programme has not changed and at the end of 2015 was still on

'A- (pol)' level.
In 2015, the ORLEN Group used the funds raised by ORLEN Capital AB through the issue of eurobonds, held in June 2014, in which the PKN ORLEN was a guarantor. The value of the issue amounted to EUR 500 million, and the maturity dated on 30 June 2021. Eurobonds have the ratings awarded by Fitch Ratings Ltd. at BBB- and the agency Moody's Investors Service at Baa3 level. The funds raised by the ORLEN Capital AB from Eurobonds issue were loaned to PKN ORLEN S.A.
The nominal value of eurobonds at the end of 2015 did not change compared to the end of 2014 and amounted to EUR 500 million (PLN 2 131 million at the average National Bank of Poland exchange rate for EUR/PLN as at 31 December 2015).

At the end of 2015 the total amount of securities issued within the ORLEN Group amounted to PLN 4 155 million in comparison to PLN 4 161 million at the end of 2014.

Additional information on the issue of debt securities was presented in point 8.2.9 to the Consolidated Financial Statements for 2015.

3.3.4 Borrowings granted and received

At the end of 2015 the following agreements of borrowings granted by the Parent Company to entities within the ORLEN Group were in force:

- borrowings granted to ORLEN Finance AB in relation to international cash-pool system in total amount of PLN 13 million,
- long-term investment borrowing granted on 2 June 2014 to IKS Solino S.A. of PLN 50 million. The borrowing will be repaid in installments, with the final maturity dated on 31 December 2024. As at 31 December 2015, the borrowing balance amounts to PLN 50 million.

At the end of 2015 in the ORLEN Group the following agreements of borrowings received by the Parent Company from entities within the ORLEN Group were in force:

- short-term borrowing agreement concluded on 22 November 2013 with ORLEN Insurance of USD 15 million with final maturity date on 21 November 2016 with extension possibility for the following year. As at 31 December 2015 the borrowing balance amounts to USD 10 million plus accrued interest,
- borrowings received from ORLEN Finance AB in relation to international cash-pool system in total amount of PLN 554 million,
- long-term borrowing agreement concluded on 30 June 2014 with ORLEN Capital AB of EUR 496 million with the final maturity date on the 30 June 2021. As at 31 December 2015 the borrowing balance amounts to EUR 496 million plus accrued interest.

Borrowings granted to and received from the ORLEN Group are eliminated during standard consolidation procedures.

3.3.5 Sureties, guarantees and other contingent liabilities

As at 31 December 2015 the ORLEN Group possessed off balance liabilities arising out of the issued guarantees and sureties for the overall of PLN 9 109 million, in comparison with PLN 8 896 million at the end of 2014. In 2015 the amount includes:

- sureties and guarantees issued to subsidiaries to the benefit of third parties of PLN 6 836 million, which related mainly to hedge of ORLEN Capital future liabilities resulting from issue of Eurobonds and timely payment of liabilities by the subsidiaries,
- securities for excise and excise duty on products and goods undergoing the procedure of suspended excise collection in the amount of PLN 1 815 million,
- guarantees concerning liabilities towards third parties issued in the course of normal business operations mainly relate to: guarantees and performance warranties, guarantee submitted as a security deposit for the purposes of the Article 105b of the The Goods and Services Tax Act, guarantees providing security on property referred to the Article 38a of the Energy Law, customs guarantees, tender guarantees, payment guarantees of PLN 458 million.

Additional information on sureties and guarantees was presented in point 8.4.5.4 and point 8.5.5 of the Consolidated Financial Statements for 2015.

Contingent liabilities were described in point 8.5.4 of the Consolidated Financial Statements for 2015.

3.3.6 Financial instruments

The ORLEN Group using financial instruments hedges its cash flows:

- from inflows from operating activities performing forward sales and purchases of currency in the formula without settlement (so called non-deliverable forwards),
- from sales of the ORLEN Group products and purchase of crude oil using commodity swaps,
- from periodic increase of operational inventory using commodity swaps,
- from interest payments concerning external financing using interest rate swaps (IRS),
- from investment projects using foreign exchange forwards.

Financial instruments were presented in point 8.4.1 of the Consolidated Financial Statements for 2015.

3.3.7 Ratings

In 2015, PKN ORLEN ratings at the investment level in two leading rating agencies: Fitch and Moody`s remained unchanged, BBB- and Baa3 respectively (positive outlook). The above ratings reflects a consistent process of debt removal, of the ORLEN Group financing diversification and maintaining of the financial results at the safe level.

The Group's reliability was maintained also due to updating of the ORLEN Group's strategy for the years 2014-2017. The announced strategy is advantageous for the Company's credit profile by keeping credit ratios at a safe level. The agencies positively assessed greater financial flexibility of the ORLEN Group. Firstly, the sustainable investment policy was noticed, particularly an additional capex, which can be deferred depending on the financial situation of the ORLEN Group. The agency positively views PKN ORLEN‟s ability to manage its working capital in response to changes in financial situation. The strategy of the ORLEN Group was assessed by the rating agencies as an ambitious plan for improvement of core activity with development of new operating segments, showing extensive flexibility of actions planned.

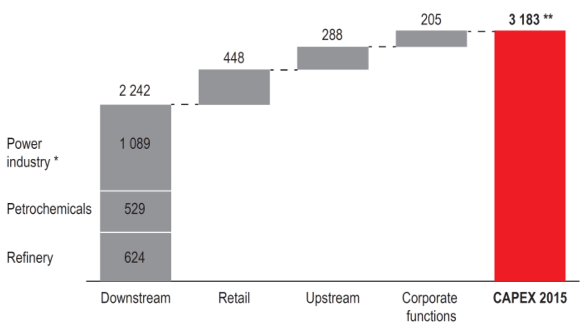
3.3.8 Dividend policy

Improved financial situation of the ORLEN Group achieved in the recent years enabled to implement, within the ORLEN Group's strategy for years 2014-2017, the dividend policy which assumes a gradual increase in the level of dividend per share by taking into account the implementation of strategic financial indicators and forecasts of the macroeconomic situation. This method does not relate the dividend to net profit, which in the ORLEN Group's area of operations is the subject to high fluctuations and can include non-cash items, such as the revaluation of assets, inventories or loans and as a result does not fully reflect the Group's current financial situation. Taking into account the liquidity situation and realization of strategic financial objectives, The Management Board of PKN ORLEN recommends to distribute the net profit of PKN ORLEN for the 2015 in the amount of PLN 1 047 519 491.84 as follows:

to allocate the amount of PLN 855 418 122.00 to dividend payment (PLN 2 for 1 share) and to allocate the remaining amount of PLN 192 101 369.84 to the Company's reserve capital. The Management Board of PKN ORLEN recommend the 15 July 2015 as the dividend date and the 5 August 2015 as the payment date. This recommendation will be presented to the General Shareholders` Meeting of PKN ORLEN, which will make a conclusive decision in this matter.

3.4. Realization of investment and capital plans

DIAGRAM 64. Level of capital expenditures by segments [PLN million].



**) Power industry; mainly CCGT Włocławek (industrial cogeneration) and IOS, SCR (manufacturing energy).*
***) Excludes expenditures in the amount of PLN 1 632 million, incl. PLN 1 535 million on acquisition of extraction assets of Kicking Horse Energy, FX Energy and acquisition on shares of Ceska Rafinerska in the amount of PLN 97 million.*

The most significant investments realised in 2015 comprised of:

Downstream:

- **PKN ORLEN:** construction of a the power plant in Włocławek and Płock (CCGT), Installation of Catalytic Denitrification and Dedusting and the installation of Flue Gas Desulfurization, construction of a Metathesis installation, modernization of the DRW IV installation increased the yields of white products, upgrading of automatic terminals, exchange of convection furnace sections in the Olefin II Production Plant, modernization of the fuel system of the CHP Complex, projects related to the improvement of effectiveness of the PTA installation and increase of possibility of railway carriage in the Fuel Terminal in Ostrów Wielkopolski.
- **ORLEN Lietuva Group**: exchange of coil pipes in the Visbreaking installation.
- **Unipetrol Group:** reconstruction of ethylene installation, construction of a Polyethylene 3 installation, modernization of the T700 CHP Plant – reconstruction and modification of boilers for the purposes of new nitrogen oxide emission reduction technology, modernization of the Hydrocracking Installation, reconstruction of a pirolytic furnace,
- **ANWIL Group**: projects related to the construction of infrastructure for CCGT in Włocławek, modernization of reforming furnace and synthesis gas compressor.

Retail

- opening of 56 fuel stations (incl. own stations: 22 in Poland, 11 in Germany and 1 in the Czech Republic),
- modernization of 65 fuel stations (incl. own stations: 40 in Poland, 3 in the Czech Republic and 2 in Germany),
- opening of 154 Stop Cafe and Stop Cafe Bistro locations in Poland.

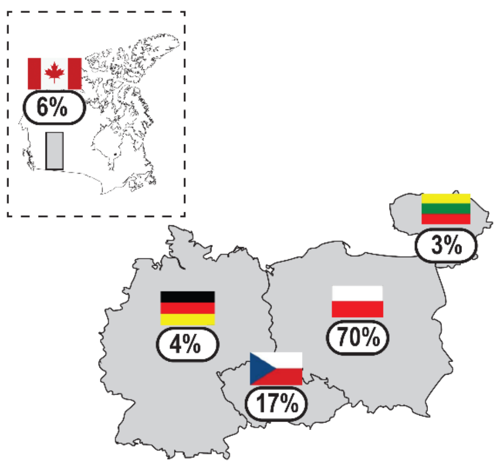
Upstream

- preparation of new drillings for manufacturing in Canada,
- extraction, exploration and development works on possessed concessions in Poland.

Corporate functions

- IT projects,
- administration projects in utilized properties.

SCHEME 11. Capital expenditures by operating markets [%].



The ORLEN Group manages the capital expenditures structure depending on market situation and focuses on the most effective investment projects. The most relevant investment projects planned for completion in the following years are described in point 3.5 of the foregoing Report.
Potential activities related to acquisitions on Polish or other markets will be based on current market and financial condition as well as attractiveness level of potential assets.
The ORLEN Group maintains stable financial position. Generated cash flows and available funding sources will enable implementation of the planned investment projects.
The level of selected financial ratios confirming feasibility of completing investment plans is presented in point 3.2.3.

3.5. Outlook - prospects for the development of the operations

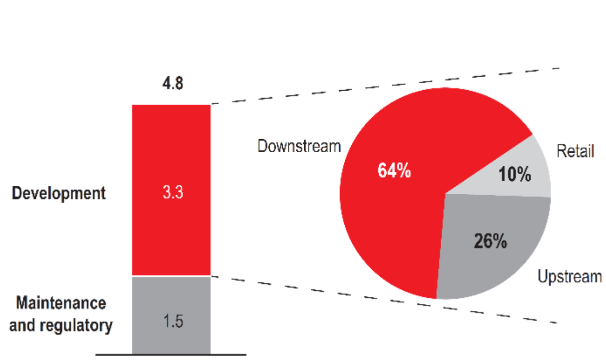
- **Expected macroeconomic environment:**
  - GDP forecast - Poland 3.3% in 2016, the Czech Republic 2.8% in 2016, Germany 1.7% in 2016, Lithuania 3.2% in 2016,
  - Brent oil price – predicted oil price in baseline scenario at a comparable level with the average price in 2015. Key factors leading to price increase are: demand growth, reduced volume of oil extraction and rise of geopolitical risks,
  - Model downstream margin - expected decrease of average margin level (y/y) mainly due to lower margins on diesel and petrochemical products. Despite the fall, high level of margin is expected due to favourable macroeconomic environment i.e. low oil prices and increase of fuel and petrochemical products consumption.

- **The projected market trends:**
- The expected growth in fuels demand, both petrol and diesel oil, in Poland and Baltic countries, stabilization of demand in the Czech Republic and decline of demand in Germany.

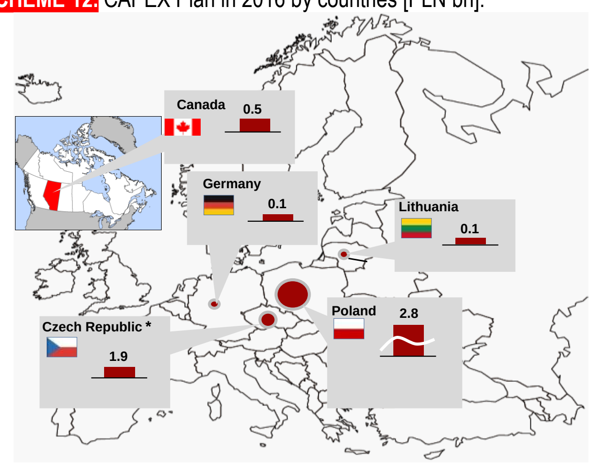
- **Legislative changes:**
  - "Shadow economy" in the fuel markets – existing "shadow economy" maintained on the Polish fuel market. Further regulatory actions focused on its reduction may lead to change in fuel consumption.
  - Mandatory reserves – gradual reserves reduction during 2016 from 68 to 60 days (approx. 0.3 million tonnes) and as a consequence decrease of net working capital,
  - NIT – the level in 2016 for Poland will remain unchanged and will amount to 7.1%. NIT for PKN ORLEN will be reduced to 6.035%.
  - Sales tax – legislative works are being to introduce retail turnover tax, including fuel stations.

- **Investment activities of the ORLEN Group:**
  - downstream: construction of CCGT in Płock and PE3 installation in Unipetrol,
  - retail: introducing 35 new fuel stations and rebranding of approx. 50 Bliska fuel stations in Poland; opening of 7 locations and rebranding of 13 purchased stations in 2015 by ORLEN Deutschland GmbH in Germany; rebranding and introducing to Benzina chain a part of 68 fuel stations in the Czech Republic acquired from Austrian OMV company,
  - upstream: optimization of extraction operations in Canada (60% of expected expenditures) and in Poland (40% of expected expenditures) taking into account current crude oil and gas quotations.

DIAGRAM 65. CAPEX Plan in 2016 [PLN bn].



SCHEME 12. CAPEX Plan in 2016 by countries [PLN bn].



*) The amount of PLN 1.9 bn in the Czech Republic includes expenditures on Steam Cracker in Unipetrol of PLN 0.6 bn.

- **Maintenance standstills in the ORLEN Group in 2016:**
  - PKN ORLEN: DRW, HOG, HON, Olefins Plant.
  - ORLEN Lietuva Group: Reforming, HON; Visbreaking.
  - Unipetrol Group: Steam Cracker (Litvinov), Polypropylene (Litvinov), Visbreaking (Litvinov), Hydrocracking (Litvinov), HON (Kralupy).
  - ANWIL Group: PVC.
  - BOP: Polyethylene/Polypropylene.

4. CORPORATE GOVERNANCE

4.1 Corporate Governance rules

In 2015, PKN ORLEN complied with the "Code of Best Practice for WSE Companies ("Code of Best Practice") applicable on the Warsaw Stock Exchange.
The code is available on the website of the Stock Exchange https://www.gpw.pl/regulations_best_practices and on the corporate website of PKN ORLEN www.orlen.pl in the "Investor Relations" section dedicated to the Company's shareholders in the "WSE Best Practice" tab (http://www.orlen.pl/).

In 2015, the Company did not apply the rule described in part IV, point 10 of the "Code of Best Practice", regarding the shareholders right to take part in the General Meeting, using electronic means of communication, by broadcasting the General Meeting with regard to the bilateral communication in the real-time. The other obligatory rules of the corporate governance included in the "Code of Best Practice" are applied by PKN ORLEN.

Communication with the capital market

The Company undertakes a number of activities to improve communication with its environment. In order to reach a wide range of recipients it applies both traditional and modern tools of communication with the capital market representatives. It organizes broadcasting with simultaneous translation into English from media conferences following each significant event in the Company's life, such as quarterly results publication, announcement of strategies, as well as from the PKN ORLEN General Meeting. Video recordings from the conference are stored on the Company's website, thus, it is possible to watch a selected previous events.

Corporate website http://www.orlen.pl/

PKN ORLEN has its corporate website, which is a reliable and useful source of information about the Company for the capital market representatives. For shareholders, investors and stock market analysts, the Company's webpage provides investor relations section (www.orlen.pl). Its content is prepared in a transparent, fair and complete way so as to enable the investors and analysts making decisions based on the information presented by the Company. The Investor relations section is maintained both in Polish and in English.
The section is divided into a few tabs, where all current and periodical reports published by the Company can be found, as well as presentations prepared for important events in the Company with audio and video recording of such events.

The Investor relations section contains a lot of modern tools useful to investors and stock market analysts. It is continuously improved according to the latest market standards.
One can find there, among others:

- interactive diagrams and tables for fast comparison of the Company's financial ratios in different periods,
- interactive diagrams and tables showing PKN ORLEN's shares quotations with a calculator of the return on investment in the Company's stock. These diagrams enable comparison of stock quotations with the main stock exchange indices which include the Company's stock. A user may set a diagram showing PKN ORLEN share quotations with a diagram showing the quotation of one of the indices: WIG, WIG 20, WIG 30 or WIG PALIWA (WIG FUELS),
- financial statements, gathered in one place together with the presentations that describe them prepared for the capital market representatives, the recording of teleconferences with investors and analysts regarding publication of the financial results and the worksheets with the data from the presentations and financial statements that simplifies the data analysis,
- special form for contacts with the Company in respect of PKN ORLEN's General Meetings, in accordance with the regulations of the Commercial Companies Code,
- possibility to subscribe to various types of PKN ORLEN's newsletters, including the most recent investor relations news. Section has also RSS feed, that enables all new information placed in it to reach recipients immediately, especially regulatory announcements and macroeconomic data,
- an option to sign up for reminders concerning the events from the event's Calendar. One can enter selected dates to calendars in his mail programs as well as sign up for the events' reminders sent by e-mail or SMS. One can decide before which events he wants to receive reminders - it can be one or several of them as well as all events entered to the PKN ORLEN investor relations' calendar, both in the current and in the next years.

In 2015, as part of the periodic review, "Investor Relations" section at www.orlen.pl has been supplemented with a new tab designed for the participants of the Investor and Analyst Day, which was organized by PKN ORLEN in September 2015, and also a new tab for individual investors.

On the website, in the "Investor relations" section, there is also a tab concerning the corporate governance. One can find there the Company's annual reports on complying with best practices rules and the "Code of Best Practice". There is also brief information on best practice applied by the Company and other information which are required through "Code of Best Practice" for the Companies quote on Warsaw Stock Exchange.

The General Meeting tab in the "Investor Relations" section contains set of corporate documents and a guide for shareholders "How to participate in the General Meeting of PKN ORLEN", updated according to changes that occur in the commonly applicable provisions of law. There are also provided information on dates of General Meetings, draft resolutions and the whole set of documents presented to the shareholders at General Meetings. The Company ensures also communication with its shareholders via a special online contact form related to general meetings.
The Company also supports its shareholders, investors and analysts to have the knowledge of the industries in which it operates. On a web portal of PKN ORLEN http://napedzamyprzyszlosc.pl/ there are placed specialized publications and relations from industry conferences. There is also the blog of PKN ORLEN's Chief Economist (http://napedzamyprzyszlosc.pl/blog) on which he places his comments on the current market situation. The Company sends

short messages through its account on Twitter (https://twitter.com/ORLEN_FFbK).

Direct contacts with capital market representatives.

On a regular basis the Company actively participates in the meetings with investors and analysts both in Poland and abroad. Conferences, individual and group meetings, and teleconferences are organized with stakeholders on the capital market. The Company's representatives regularly conduct also roadshows – series of meetings with investors at their work place, in-country and abroad. For the capital market representatives interested in the Company's operations also so-called site visits are organized, i.e. visits of shareholders or analysts in the production plant and other trade and production activity places which improves their knowledge about the Company specifics.
From time to time PKN ORLEN organizes the Investor and Analyst Days, including thematic workshops concerning various areas of activity of the Company, conducted by the representatives of the Management Board, executive directors and other, selected managers.

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

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

The important actions the Company carried out for its shareholders and investors in the last year included i.e.:

- dividend payment in the amount of PLN 1.65 per share,
- organization of Investor and Analyst Days in Warsaw and on the Włocławek power plant construction site,
- PKN ORLEN's participation in an educational campaign "Akcjonariat Obywatelski. Inwestuj Świadomie" ("Citizen Shareholders. Invest Knowingly") dedicated to individual stock investors, including participation in the preparation of an online competition on investing in fuel sector company shares, intended for individual investors.

The participants of the capital market recognize the activities of the Company, as confirmed by the awards and distinctions it received in 2015:

- PKN ORLEN was listed 2nd among institutional investors in a Survey of investor relations in WIG30 companies, organized by Gazeta Giełdy i Inwestorów "Parkiet" and the Brokerage House Chamber,
- The Company maintained its presence in the 9th edition of the Respect Index project,
- PKN ORLEN was ranked in the top three of stock exchange companies with the best ESG (non-financial data) reporting in a group of Polish companies belonging to WIG20 and mWIG40 indexes and in a group of companies from the energy sector, in the 3rd edition of the ranking organized by the Association of Stock Exchange Issuers, GES and Crido Business Consulting,
- for the third time in a row, PKN ORLEN received a special award "The Best of The Best" in "The Best Annual Report 2013" competition, organized by the Institute of Accounting and Taxation, as well as an award in the same competition, for the best annual statements on the Internet, as well as honorable mention for its annual integrated statements on the Internet.

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

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

The above regulation sets also the rules of reaction in a situation, when opinions and information expressed in public by third parties may harm the Company' reputation. The person responsible for the coordination of this process is the Executive Director of the Corporate Communication Department. As such opinions and information appears, the Company verifies their reliability, evaluates their importance and then decides about issuing a disclaimer or closing the case because of the PKN ORLEN's interest or low impact of the occurred misstatements. In case information as well as opinion presented by a third party has serious influence the Company prepares a disclaimer in order to clarify false information or opinion.

Depending on the nature of the matter, the prepared disclaimer is sent to the institution which delivered the information, harmful for PKN ORLEN, and in some cases may be 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 corporate social responsibility area

In 2015, PKN ORLEN commenced the implementation of its corporate social responsibility strategy (CSR) for 2015-2017. The strategy assumes that goodwill growth should take place in harmony with the interest of the environment and should be based on sustainable and responsible use of resources. This means that corporate social responsibility principles are taken into account in the process of creation of business projects. Defining measurable CSR goals will allow for analyzing and assessing the effects derived from these measures in the Concern and its environment. The strategy basing on "Values and principles of conduct adopted by PKN ORLEN S.A." is also to motivate employees to seek new ideas and innovative solutions. Supporting business, the strategy is building a sense of co-responsibility for the implementation of CSR in the organization and promotes the idea of responsibility and involvement among the stakeholders. The pillars of the CSR strategy are:

- Organization, where the goal is to build permanent relations with employees, basing diversity, the sense of safety, development possibilities, and the combination of social and professional roles. Initiatives in this area concentrate on raising the safety of employees, managing development and diversity, and ensuring proper balance between work and private life;

- Direct environment, where the priority is to develop social sensitivity and responsibility for business partners and clients by sharing good practices, knowledge and implementing the highest CSR standards. Initiatives in this area concentrate on building an image of a responsible company, conducting projects devoted to social commitment, promoting CSR among the stakeholders and encouraging their responsibility;
- Indirect environment is an area, where PKN ORLEN embarked on implementing the strategy and promoting the innovative attitude, setting the highest standards in the industry in terms of business ethic and environment protection. The projects implemented contribute to the development of new business areas, execution of investments in a responsible manner, determination and promotion of ethical standards in business.

In 2015, the CSR strategy was implemented according to the pre-assumed plan. In PKN ORLEN, 16 coordinator have been monitoring works on 55 projects, in turn, the Capital Group has implemented 488 measures in the area of CSR. 27 coordinators have been supervising their timely completion. The Management Board of PKN ORLEN and the Supervisory Board CSR Committee periodically review its execution.

PKN ORLEN boasts rich traditions in pro-community initiatives and activities in this area. One of the most important elements of these measures is the ORLEN's Foundation – DAR SERCA established in 2001. Since the beginning of its activity, the Foundation has been providing universal help to foster homes, consistently promoting this form of foster care as the most effective method of providing proper conditions for personal growth to children devoid of their natural families. The Foundation is currently maintaining 2 500 children in more than 300 foster homes. Furthermore, the foundation has also launched several scholarship programs. Their goal is to support young people in the process of education and to strengthen their motivation. The Corporate Foundation has also taken active part in projects aiming at improving safety and health protection, e.g. the "NIE DLA DYMU" ("SAY NO TO SMOKE") campaign. The Foundation has been closely cooperating with PKN ORLEN in its program to support fire brigades. A major part of the Foundation's activity includes projects aimed at the local community. The Foundation is providing regular updates on the its ongoing projects on its dedicated website, in the form of annual statements and the Debeściaki fanpage, which posts regular comments by nearly 22 thousand fans.

In community initiatives of PKN ORLEN and ORLEN's Foundation – DAR SERCA also participate PKN Orlen's clients and the members of the VITAY loyalty program. They have been increasingly interested in devoting their points to charity purposes: foster care support or environmental projects.

In 2015, PKN ORLEN issued its first Integrated statements. This new formula combines financial reporting with CSR reporting and guidelines of the International Integrated Reporting Council. The formula also considers the directions of new EU legislation in reference to the disclosure of non-financed information and information regarding diversity. The report titled "Napędzamy Przyszłość" ("Fueling the Future") presents the relations and mutual dependences between financial and non-financial aspects of PKN ORLEN activity as well as selected ORLEN Group companies. The report refers to global standards and trends in corporate reporting. These assume departure from the presentation of annual results in a formula which is strictly associated with the organizational structure of the company, in favor of a more dynamic and universal approach to communication with stakeholders. The pillars serving as the basis for integrated reporting – value-building, financial strength, people – present the processes which take place in the company and the measures focused on building its value in a holistic manner. Non-financial data was presented according to international guidelines of the Global Reporting Initiative (GRI) in version G 4.

The principles of sponsoring activity conducted by PKN ORLEN are set forth in internal regulations codified in annual marketing plans and in a disposition defining the principles of purchase of sponsoring services. Selecting the projects to carry out, the Concern adheres to ethical principles in force in the company, which explicitly exclude the participation of PKN ORLEN in projects which can be recognized as:

a) promoting hate and belittling individuals or communities on the account of race, belief, religion, nationality, sexual orientation, health condition, etc.,

b) promoting non-humanitarian and non-ethical behaviors or behaviors commonly recognized as offensive,

c) affecting or promoting addictions,

d) insulting the good name of the Republic of Poland in the world and maligning its national symbols,

e) promoting vulgar, obscene contents exceeding the values of artistic expression,

f) non-ecological activities or activities which can have negative effect on the natural environment,

g) activities promoting non-observance of good practices in terms of road safety, promoting dangerous behaviors on the roads and in other aspects of life (e.g. major violation of traffic or fire safety regulations).

Considering the above specified conditions, in its sponsoring activity, the Concern is focusing on selected thematic areas, such as: film, theater, literature, music, education, local projects addressed at communities inhabiting areas of particular interest from the point of view of the activity of the Concern, and social projects. Our initiatives receive vast support on the "Niesamowici Ludzie" fanpage, followed by more than 72 thousand facebook users.

PKN ORLEN communicates its social initiatives, among others, via the corporate website, in the "Responsible business" bookmark, containing the basic information on the principles of the sponsoring policy adopted by PKN ORLEN, as well as information on the procedure for applying to PKN ORLEN for sponsoring. The Concern's social initiatives are extensively described in social impact reports published since 2013. So far, eleven social impact reports have been published. Since 2008, the reports have been drawn up according to the international GRI (Global Reporting Initiative) standard.

4.2 Internal audit and risk management systems

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

- verification whether a uniform accounting policy is applied by the ORLEN Group companies as regards the recognition. measurement and disclosures in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union
- following accounting standards and monitoring compliance with them,
- following uniform separate and consolidated financial reporting standards and periodic verification whether these standards are properly applied in the ORLEN Group companies,
- verification of the ORLEN Group companies' financial reports compliance with the data placed into integrated IT system used to prepare the ORLEN Group's consolidated financial statements,
- a review, by an independent auditor, of the published financial statements for the I quarter, the half-year and the III quarter of the year and the audit of the annual financial statements of PKN ORLEN and the ORLEN Group,
- procedures to authorize and give opinions about financial statements before they are published,
- carrying out an independent and objective evaluation of risk management and internal control systems.

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

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

Security and availability of information contained in the financial-accounting system are controlled at all levels of the database, applications and presentations as well as at the level of operating system. System integration is ensured by the data entry control systems (validation, authorization, a list of values) and logs of changes. In case of system failure not completed transactions are withdrawn. Logs of changes give the possibility of path reviews.
Users do not have direct access to the operating system and database. Integrated menu of the system includes access paths to all transactions available in the system. Securing the access to individual transactions is based on the authorizations assigned to the user. Security systems are used at the hardware and software level of the system.

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

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

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

The Company has certain procedures to authorize the financial statements under which the periodical reports are submitted to the Management Board and subsequently, forwarded to the Audit

Committee of the Supervisory Board for their opinion. Once the opinion has been obtained from the Audit Committee and once the auditor has ended its review or audit, the financial statements are approved by the Management Board for publication and subsequently forwarded by the Investor Relations Office to the appropriate capital market institutions and public opinion. Before the publication the financial statements are provided solely to persons involved in the preparation, verification and approval process.

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

Within the realized tasks and objectives, the Audit and Corporate Risk Management Department provides recommendations as to the implementation of solutions and standards for realized audit tasks, designed to mitigate the risk of PKN ORLEN not meeting the targets set, to improve the effectiveness of the internal control system and to increase the efficiency of business processes.
Twice a year the Audit and Corporate Risk Management Department prepares a report for the Management Board and the Audit Committee of the Supervisory Board on the implementation status of recommendations monitoring, which summarizes the conclusions regarding the audit tasks performed and monitors the realization of the Company's financial statements auditor's recommendations. Adhering to the principles set forth by the Institute of Internal Auditors Research Foundation, the Audit, Control and Risk Management Office has been also conducting consultancy projects.
Additionally, the Audit and Corporate Risk Management Department coordinates the process of corporate risk management and ensures the tools and methodological support for the business areas. The department manages the process of risks self-evaluation every year and carries out the tests of control mechanisms to the needs of Integrated Enterprise Risk Management System (ERM). Based on the work performed the Department prepares a report on the current risk profile of PKN ORLEN and an evaluation of the effectiveness of functioning control mechanisms, under the ERM.

4.3 Corporate Governance rules, which were not applied

In 2015, except for one rule, PKN ORLEN applied all principles of the effective collection of the Code of Best Practice for WSE Listed Companies.

In 2013, in relation to the entry into force, on 1 January 2013, of the Code of Best Practice for WSE Listed Companies. PKN ORLEN notified that it did not comply with the rule of part IV, point 10 of Best Practices, concerning the procurement of the possibility to the shareholders of taking part in the General Meeting with the use of electronic communications involving a transmission of debates of the General Meeting and bilateral communication in real time (elements of "e-general meeting").

The Company's Management Board proposed to the shareholders the introduction of the above rule to the Articles of Association and the Bylaws of the General Meeting twice, but on both occasions the shareholders did not approve the proposal at Ordinary General Meetings held on 29 June 2011 and 30 May 2012.

On 16 May 2013, the Company reported disobedience of this rule via the EBI system. Disregarding above rule does not affect the reliability of the Company's reporting policy of the Company nor does it give rise to any risk of shareholders being limited or impaired in respect of their participation in the debates of General Meetings.

The remaining rules concerning the organization and conduct of the General Meetings are complied with. The Company complies with the provisions of law applicable in this respect and strives for implementing the appropriate reporting policy. PKN ORLEN organizes broadcasting with simultaneous translation into English and the archive video recordings are available on the Company's website at: www.orlen.pl. The Company enables representatives of media to participate in its general meetings.

4.4 Significant stake

PKN ORLEN's shares are listed on the main market of the Warsaw Stock Exchange in the continuous trading system and are included in the biggest company indices WIG20, WIG30 and WIG as well as the industry index WIG-PALIWA (WIG-FUELS).
Since 19 November 2009 PKN ORLEN shares are quoted among the companies engaged in corporate social responsibility index - Respect Index.

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

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

The list of PKN ORLEN's shareholders possessing significant stakes with the number of shares held by these entities, their percentage share in the share capital of the Company, the number of votes resulting therefrom and their percentage of the total number of votes at the PKN ORLEN General Meeting is presented below.

In 2015 and until the date of authorization of this Report there was no change in the structure of shareholders with a stake of more than 5% in the PKN ORLEN share capital. The number of shares held by the shareholders is presented based on the most recent, official information acquired by the Company.

TABLE 35. Shareholding structure in PKN ORLEN as at 1 January 2015, 31 December 2015 and the date of the approval of this report.

SHAREHOLDERS	NUMBER OF SHARES AND VOTES AT A GENERAL MEETING (as at 01.01.2015*)	SHARE IN SHARE CAPITAL AND IN TOTAL NUMBER OF VOTES AT A GENERAL MEETING (as at 01.01.2015*)	NUMBER OF SHARES AND VOTES AT A GENERAL MEETING (as at 31.12.2015**)	SHARE IN SHARE CAPITAL AND IN TOTAL NUMBER OF VOTES AT A GENERAL MEETING (as at 31.12.2015**)	NUMBER OF SHARES AND VOTES AT A GENERAL MEETING (on the date of approval of the report ***)	SHARE IN SHARE CAPITAL AND IN TOTAL NUMBER OF VOTES AT A GENERAL MEETING (on the date of approval of the report ***)
State Treasury	117 710 196	27.52%	117 710 196	27.52%	117 710 196	27.52%
Nationale-Nederlanden OFE (earlier ING OFE)	40 000 000	9.35%	39 000 000	9.12%	39 000 000	9.12%
Aviva OFE	30 000 000	7.01%	34 000 000	7.95%	31 400 000	7.34%
Others	239 998 865	56.12%	236 998 865	55.41%	239 598 865	56.02%
Total	**427 709 061**	**100.00%**	**427 709 061**	**100%**	**427 709 061**	**100.00%**

** according to the information from the OGM PKN ORLEN held on 15 May 2014.*
*** according to the information from the OGM PKN ORLEN held on 28 April 2015.*
**** according to the information from the EGM PKN ORLEN held on 29 January 2016.*

4.5 Special control and voting rights

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

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

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

  The restriction does not apply to the State Treasury and the depository bank which issued depositary receipts in connection with the Company's shares under the agreement with the Company (in case the bank exercises the voting right from the Company's shares). The voting right exercised by the subsidiary is deemed to be exercised by the parent company within the meaning of the above mentioned acts. In order to calculate the number of votes held by a shareholder the voting rights from the shares is added to the number of votes that the particular shareholder would acquire in the event of converting the held depositary receipts into shares.
- A shareholder is deemed to be each person including the parent company and its subsidiary that is directly or indirectly entitled to the voting right at the General Meeting under any legal title; that refers also to a person that is not a Company's shareholder in particular a user, pledgee, a person authorized from the depositary receipt within the meaning of the Act of 29 July 2005 on Trading in Financial Instruments as well as a person authorized to participate in the General Meeting despite having the held shares been disposed of following the day when the right to participate in the General Meeting was established.
- Shareholders, whose votes are cumulated and reduced, are jointly referred to as the Shareholders Grouping. The cumulation of votes involves summing up the votes held by individual shareholders of the Shareholders Grouping. The reduction of the number of votes involves decreasing the overall number of the entitled votes in the Company during the General Meeting to the shareholders being members of the Shareholders Grouping. The number of votes is reduced in accordance with the following rules:
  - the number of votes of a shareholder who has the largest number of votes in the Company among the votes of all shareholders in the Shareholders Grouping, is decreased by the number of votes equal to the surplus in excess of 10% of the overall number of votes in the Company held in aggregate by all shareholders in the Grouping,
  - if, despite the reduction mentioned above, the overall number of votes held by the Shareholders Grouping to be exercised at the General Meeting exceeds 10% of the total number of votes in the Company, the number of votes held by the remaining shareholders in the Grouping is subject to further reduction. The number of votes is further reduced in the order established on the basis of the number of votes held by particular shareholders in the Shareholders Grouping (from the highest to the lowest one). The number of votes is being further reduced until the aggregate number of votes held by the Shareholders Grouping does not exceed 10% of the overall number of votes in the Company,
  - in each case, the shareholder whose voting right has been restricted preserves the right to exercise at least one vote,
  - restriction of the voting right also applies to the shareholder absent during the General Meeting.
- In order to establish the basis for the votes being cumulated and

reduced in accordance with the above provisions, the Company's shareholder, the Management Board, the Supervisory Board and individual Members of such bodies may request the Company's shareholder to provide information on whether a person is the parent company or the subsidiary of PKN ORLEN.

The power referred to above includes also the right to request the disclosure of the number of votes held by the Company's shareholder individually or together with other Company shareholders. The person that failed to perform or performed unduly the obligation to provide the information referred to in this point, may exercise the voting right from one share exclusively until the breach of such obligation has been remedied and exercising the voting right by such person from other shares is ineffective.

- The restriction of the voting right, which is referred to above, does not apply to entities dependent on the State Treasury.
- For the purpose of the regulations indicated above, the parent company and the subsidiary shall accordingly mean a person:
  - who has the status of the dominant entity, dependent entity or both within the meaning of the Act of 16 February 2007 on Competition and Consumers Protection, or
  - who has the status of the parent company, senior parent company, subsidiary, lower level subsidiary, jointly controlled entity or of both parent company (including senior parent company) and subsidiary (including the lower level subsidiary and jointly controlled entity) within the meaning of the Accounting Act of 29 September 1994, or
  - who exerts (parent company) or is subject to (subsidiary) significant influence within the meaning of the Act of 22 September 2006 on Transparency of Financial Relations between Public Authorities and Public Entrepreneurs and on Financial Transparency of Certain Entrepreneurs, or
  - whose votes from the Company's shares held directly or indirectly are cumulated with the votes of another person or other persons under the rules stipulated in the Act of 29 July 2005 on Public Offering and Conditions for Introducing Financial Instruments to the Organized Trading System and Public Companies, in connection with holding, selling or purchasing Company substantial shareholdings.
- In the event of doubts, the provisions of this chapter should be interpreted in accordance with the Article 65 § 2 of the Polish Civil Code.

The State Treasury is authorized to appoint and revoke one of the Supervisory Board Members. Moreover, one of the PKN ORLEN"s Management Board Member is appointed and revoked by the Supervisory Board at the request of the Minister in charge of State Treasury.

In addition, in accordance with the Statute of the Company, as long as the State Treasury is entitled to appoint a member of the Supervisory Board, a resolution granting approval for activities relate to sale or encumbrance of shares in any way or stock in the following companies: Naftoport.Sp. z o.o., Inowroclawskie Kopalnie Soli S.A. and the company that will be created in order to operate the pipeline transport of liquid fuels, require a vote in favor of their adoption by the Supervisory Board member appointed by the State Treasury.

Special rights for the State Treasury shareholder can be a result of the commonly applicable provisions of law. Such rights in particular result from the Act of 18 March 2010 on specific rights vested in the Minister in charge of State Treasury and the exercise of such powers in certain capital companies or capital groups conducting business activities in the electricity, crude oil and gas fuel sectors (the 18 March 2010 Act on "Specific Rights Vested In the Minister in Charge of State Treasury"). Pursuant to the above act, the Minister in charge of State Treasury may object against the resolution passed by the Company's Management Board or any other legal action undertaken by the Company's Management Board regarding the disposal of assets disclosed in the uniform list of facilities, installations, appliances and services comprised in the critical infrastructure, referred to in the Article 5b item 7 point 1 of the Act of 26 April 2007 on Crisis Management, which pose a real threat to the functioning, business continuity and integrity of the critical infrastructure. The Minister in charge of the State Treasury may also object to the Company's body passing resolution on:

- dissolution of the Company,
- change of function or ceasing of the exploitation of the Company's asset disclosed in the uniform list of facilities, installations, appliances and services comprised in the critical infrastructure, referred to in the Article 5b item 7 point 1 of the Act of 26 April 2007 on Crisis Management,
- change of the Company's business activity,
- disposal or lease of the Company's enterprise or its organized part or establishment of a limited property right,
- adoption of the operational and financial plan, investment activity plan or long-term strategic plan,
- transfer of the registered office abroad,
- provided that such a resolution, if performed, would actually pose a real threat to the operations, business continuity and integrity of the critical infrastructure.

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

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

4.6 Amendments of Articles of Association

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

Once the amendments to the Articles of Association are entered in the companies register. PKN ORLEN publishes a relevant regulatory announcement.

4.7 General Meeting of Shareholders

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

Convening and calling off PKN ORLEN's General Meeting

The General Meeting is convened through placing an announcement on the Company's website and by delivering a current report to the capital market institutions and public information. The announcement should be placed at least 26 days before the scheduled date of the General Meeting.

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

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

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

All the materials presented to the shareholders at the General Meeting, specifically draft resolutions adopted by the General Meeting and other important materials are made available by the Company following the day when the General Meeting has been convened in the Company's seat in Płock and in the Warsaw office, as well as on the corporate website www.orlen.pl.

The General Meeting of PKN ORLEN are held in the Company's seat in Płock, however, that can also be held in Warsaw.

The Company arranges for an internet broadcast of the Meeting and offers simultaneous translation into English.

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

Competence of PKN ORLEN's General Meeting

The General Meeting of Shareholders is especially authorized to:

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

- holding contracts within the meaning of article 7 of the Commercial Companies Code.

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

Voting at PKN ORLEN's General Meetings

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

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

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

One PKN ORLEN share confers the right to one vote at the Company's General Meeting. The voting right of the Company's shareholders is restricted to the extent that at the General Meeting of Shareholders none of them (but for those specified in the Company's Articles of Association) can exercise more than 10% of the total votes existing in the Company as at the date the General Meeting of Shareholders is held. The detailed rules for exercising the voting right are described in point 4.5 of the foregoing Management Board Report.

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

Participation in PKN ORLEN's General Meetings

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

A shareholder who wants to take part in the General Meeting of the Company must report it to the entity where the securities account is kept. At the request of the shareholder, filed no earlier than the announcement of convening the General Meeting has been published and no later than on the working day following the day when the participation in the General Meeting has been registered, the entity where the securities account is kept issues a personal certificate of entitlement to attend the General Meeting.

On the basis of the personal certificates the entities where the securities accounts are kept prepare lists of shareholders eligible to participate in the Company's General Meeting. These lists are submitted to the National Depository for Securities (Krajowy Depozyt Papierów Wartościowych S.A. "KDPW", presently the entity maintaining the securities deposit) no later than twelve days prior to the date of the General Meeting date. KDPW provides such a list for the company's review no later than a week prior to the date of the General Meeting. PKN ORLEN"s Management Board issues the list of shareholders eligible to participate in the General Meeting in Płock and in Warsaw office before three days prior to the date of the General Meeting.

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

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

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

The shareholders of the Company may communicate with the Company via the corporate website. This way shareholders can send an electronic notice of proxy or proxy document allowing the identification of the principal and the proxy together with other related documentation. Special section dedicated to the Company's General Meetings is used for this purpose. The section includes also useful to the shareholders materials, among others, the guideline "How to participate in General Meeting" updated in accordance with changes that occur in the commonly applicable provisions of law, information about the planned shareholders" meetings along with materials relating to such meetings archive materials from the meetings held, including texts of resolutions adopted and video files with internet broadcasts of the General Meeting.

General Meetings in 2015

On 28 April 2015 the Ordinary General Meeting of PKN ORLEN was held.

During the Ordinary General Meeting the shareholders approved the annual reports on the operations of the Company and the ORLEN Group as well as the financial statements for 2014. They also decided on the fulfilment of duties by all the Supervisory and the Management Boards Members.

Having familiarized with the motion of the Management Board and the opinion of the Supervisory Board, the General Meeting of Shareholders decided to cover the net loss for the prior financial year of PKN ORLEN of PLN 4 671 826 145.06 from the supplementary capital. At the same time, the Ordinary General Meeting consented to the dedication of the sum of PLN 705 719 950.65 for divided payment (PLN 1.65 per share) from the supplementary capital of the Company, established on the last years' profit. The Ordinary General Meeting set 16 June 2015 as the dividend date and 8 July 2015 as the dividend payment date.

The Ordinary General Meeting adopted amendments to the Statute, consisting in the extension of the activity of the Company to include the following activities:

- brokerage activity related to the market of securities and stock exchange goods (PKD 66.12.Z),
- head office and holding activity, with the exclusion of financial holdings (PKD 70.10.Z),
- commissioned wholesale (PKD 46.1), including the activity of agents trading fuels, ore, metals and industrial chemicals (PKD 46.12.Z).

As regarding statutory activity included in the Statute and consisting in the production and processing of petroleum refinement products, the General Meeting adopted a resolution regarding change of the PKD (Polish Classification of Activities) number of this activity from PKD 19.2 to PKD 19.20.Z.

Furthermore, The Ordinary General Meeting adopted a decision regarding amendment of the provisions of § 8 sec. 12 pt. 4(a) of the Company's Articles of Association, regarding the competences of the Supervisory Board, excluding activities performed under ordinary management, particularly activities concerning fuel or energy trading from the competences of the Supervisory Board. The General Meeting decided to add the definition of "Energy" to the Company's Articles of Association, indicating that it stands for electrical energy and property rights resulting from energy origin certificates or energy efficiency certificates.

4.8 Management and supervisory bodies

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.

4.8.1 The Management Board

Composition of the PKN ORLEN's Management Board in 2015

TABLE 36. Composition of the PKN ORLEN's Management Board as at 1 January 2015.

NAME AND SURNAME	POSITION HELD IN PKN ORLEN MANAGEMENT BOARD
Dariusz Jacek Krawiec	President of the Management Board, Chief Executive Officer
Sławomir Jędrzejczyk	Vice – President of the Management Board, Chief Financial Officer
Piotr Chełmiński	Member of the Management Board, Business Development/Power and Heat Generation Officer
Krystian Pater	Member of the Management Board, Production
Marek Podstawa	Member of the Management Board, Sales

On 16 December 2015, the Supervisory Board of PKN ORLEN S.A. dismissed Mr. Dariusz Jacek Krawiec from the Management Board of PKN ORLEN and appointed Mr. Wojciech Jasiński to the position of the President of the Management Board, for a joint three-year term of the Management Board, which terminates on the date of the Ordinary General Meeting approving the financial statements of the Company for 2016.

TABLE 37. Composition of the PKN ORLEN's Management Board as at 16 December 2015, current also on 31 December 2015.

NAME AND SURNAME	POSITION HELD IN PKN ORLEN MANAGEMENT BOARD
Wojciech Jasiński	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, Business Development/Power and Heat Generation Officer
Krystian Pater	Member of the Management Board, Production
Marek Podstawa	Member of the Management Board, Sales

The Supervisory Board at its meeting on 8 February 2016, dismissed Mr Marek Podstawa from the Management Board of PKN ORLEN and appointed Mr Mirosław Kochalski to the position of the Vice-President of the Management Board of the Company and Mr Zbigniew Leszczyński to the Management Board Member of the Company for a joint three-year term of the Management Board, which terminates on the date of the Ordinary General Meeting approving the financial statements of the company for 2016.

TABLE 38. Composition of the PKN ORLEN's Management Board as at 8 February 2016.

NAME AND SURNAME	POSITION HELD IN PKN ORLEN MANAGEMENT BOARD
Wojciech Jasiński	President of the Management Board, Chief Executive Officer
Sławomir Jędrzejczyk	Vice – President of the Management Board. Chief Financial Officer
Mirosław Kochalski	Vice – President of the Management Board. Corporate Affairs (since 12 February 2016)
Piotr Chełmiński	Member of the Management Board. Business Development/Power and Heat Generation Officer
Zbigniew Leszczyński	Member of the Management Board. Sales (since 12 February 2016)
Krystian Pater	Member of the Management Board. Production

At the date of authorization of this Management Board Report on the Operations, the composition of Management Board has not changed.

Number of women and men acting as Management Board Members of PKN ORLEN for the last two years

TABLE 39. Number of women and men acting as Management Board Memebers of PKN ORLEN, including changes in composition of the reporting period.

AS AT	NUMBER OF WOMEN	NUMBER OF MEN
1 January 2014	0	5
24 September 2014	0	6
26 September 2014	0	5
31 December 2014	0	5
1 January 2014	0	5
16 December 2015	0	5
31 December 2015	0	5
8 February 2016	0	6

Division of powers of the Company's Management Board

Mr. Wojciech Jasiński, President of the Management Board of PKN ORLEN, also serving as the Chief Executive Officer, is in charge of the following areas: strategy and project management, crude oil and gas trade, marketing, corporate communication, audit, control and management of corporate risk, protection of information, critical infrastructure and defense matters, safety and head office.

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

Mr. Mirosław Kochalski, Vice-President of the Management Board, Corporate Affairs, performs supervision of such areas as: human resources, purchases, legal department, the capital group, management of regulatory risk, organization and management systems.

Mr. Piotr Chełmiński, Member of the Management Board. Business Development/Power and Heat Generation Officer supervises the following areas: implementation of property investments, power and heat generation development, health and safety, environmental protection.

Mr. Zbigniew Leszczyński, Member of the Management Board in charge of Sales supervises the following areas: refining and petrochemical products, retail sale, logistics, efficiency and development of sales.

Mr. Krystian Pater, Member of the Management Board in charge of Production supervises the following areas: refinery production, petrochemical production, investment and production efficiency, technology.

The rules of PKN ORLEN's Management Board operations

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

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

Appointing and recalling PKN ORLEN's Management Board

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

The term of office of the Management Board members is a joint term of office, ending on the day when the Ordinary General Meeting has been held, approving the financial statements for the whole second financial year of such term of office.
The current term of the Management Board terminates on the date of the Ordinary General Meeting approving the financial statements of the Company for 2016.

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

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

Organization of PKN ORLEN's Management Board activity

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

The meeting of the Management Board is convened by the President who manages the activity of the Management Board and has to fix the date, venue and the agenda of the meeting. In exceptional cases the meeting of the Management Board may be convened by the Vice-President or two Members of the Management Board. The meeting can also be held without being formally convened if all the Management Board Members are present and none of them has objected to the meeting being held or any proposed issues being put on the agenda.
Invited Company's employees, advisers and other persons can attend the meeting with the consent of the person chairing the meeting of the Management Board. Additionally, in case of issues relating the critical infrastructure components, the Critical Infrastructure Proxy can take part as an advisor in the meeting of the Management Board. Meetings of the Management Board are held in the Company's seat in Płock or in the Company's office in Warsaw. The person convening the meeting may, however, determine another venue for the meeting to be held.

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

Resolutions are adopted in an open vote. A secret ballot may be ordered at a request of each Member of the Management Board.

Resolutions are signed by all Members of the Management Board who were present at the Management Board meeting on which the resolution was adopted. The resolution is also signed by the Member of the Management Board who filed a dissenting opinion, with a note: “dissenting opinion” or "votum separatum ".

Competences of PKN ORLEN`s Management Board

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

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

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

- adopt and amend the Management Board Regulations,
- adopt and amend the Organizational Rules and Regulations of PKN ORLEN,
- adopt motions to be submitted to the Supervisory Board and/or to the General Meeting of Shareholders, in particular, any motions sent to these bodies for their consent to perform certain actions, issue opinions, make an assessment or give an approval, which are required in accordance with the generally applicable law and/or the Company’s Articles of Association,
- convene the General Meetings of Shareholders and adopt the proposed agenda of the General Meetings,
- approve annual and long-term financial plans as well as the Company’s development strategy,
- approve investment tasks and corresponding liabilities if the resulting expenditures and encumbrances exceed PLN 10 000 000,
- incur liabilities, manage the property rights and any form of encumbrance on the Company’s property where the total value exceeds PLN 20 000 000 (with certain exceptions to that rule),
- dispose and purchase real estate, perpetual usufruct or an interest in real estate and to establish a limited property right,
- dispose of, purchase and encumber stakes, shares or other interest in other entities, including shares admitted to public trading,
- issue the Company’s securities,
- approve the annual report on the Company’s business operations, the Company’s annual, half-yearly and quarterly financial statements. the ORLEN Group’s annual. half-yearly and quarterly financial statements,
- adopt and change the Company’s employees’ remuneration scheme, as well as decisions regarding introduction and fundamentals of the incentive schemes,
- conclude amend and terminate a collective labour agreement applicable in the Company, and other agreements with trade unions,
- establish the principles of granting and revoking powers of attorney,
- formulate the so-called donation policy of the Company,
- grant a procuration,
- establish the internal segregation of duties among the members of the Management Board,
- set up establishments/offices abroad,
- handle other matters which at least one member of the Management Board requests to be handled in the form of a resolution,
- take decisions on the payment of interim dividends.

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

4.8.2 The Supervisory Board

TABLE 40. Composition of PKN ORLEN's Supervisory Board as at 1 January 2015.

Name and Surname	Position held in PKN ORLEN's supervisory board
Angelina Sarota	Chairman of the Supervisory Board
Leszek Pawłowicz	Vice – Chairman of the Supervisory Board (Independent Member of the Supervisory Board)
Adam Ambrozik	Secretary of the Supervisory Board
Grzegorz Borowiec	Member of the Supervisory Board
Artur Gabor	Member of the Supervisory Board (Independent Member of the Supervisory Board)
Cezary Banasiński	Member of the Supervisory Board (Independent Member of the Supervisory Board)
Cezary Możeński	Member of the Supervisory Board
Maciej Bałtowski	Member of the Supervisory Board
Radosław L. Kwaśnicki	Member of the Supervisory Board

On 23 November 2015, the Minister of Treasury, acting pursuant to § 8 item 2 point 1 of PKN ORLEN's Articles of Association has recalled Mr. Maciej Bałtowski from the Supervisory Board. At the same time, on 23 November 2015, the Minister of Treasury, acting pursuant to § 8 item 2 point 1 of PKN ORLEN's Articles of Association has appointed Mr. Remigiusz Nowakowski as a Member of the Supervisory Board of PKN ORLEN.
On 28 January 2016, the Minister of Treasury, acting pursuant to § 8 item 2 point 1 of PKN ORLEN's Articles of Association has recalled as of 28 January 2016 Mr. Remigiusz Nowakowski from the Supervisory Board of PKN ORLEN on behalf of the Company's shareholder, the State Treasury.

On 29 January 2016, the Extraordinary General Meeting of Shareholders recalled Mr. Adam Ambroziak, Mr. Cezary Banasiński, Mr. Grzegorz Borowiec, Mr. Cezary Możeński and Mr. Leszek Jerzy Pawłowicz from the Supervisory Board and appointed Mr. Mateusz Henryk Bochacik, Mr. Adrian Dworzyński, Ms. Agnieszka Krzętowska, Mr. Remigiusz Nowakowski and Mr. Arkadiusz Siwko as Supervisory Board Members.
Due to the above-mentioned changes, as of 29 January 2016, the Supervisory Board of PKN ORLEN included the following members:

TABLE 41. Composition of PKN ORLEN's Supervisory Board from 29 January 2016.

Name and Surname	Position held in PKN ORLEN's supervisory board
Angelina Sarota	Chairman of the Supervisory Board
Radosław L. Kwaśnicki	Vice – Chairman of the Supervisory Board (since 8 February 2016)
Mateusz Henryk Bochacik	Secretary of the Supervisory Board (since 8 February 2016)
Artur Gabor	Member of the Supervisory Board (Independent Member of the Supervisory Board)
Agnieszka Krzętowska	Member of the Supervisory Board (Independent Member of the Supervisory Board)
Arkadiusz Siwko	Member of the Supervisory Board
Adrian Dworzyński	Member of the Supervisory Board (Independent Member of the Supervisory Board)
Remigiusz Nowakowski	Member of the Supervisory Board

In 2015 the Supervisory Board held 10 minuted meetings and adopted 72 resolutions.

TABLE 42. Number of women and men in the Supervisory Board of PKN ORLEN, including changes in the composition in the presented period.

As at	Number of women	Number of men
1 January 2014	1	6
21 April 2014	1	5
15 May 2014 – 31 December 2015	1	8
29 January 2016	2	6

The rules of conduct of PKN ORLEN's Supervisory Board

Appointing and recalling members of PKN ORLEN's Supervisory Board

PKN ORLEN's Supervisory Board is composed of six to nine members. The State Treasury is authorized to appoint and recall one Member of the Supervisory Board, other Members of the Supervisory Board are appointed and recalled by the General Meeting of Shareholders Members of PKN ORLEN's Supervisory Board are appointed for a joint term of office, ending on the day when the Ordinary General Meeting has been held, approving the financial 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.
The current term of the Supervisory Board terminates on the date of the Ordinary General Meeting approving the financial statements of the Company for 2015.

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

- he/she is not an employee of the Company or a Related Entity,
- he/she has not been a member of management authorities of the Company or a Related Entity within the last five years prior to the appointment to the Supervisory Board,
- he/she is not a member of supervisory and management authorities of a Related Entity,
- he/she does not receive nor has received, within the last five years prior to the appointment to the Supervisory Board, a considerable additional remuneration. i.e. remuneration exceeding the aggregate amount of PLN 600.000 from the Company or a Related Entity, apart from the remuneration due to the member of supervisory authorities,
- he/she is not nor has been, within the last three years prior to the appointment to the Supervisory Board, a partner or employee of the current or former chartered auditor examining the financial statements of the Company or a Related Entity,
- he/she is not a shareholder holding 5% or more votes at the Company's General Meeting of Shareholders or a Related Entity's General Meeting,
- he/she is not a member of supervisory or management authorities or an employee of an entity having 5% or more votes at the Company's General Meeting of Shareholders or a Related Entity's General Meeting,
- he/she is not an ascendant, descendant, spouse, sibling, spouse's parent or any other person remaining in an adoptive relationship with any of the persons mentioned above,
- he/she has not hold the position of the Company's Supervisory Board member for more than 3 terms of office,
- he/she is not a member of the Management Board of the company, where a member of the Company's Management Board holds the position of a member of the Supervisory Board,
- he/she is free from any significant connections with members of the Company's Management Board by participation in other companies.

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

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

Organization of PKN ORLEN's Supervisory Board's operations

Organization of the Supervisory Board is in accordance with the principles set out in the Regulations of the Supervisory Board.

Meetings of the Supervisory Board are held when necessary, however, not less frequently than once every two months. The meetings are convened by the Chairman of the Supervisory Board. In case of his absence or inability to act his role this task is ascribed to the Vice – Chairman of the Supervisory Board, and respectively to Secretary of the Supervisory Board. Written invitations shall be
sent to the Members of the Supervisory Board, at least seven

days before the date of the session.

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

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

The Supervisory Board can pass resolutions if at least half of its members participate in the meeting. Subject to the provisions of the Commercial Code, a resolution of the Supervisory Board can be passed in writing or with the use of direct means of remote communication. Resolutions of the Supervisory Board are passed with an absolute majority of the votes cast in the presence of at least half of the members of the Supervisory Board, while the votes cast mean votes "for", "against" and "abstain." This does not apply to any members of the Management Board or the entire Management Board being recalled or suspended during the term of their office when at least two thirds of all the Supervisory Board members have to vote in favour of the resolution.

Passing resolutions on the following matters:

- any contribution to members of the Management Board provided by the Company or any related entities,
- giving permission to sign any significant agreement by the Company or a subsidiary with an entity related to the Company, a member of the Supervisory Board, or Management Board as well as with their related entities,
- appointing a certified auditor to audit the financial statements of the Company,
- requires the consent of at least one half of the independent members of the Supervisory Board. Such provisions do not exclude applying art. 15 § 1 and 2 of the Commercial Code.

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

Competence of PKN ORLEN's Supervisory Board

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

Pursuant to the Articles of Association the Supervisory Board is also authorized to:

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

end of the term of office.

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

If the Supervisory Board withholds its consent to any of the above activities being taken, the Management Board can address the General Meeting of Shareholders to adopt a resolution to approve the relevant activity.
Additionally, following a request of at least two members, the Supervisory Board is obliged to consider undertaking supervisory actions specified in such request.

Given the best practice standards and in order to enable the shareholders to make a true and fair view of the Company, the Supervisory Board of PKN ORLEN is in charge of the additional duty to submit to the General Meeting of the Company a concise assessment of PKN ORLEN's standing, including internal control and risk management system relevant for the Company. The assessment is submitted annually, before the date of the Company's General Meeting to allow time for PKN ORLEN shareholders to get acquainted with it. Moreover, the Supervisory Board prepares an annual report on its work, in which it takes into account both the number of meetings held and the most important issues dealt with in the year.

4.8.3 Committees of Supervisory Board

The Supervisory Board of PKN ORLEN may elect permanent or ad hoc committees which act as its collective advisory and opinion making bodies.
The following permanent committees operate within the Supervisory Board of PKN ORLEN:
- Audit Committee,
- Strategy & Development Committee,
- Nomination and Remuneration Committee,
- Corporate Governance Committee,
- Corporate Social Responsibility Committee (CSR Committee).

The mentioned Committees report annually to the Supervisory Board on its activities, Competences of the Committee is regulated by Terms of the Supervisory Board, which is made available for shareholders on the Company's website www.orlen.pl.
All Committees are appointed by the Supervisory Board from amongst its members and the Committee itself chooses its Chairman. The Committees consist of between 3 to 5 members, but at least two members of Audit Committee are independent members and at least one has skills and expertise in the field of accounting or finance.

The Committee meetings are convened by the Committee Chairman and if he/she is either absent or unable to perform his/her duties by the chairman of the Supervisory Board or another member of the Supervisory Board indicated by the chairman, who invites all the Committee Members to the meeting and notifies all the other
Supervisory Board members of the meeting. All the members of the Supervisory Board can participate in the Committee meetings. The Committee chairman can invite to the Committee meetings members of the Management Board, the Company's employees and other persons whose participation in the meeting is expedient to carry out the Committee tasks.

The Committee resolutions are passed with a simple majority of the votes cast. In the event of an equal number of "for" and "against" vote cast, the Committee chairman has the casting vote.

Composition of Supervisory Board Committees of PKN ORLEN in 2015

TABLE 43. Composition of Supervisory Board Committees of PKN ORLEN as at 1 January 2015.

NAME AND SURNAME	POSITION HELD IN PKN ORLEN'S SUPERVISORY BOARD COMMITTEE
Audit Committee	
Artur Gabor	Committee Chairman, Independent Member of the Supervisory Board
Leszek Pawłowicz	Committee Member, Independent Member of the Supervisory Board
Grzegorz Borowiec	Committee Member
Radosław L. Kwaśnicki	Committee Member
Strategy and Development Committee	
Cezary Banasiński	Committee Chairman, Independent Member of the Supervisory Board
Leszek Pawłowicz	Committee Member, Independent Member of the Supervisory Board
Artur Gabor	Committee Member, Independent Member of the Supervisory Board
Angelina Sarota	Committee Member
Cezary Możeński	Committee Member
Nomination and Remuneration Committee	
Angelina Sarota	Committee Chairman
Grzegorz Borowiec	Committee Member
Adam Ambrozik	Committee Member
Cezary Banasiński	Committee Member, Independent Member of the Supervisory Board
Maciej Bałtowski	Committee Member
Corporate Governance Committee	
Cezary Możeński	Committee Chairman
Angelina Sarota	Committee Member
Radosław L. Kwaśnicki	Committee Member
Maciej Bałtowski	Committee Member
Corporate Social Responsibility Committee	
Artur Gabor	Committee Chairman, Independent Member of the Supervisory Board
Adam Ambrozik	Committee Member
Radosław L. Kwaśnicki	Committee Member

Due to the changes in the structure of Supervisory Board, introduced on 23 November 2015 and 29 January 2016, the Supervisory Board established the following Committee members:

TABLE 44. Composition of Supervisory Board Committees of PKN ORLEN from 22 March 2016.

NAME AND SURNAME	POSITION HELD IN PKN ORLEN'S SUPERVISORY BOARD COMMITTEE
Audit Committee	
Artur Gabor	Committee Chairman, Independent Member of the Supervisory Board
Agnieszka Krzętowska	Committee Member, Independent Member of the Supervisory Board
Remigiusz Nowakowski	Committee Member
Strategy and Development Committee	
Remigiusz Nowakowski	Committee Chairman
Adrian Dworzyński	Committee Member, Independent Member of the Supervisory Board
Artur Gabor	Committee Member, Independent Member of the Supervisory Board
Angelina Sarota	Committee Member
Arkadiusz Siwko	Committee Member
Nomination and Remuneration Committee	
Angelina Sarota	Committee Chairman
Mateusz Bochacik	Committee Member
Adrian Dworzyński	Committee Member, Independent Member of the Supervisory Board
Agnieszka Krzętowska	Committee Member, Independent Member of the Supervisory Board
Corporate Governance Committee	
Adrian Dworzyński	Committee Chairman, Independent Member of the Supervisory Board
Mateusz Bochacik	Committee Member
Angelina Sarota	Committee Member
Radosław L. Kwaśnicki	Committee Member
Corporate Social Responsibility Committee	
Artur Gabor	Committee Chairman, Independent Member of the Supervisory Board
Mateusz Bochacik	Committee Member
Radosław L. Kwaśnicki	Committee Member
Agnieszka Krzętowska	Committee Member, Independent Member of the Supervisory Board

Committees of PKN ORLEN's Supervisory Board

Audit Committee

In 2015, the Audit Committee of the Supervisory Board held 14 meetings, including 2 shared meetings with the Nomination and Remuneration Committee and adopted 7 resolutions.

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

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

Furthermore, the tasks of the Audit Committee are:

- to discuss any problems or objections that may result from the audit of the financial statements,
- to analyze Management Letter Point prepared by the

certified auditors, independency and objectivity of their audit and the Management Board's replies,
- to give opinions on annual and long-term financial plans,
- to give opinions on the dividend policy, profit distribution and issue of securities,
- to review the management accounting system,
- to review the internal control system, including control mechanisms in terms of finance, operations, compliance with the provisions of law, risk and management assessment,
- to review the reports of internal certified auditors employed by the Company and basic findings made by other internal analysts together with the Management Board's replies to these observations, including an examination of the degree of independence of internal auditors and to give opinions on the Management Board's intentions as to employment matters or dismissal of the head of internal audit,,
- to review, on an annual basis, the internal audit program, coordination of the work of internal and external auditors and to analyze the conditions for internal auditors operation, cooperation with the Company's organizational units in
- charge of audit and control and to evaluate their work on a periodical basis,
- cooperation with the Company's organizational units responsible for audit and control and periodic evaluation of their work,
- to consider all other issues relating to the Company's audit raised by the Committee or the Supervisory Board,
- to notify the Supervisory Board of any material issues regarding the operation of the Audit Committee.

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

Corporate Governance Committee

In 2015 the Corporate Governance Committee of the Supervisory Board held 4 meetings.

The task of the Corporate Governance Committee is to assess:
- implementation of the corporate governance principles,
- presentation of above principles to the Supervisory Board,,
- opinion on normative documents regarding corporate governance,
- assessment of reports concerning compliance with the corporate governance principles prepared for the Warsaw Stock Exchange in Warsaw,
- opinion on the draft amendments of the Company's corporate documents and to develop such drafts in case of own documents of the Supervisory Board,
- monitoring the Company management for compliance with legal and regulatory requirements, including compliance with the of PKN ORLEN's Code of Ethics and the corporate governance principles.

Strategy and Development Committee

In 2015 the Strategy and Development Committee of the Supervisory Board held 6 meetings.

The task of the Strategy and Development Committee is to issue opinions and submit recommendations to the Supervisory Board on planned investments and divestments which exert a material impact on the Company's assets. In particular, the Committee:
- assesses the effect of planned and conducted already implemented investments and divestments on the form of the Company's assets,
- evaluates the activities contracts letters of intent and other documents relating to the actions aimed at acquisition, sale, encumbrance or any other disposal of the Company's material assets,
- issues opinions on any strategic documents which the Management Board submits to the Supervisory Board,
- issues opinions on the Company's development strategy, including long-term financial plans

Nomination and Remuneration Committee

In 2015 Nomination and Remuneration Committee of the Supervisory Board held 3 meetings, and 2 shared meetings with the Audit 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 organizational solutions, remuneration schemes and selection of the staff with the skills required to ensure the Company's success. In particular, the tasks of the Committee include:
- to initiate and issue opinions on the solutions in the area of Management Board members nomination system,
- to issue opinions on the solutions proposed by the Management Board in the area of the Company's management system, aimed at ensuring efficiency, integrity and safety of the Company's management,
- to periodically review and recommend the rules for determining incentive schemes to the Management Board members and top executives, with a view to the Company's interest,
- periodically review the remuneration system applicable to Management Board members and managerial staff directly reporting to the Management Board members, including managerial contracts and incentive schemes and to submit to the Supervisory Board the proposals how to shape them in the context of the Company's strategic goal attainment,
- to submit to the Supervisory Board opinions on the rationale behind performance-driven remuneration, in the context of evaluating the degree to which the Company's specified tasks and goals are met,
- to assess the Company's human resources management system.

Corporate Social Responsibility (CSR) Committee.

In 2015 Corporate Social Responsibility (CSR) Committee held 2 meetings.

The task of the CSR Committee is to support the Company's strategic objectives by taking into account social, ethical and environmental issues in the Company's operations and in contacts with stakeholders (including employees, customers, shareholders, local communities). In particular, the tasks of the Committee include:
- supervising the implementation of Corporate Social Responsibility strategy by the Company,
- monitoring the Company management for compliance with the PKN ORLEN's Code of Ethics,

- periodic assessment of the Company's activities in the area of CSR,
- acceptance of the annual report summarizing the CSR activities performed by the Company.

4.9 Remuneration policy

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

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

All elements of the remuneration and additional benefits are governed by an agreement between the Member of the Management Board and the Company.

Additional benefits for the Management Board Members may include company car, life and endowment insurance agreement, private health insurance for the Management Board Member and his/her closest family as well as possibility to cover reasonable expenses of personal and property protection.

Additional benefits for directors directly reporting to the PKN ORLEN's Management Board may include company car, payment of premium for insurance with investment option, private health insurance for the director and his/her closest family, including preventive medicine, sport activities and rehabilitation, additional financing for apartment rental, covering costs of removal during the employment, possibility to use benefits under the PKN ORLEN Social Benefits Funds Rules as well as to participate in the PKN ORLEN Employee Pension Scheme.

PKN ORLEN remuneration policy supports achievement of the Company's goals, in particular long-term shareholder value creation and the company's stability.

General terms and conditions of the annual bonuses

Members of the Management Board are entitled to an annual bonus on the principles established in the contract, which includes the Bonus System Regulations for the Management Board. The level of annual bonus depends on the performance of individual tasks (qualitative and quantitative), established by the Supervisory Board for the individual Members of the Management Board. The Supervisory Board appoints each year from four to seven individual bonus tasks that are recorded in Goals Charter of the Board Member. Assessment of the performance of individual bonus tasks (quantitative and qualitative) by particular Member of the Management Board is made each year by the Supervisory Board on the Chairman of the Management Board's recommendation, which contains assessment of individually performed bonus tasks of all Members of the Management Board, reports on the performance of bonus tasks by members of the Board, PKN ORLEN's financial statements and other documents the investigation of which the Supervisory Board deems appropriate.
Quantitative assessment of the performance of individual bonus tasks is made by awarding percentage points. Qualitative assessment of the performance of individual bonus tasks is made by granting a level of achievement according to the principles contained in the Bonus System Regulations of the Management Board. Execution of individual bonus tasks is expressed as the sum of the weighted percentage points granted by the Supervisory Board for each bonus task.
The Supervisory Board adopts a resolution to grant or not the Board Member of the annual bonus for the financial year, and its amount, by 30 April of the following year. The annual bonus will be paid if the Company's consolidated financial statements for the financial year will be approved by the General Meeting.

For 2015, the Supervisory Board has set for all Members of the Management Board the following six quantitative objectives:

- EBIT reported of the Concern,
- EBITDA LIFO of the Concern,
- Maintenance CAPEX of the Concern + overhead and personnel costs of the Concern,
- Development CAPEX of the Concern,
- Stock exchange rate: TSR PKN relative to the market,
- Accident rate: the Concern's TRR.

and attributed to them relevant bonus thresholds. The Supervisory Board for each of the Members of the Management Board also established quality objectives associated with supervised by them unit.

Rules for awarding bonuses for key management personnel (including Members of the Management Board)

The regulations applicable to PKN ORLEN Management Board, directors reporting directly to the Management Board of PKN ORLEN and other key positions have certain common features. Persons covered by the above-mentioned systems are remunerated for the implementation of individual goals set at the beginning of the bonus period by the Supervisory Board for the Management Board and the Management Board for the key executive personnel. The bonus systems are consistent with the Company's Values and promote cooperation between particular employees and motivate them to achieve the best possible results for the PKN ORLEN.
The targets set are qualitative and quantitative, and are settled for after end of the year for which they were set, based on the principles adopted in the applicable Bonus System Regulations. Regulations also gives the possibility to highlight employees who have a significant contribution to the achieved results.

Remuneration of the Members of the Management Board and the Supervisory Board of the Company due to sit on the Management or Supervisory Boards of subsidiaries, jointly controlled entities and associates

Members of the PKN ORLEN's Management Board in 2015, who were acting as the Management or Supervisory Boards Members of subsidiaries, jointly controlled entities and associates of the ORLEN Group did not receive any remuneration, with the exception of Unipetrol a.s. wherein the payments were transferred to ORLEN's Foundation "Dar Serca". As at 31 December 2015, four members of the Management Board of PKN ORLEN sat on the Supervisory Board of Unipetrol a.s.

The agreements with the Members about non-competition and termination on appeal from the position held

In accordance with applicable agreements, Members of PKN ORLEN's Management Board are required for a period of 6 or 12 months from the date of termination or expiry of the contract, to refrain from competitive activities. During this period, the Management Board members are entitled to receive compensation in the amount of six or twelve monthly basic salary, paid in equal monthly installments. The Company may waive the President and Members of the Management Board of the non-competition clause applicable after the termination or expiration of the contract or reduce the duration of the ban. In the case of an exemption from the ban of competition, the Company does not pay compensation. If the period of the ban of competition was shortened, compensation shall be in proportion to the duration of non-competition.

In addition, the agreements provide for the payment of compensation in case of termination due to dismissal from the post. Salary in this case amounts to six or twelve basic monthly remuneration. The Supervisory Board may authorize the use of these provisions also in case of resignation from the position of Member of the Management Board as Board Member.

The ORLEN Group Members of the Board are obliged from the date of termination or expiry of the agreement to refrain from competitive activity for a period of 6 months. During this period they receive remuneration in the amount of 50% of six-month basic salary, payable in six equal monthly installments. In contrast, the severance allowance of appeal from the position held is three to six times the monthly remuneration.

Glossary of selected technical definitions

GLOSSARY OF DEFINITIONS AND ABBREVIATIONS	
ALKYLATION	Refinery process in PKN ORLEN, namely that olefin and paraffin fractions are merged in order to produce high-octane gasoline component (alkylate). The process is run on alkylation installation in the presence of hydrofluoric acid.
BARREL	Unit of liquid volume used mainly in the oil industry. 1 barrel of crude oil (1 bbl) = 42 American gallons = 158.96832 l.
BIOESTERS	Methyl esters of higher fatty acids produced from vegetable oils or animal fats. Used as a bio-component for diesel fuel or as a fuel for cars with diesel engines. Meets the quality standards set for the biofuel in the PN EN 14214. applicable both in Poland and other European Union markets.
BIOETHANOL	Ethanol derived from biomass or biodegradable waste.
BOE	Barrel of oil equivalent.
DISTILLATION	Method of physical separation of liquid mixtures. which uses the phenomenon of differences in boiling temperatures of particular components in the mixture undergoing distribution.
DIFFERENTIAL BRENT/URAL	Difference between the quotations of two kinds of crude oil. calculated as: Med Strip - Ural Rdam (Ural CIF Rotterdam).
HYDROCRACKING	Cracking of hydrocarbon raw materials in the presence of hydrogen. This process raises the efficiency of light products from crude oil.
HYDRODESULPHURIZATION	The process of removing sulfur compounds in the raw material by contact with hydrogen at the catalyst bed under high temperature and pressure.
CATALYST	Substance. which accelerates (initiates) the expected chemical reaction.
CRACKING	Thermal or catalytic conversion of heavy or more complex hydrocarbons into light products and coke. which increases the yields of light products from crude oil.
MED STRIP	Brent crude oil quotation.
MODEL DOWNSTREAM MARGIN	Calculated as: revenues from products sold (90,7% Products = 22.8% Gasoline + 44.2% Diesel +15.3% HHO + 1.0% SN 150 + 2.9% Ethylene +2.1% Propylene + 1.2% Benzene + 1.2% PX) – costs (input 100% = 6.5% Brent Crude + 91.1% URAL Crude + 2.4% Natural Gas).
MODEL REFINING MARGIN	Calculated as: revenues from products sold (93.5% Products = 36% Gasoline + 43% Diesel + 14.5% HHO) - costs (100% input: crude oil and other raw materials). Total input calculated acc. to Brent crude quotations. Spot market quotations.
MODEL PETROCHEMICAL MARGIN	Calculated as: revenues from products sold (98% Products = 44% HDPE + 7% LDPE + 35% PP Homo + 12% PP Copo) - costs (100% input = 75% naphtha + 25% LS VGO). Contract market quotations.
MONOMERS	Molecules of the same type or number of different kind of compounds characterize not very high molecular weight. which can form polymers during polymerization reaction.
NET DRILLINGS	The number of drillings corrected with the share of other partners.
POLYMERS	Chemicals of very high molecular weight. which consist of many repeated units called mers. polyethylene and polypropylene.
TOE	Tonne Oil Equivalent (toe) - energy equivalent of one metric ton of crude oil with a calorific value equal to 10 000 kcal/kg.
TRR	Total Recordable Rate = international accident rate in enterprises determined as follows: (number of accidents in a given period/number of hours worked in the period) x 1 000 000.
T1 PSER	The number of events with greater consequences in relation to the release substance into the environment x 1 000 000 / number of hours worked.
T2 PSER	The number of events with smaller consequences in relation to the release substance into the environment x 1 000 000 / number of hours worked.
UPSTREAM	Oil exploration and mining.
URAL RDAM (URAL CIF ROTTERDAM)	Ural crude oil quotation in Rotterdam.
WHITE PRODUCT YIELD	The yield of gasoline, diesel and heating fuel, fuel fractions, dry and liquefied petroleum gas compared to the amount of processed crude oil.
HYDROCARBONS	Organic compounds made of carbon and hydrogen. Crude oil and natural gas are mixtures of hydrocarbons.
HIGH-PERFORMANCE COGENERATION	The production of electricity or mechanical energy and heat in cogeneration what allows savings of primary energy used in cogeneration unit in amount not lower than 10% in comparison to production of electricity and heat in separated systems or in cogeneration unit of installed electric capacity below 1 MW in comparison to production of electricity and heat in separated systems.

Glossary is also available on the Company website: http://www.orlen.pl.

Glossary of selected financial definitions

FINANCIAL GLOSSARY	
ADR	American Depository Receipt = certificate issued by an American bank representing a share of a foreign stock that the bank holds in trust but that is traded on an American stock exchange.
EURIBOR	Interbank Offered Rate – interest rate of interbank credit on the interbank market in euro zone.
GDR	Global Depositary Receipt = security issued outside of Poland by the Depositary Bank in relation to shares.
LIBOR	London Interbank Offered Rate – interest rate on the London market that apply to interbank credits.
WIBOR	Warsaw Inter Bank Offered Rate - interest rate on the Polish interbank market that apply to interbank credits.

FINANCIAL RATIOS	
ROA	net profit/ total assets x 100%
ROE	net profit / equity x 100%
LIQUIDITY RATIOS	
CURRENT LIQUIDITY	current assets/short-term liabilities
QUICK LIQUIDITY	(current assets– inventories - prepayments)/ short-term liabilities
NET WORKING CAPITAL	trade receivables + inventories – trade liabilities
TURNOVER RATIOS	
RECEIVEABLES TURNOVER	average amount of trade receivables. net/ net revenues x 365 days
LIABILITIES TURNOVER	average amount of trade liabilities. gross /cost of goods sold x 365 days
INVENTORY TURNOVER	average amount of inventories/net revenues x 365 days
ASSETS TURNOVER	net revenues/average balance of assets
DEBT SERVICE COVERAGE RATIO	
FINANCIAL LEVERAGE	net debt/equity x 100%

The Management Board Report on the Operations of the ORLEN Group was approved by the Management Board of the Parent Company on 23 March 2016.

Wojciech Jasiński
President of the Board

Sławomir Jędrzejczyk
Vice-President of the Board

Mirosław Kochalski
Vice-President of the Board

Piotr Chełmiński
Member of the Board

Zbigniew Leszczyński
Member of the Board

Krystian Pater
Member of the Board