# ORLEN Group Strategy Update for 2019–2022

## FUELLING THE FUTURE

Warsaw, December 20th 2018

# Agenda

1. ORLEN GROUP TODAY
2. ORLEN GROUP UNTIL 2022
3. SUMMARY
4. SUPPORTING MATERIALS

# We have delivered the key targets for 2017 and 2018

| PILLARS | OBJECTIVES | KPI | TARGET | ACTUAL |
|---|---|---|---|---|
| **VALUE CREATION** | Profit | EBITDA LIFO before impairments[1], PLNbn | 8.8 (2017-2018 average) | 9.2 (2017-2018 average[2]) |
| | Growth | CAPEX PLNbn | 5.4 (2017-2018 average) | 4.6 (2017-2018 average[2]) |
| **FINANCIAL STRENGTH** | Strengthening of fundamentals | Net financial gearing[3] % | <30.0 (2017-2018 average) | 7.1 (2017-2018 average[2]) |
| | Dividend | Dividend per share[4] PLN | Increase in dividend | 2.0 (2016); 3.0 (2017-2018 average) |
| **PEOPLE** | Modern management culture | Maintaining strong health and safety performance | Awards:[5] | |

[1] Before impairment of assets - in 2017-2018 on average PLN -0.1bn, chiefly in Upstream
[2] 2017-2018 averages include 2017 actuals and 2018 forecast, based on Q1-Q3 actuals and Q4 forecast
[3] Net debt/equity as at end of period
[4] Dividend paid for previous year
[5] Awards received also in 2017.

# We have also implemented new measures to drive further growth of the ORLEN Group

| | |
|---|---|
| **Grupa LOTOS acquisition process**[1] | » Strengthening the Group's international position post-integration |
| **PKN ORLEN petrochemicals expansion programme** | » Extending the value chain and increasing petrochemical margins |
| **Taking full control of Unipetrol** | » Leveraging the full potential of and synergies with Unipetrol |
| **Improved situation at ORLEN Lietuva** | » Removing transport barriers and optimising logistics to improve margins at ORLEN Lietuva |
| **Preparations for offshore wind farm project** | » Implementation of PKN ORLEN's strategic plans for low-carbon energy generation |
| **Securing foothold in alternative fuels market** | » Launch of an EV charging station network and further development of the operational plan for biofuels |

[1] This material takes no account of the Grupa LOTOS acquisition and integration process. On November 30th 2018, PKN ORLEN filed a draft application for concentration approval with the European Commission (EC) in connection with the planned acquisition of control of Grupa LOTOS. Once the EC clearance is secured and a controlling interest in Grupa LOTOS is acquired, a new strategy for the ORLEN Group will be unveiled.

# We maintain a strong position across our key business segments

| UPSTREAM | DOWNSTREAM | | | RETAIL |
|---|---|---|---|---|
| | REFINING | PETROCHEMICALS | ENERGY | |

**UPSTREAM**

- **~153 mboe** of 2P reserves in Canada and Poland
- Average production in Canada and Poland: **~17 thousand boe/d**

**REFINING**

- **DIVERSIFICATION OF OIL SUPPLY SOURCES** (ca. 30% are grades other than REBCO)
- **6 REFINERIES** in Poland, Czech Republic and Lithuania. Integrated Downstream assets
- **33 MILLION TONNES** of crude oil processed - leader in CEE
- Utilisation of refining capacity at **~95%**

**PETROCHEMICALS**

- **SIGNIFICANT SHARE OF PRODUCTION CAPACITIES** in all product categories in Europe
- **40 PETROCHEMICAL PRODUCTS** sold to customers in more than **60 COUNTRIES** worldwide

**ENERGY**

- **INTEGRATED POWER GENERATION ASSETS** improve operational security and economic viability
- **TWO MODERN CCGT** units **IN PŁOCK** (608 MWe) **AND WŁOCŁAWEK** (474 MWe)

**RETAIL**

- The largest retail network in CEE – **2,787 SERVICE STATIONS**
- **1,947 FOOD OUTLETS** in Poland, the Czech Republic, Germany and Lithuania
- Over **1.6 MILLION TRANSACTIONS** daily
- Almost **5 MILLION** loyal customers in Poland

As at Q3 2018

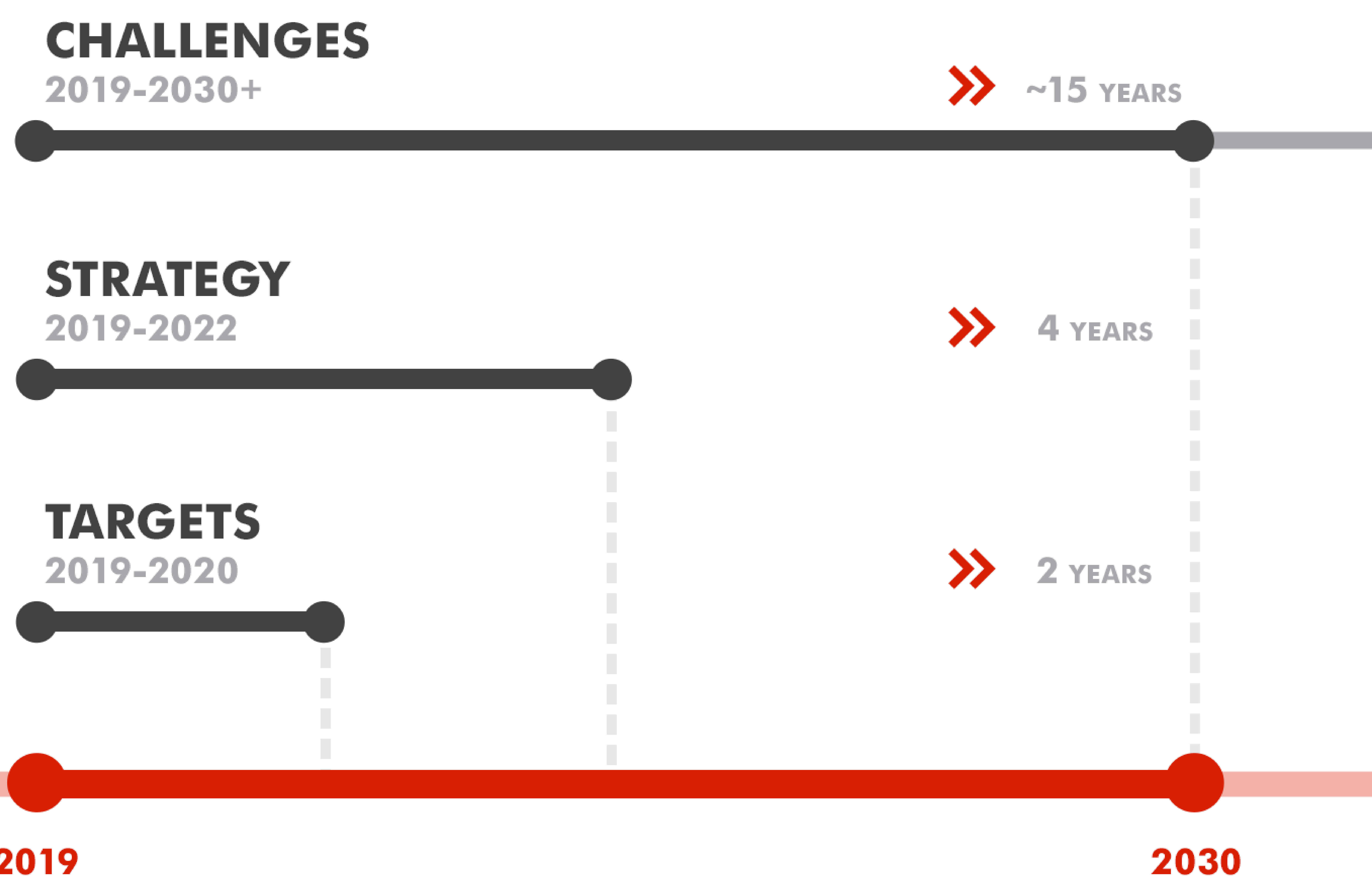
# Agenda

# We take a multidimensional view of the future and review our strategy on a regular basis

**Approach to strategic planning at the ORLEN Group**

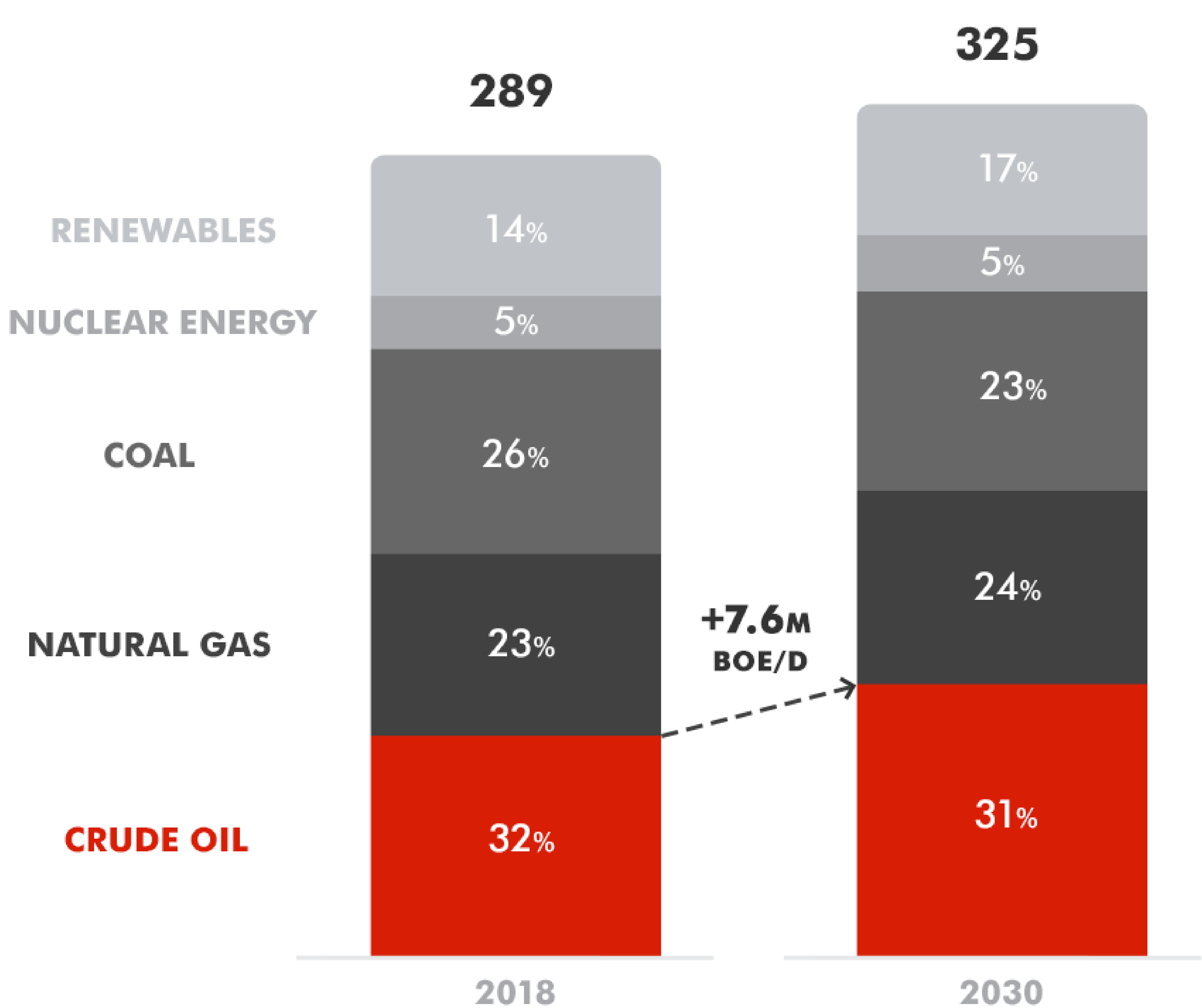
- Energy sources
- Climate and natural environment
- Groundbreaking technology
- Consumer behaviour

- Macro trends
- Regulations
- Business plans (financial, operational, investment)
- Growth projects

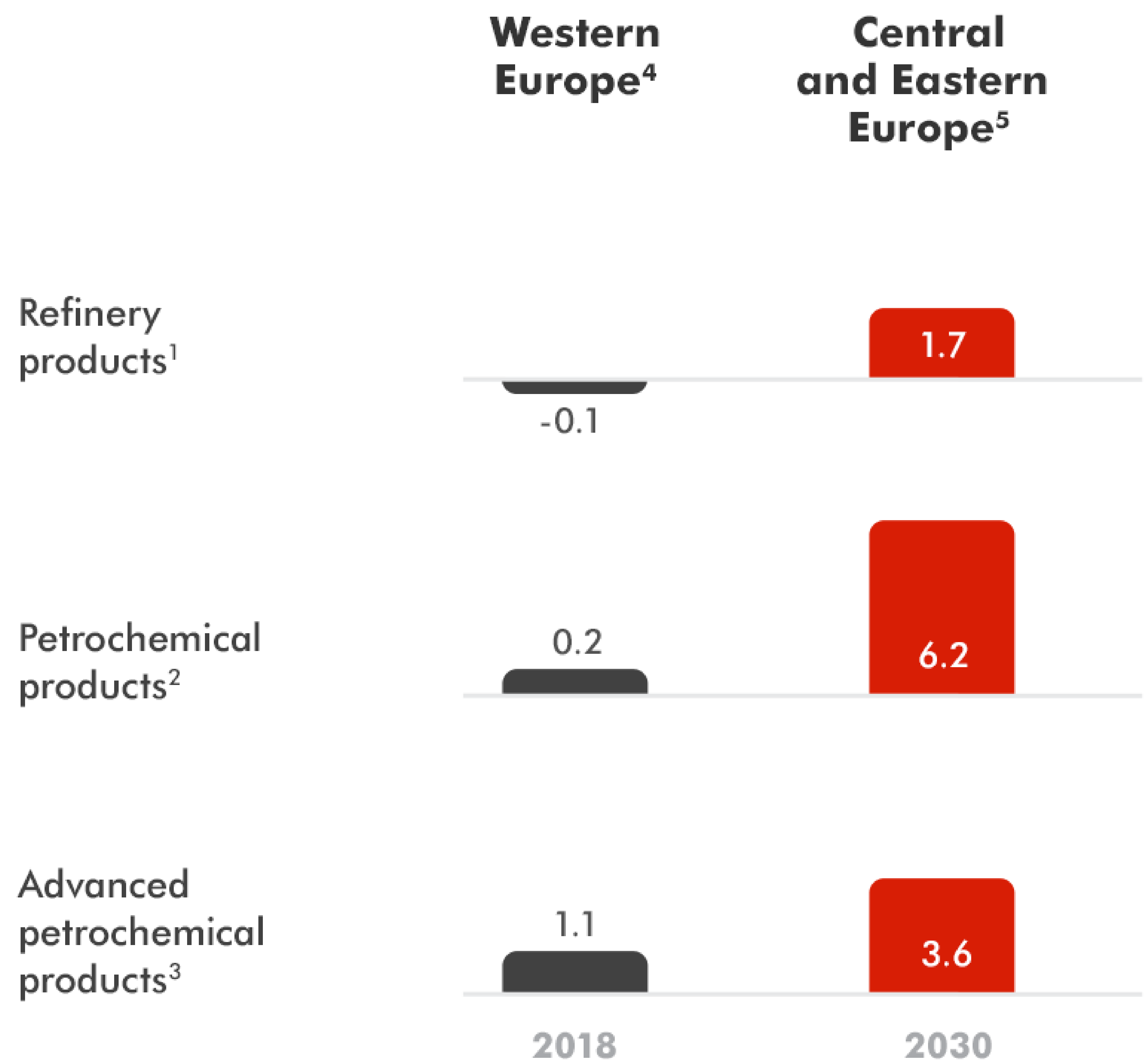


# The role of crude oil will not change significantly before 2030+, with demand for refinery products in CEE forecast to continue growing

**Global energy consumption**
million boe/d




**Growth in demand for key transport fuels and petrochemical products in Europe**
CAGR 2018-2030, %




[1] LPG, kerosene, diesel, gasoline, kero/jet, other fuels
[2] Ethylene, propylene, butadiene, benzene, phenol, acetone
[3] HDPE, LDPE, PP, propylene oxide, styrene, MDI, paraxylene, PTA, PVC, PC, PET, ethylene oxide, PU, IPA, PMMA
[4] Andorra, Austria, Belgium, Denmark, Finland, France, Greece, Spain, Netherlands, Ireland, Liechtestein, Luxembourg, Monaco, Norway, Portugal, San Marino, Switzerland, Sweden, United Kingdom
[5] Albania, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Montenegro, Czech Republic, Estonia, Lithuania, Latvia, Moldova, Poland, Romania, Serbia, Slovakia, Slovenia, Russia, Hungary
Source: IHS Markit, Nexant, PKN ORLEN estimates

# We identify trends that will drive significant changes in the fuel industry until 2030+

**Climate policy**

Growing regulatory pressure to mitigate climate change and promotion of a low-carbon circular economy (EU ETS, IMO) are affecting the entire production cycle

**Alternative fuels**

Alternative fuels (electromobility, hydrogen, LPG/CNG/LNG) impacting the liquid fuels market. Digitalisation of transport, autonomous cars and sharing economy are changing existing mobility models

**Modern customer and service station of the future**

Growing expectations and conscious buying behaviour of customers, digital commerce, big data, as well as on-demand and sharing economy are changing the existing retail models

**Bio-derived fuels and plastics**

External regulations (RED I and RED II) and consumer pressure to use bio-derived components in refinery and petrochemical products

**Digitalisation of production**

Digitalisation of refining and petrochemical production helps to optimise plant operation and estimate future demand more accurately. Continued increase in competitiveness of integrated production

# Agenda

# Pillars and update of PKN ORLEN's Strategy for 2019–2022

**Value creation**

- **Downstream:** scaling up petrochemical production, further integration of refinery assets and expanding low-emission energy generation
- **Retail:** expanding the retail network and strengthening customer relations
- **Upstream:** cautious continuation

**People**

- **Safety:** commitment to the highest standards
- **Responsibility:** caring for employees, external stakeholders and the environment

**Financial strength**

- **Solid fundamentals**
- **Secured financing**
- **Dividend payments**

**Culture of innovation**

- **Innovation:** supporting innovation and expanding R&D base

# Downstream 2019–2022: Scale-up of petrochemical production, further integration of refinery assets and expansion of low-emission energy generation

VALUE CREATION

## Feedstock security

- Further diversification of crude supplies
- Securing natural gas supplies
- Building a competitive advantage based on low-carbon energy generation

## Strengthening market position

- Investments in extending the petrochemical value chain
- Implementation of operational programme for biofuels: construction of production facilities, operational adjustments and R&D works
- Maintaining leading position in home markets through expansion of product offering

## Operational excellence

- Further improvements in efficiency of refinery assets
- Leveraging synergies offered by integrated production assets
- Readiness for market and regulatory challenges

## DOWNSTREAM[1]

Project pipeline:

- **Petrochemicals:** construction of the aromatic derivatives complex, extension of the olefin complex, extension of phenol production capacity, extension of the R&D base, extension of Anwil's fertilizers complex
- **Refining:** expansion of the biofuel production plant, including standalone HVO unit, visbreaking, hydrocracking of vacuum residue in Lithuania (feasibility study based on purchased base design and licence).
- **Power generation:** preparation of the offshore wind energy project

Change of key indicators:

- Further throughput maximisation: increase by over 0.3m tonnes
- White product yield: 1.8pp increase
- Refinery's energy intensity: 0.5pp increase
- Electricity generation: increase by 1.2 TWh

## SALES AND LOGISTICS[1]

- Wholesale of fuels (diesel, gasoline, jet): increase by 2.1m tonnes
- Petrochemical sales: increase by over 1.1m tonnes
- Security of transmission and handling capacities

[1] Quantitative indicators for the ORLEN Group pertain to the 2022 target relative to 2018. Forecast based on Q1-Q3 actuals and Q4 forecast

# Retail 2019–2022: expanding value creation of the retail network and strengthening customer relations

VALUE CREATION

## Modern network of service stations

- Developing in-store and food sales
- Continued efforts to enhance technical quality of the stations
- Adapting service stations to sell alternative fuels
- Organic growth of the retail chain

## MODERN SERVICE STATION NETWORK[1]

- Increasing non-fuel margins by over 30%
- Organic growth of the service station network: addition of ~150 new stations by 2022
- Share of the fuel market: increase by over 2.4pp

## Unique customer experience

- Launch of new services and customer service channels
- Flexible and personalised offering based on big data analytics
- Improving customer satisfaction and expanding the customer loyalty programme towards e-commerce

## UNIQUE CUSTOMER EXPERIENCE

- Improvement and development of store and Stop Cafe formats
- Launch of new products and services:
  - development of food and service offering
  - flexible product range based on big data
  - development of new customer communication channels
  - improving service quality

## Operational excellence

- Maintaining market leadership in home markets
- Optimal product, food range and service management
- Cost efficiency improvement
- Refining customer service and service station management processes

## OPERATIONAL EXCELLENCE[1]

- 3% increase in unit fuel margin
- Improved cost efficiency of service stations
- Distribution system optimisation

[1] Quantitative indicators for the ORLEN Group pertain to the 2022 target relative to 2018. Forecast based on Q1-Q3 actuals and Q4 forecast

# Upstream 2019–2022: cautious continuation

VALUE CREATION

## Further production increase

- Focus on quality assets and most profitable and prospective projects in Poland and Canada

## Cautious continuation

- Flexible response to changes in crude oil and gas market
- Capital expenditure adjusted to macro environment
- Generating positive cash flows

## Operational excellence and financial strength

- Continuous improvement of key operational indicators
- Leveraging segment synergies in Poland and Canada

## PRODUCTION IN POLAND AND CANADA[1]

- Production increase to ca. 25,000 boe/d (i.e. by ca. 7.000 boe/d) at the Group level
- Share of liquid hydrocarbons[2]
  - Poland: 6%
  - Canada: 49%
- Wells (net) optimised to 13.8:
  - Poland: 2.5 wells
  - Canada: 11.3 wells

## OPERATIONAL EXCELLENCE[1]

- Achieving operating netback in excess of PLN 75/boe
- CAPEX rationalisation and reaching positive cash flows and CAPEX self-financing in the shortest possible time

[1] Quantitative indicators for the ORLEN Group pertain to the 2022 target relative to 2018. Forecast based on Q1-Q3 actuals and Q4 forecast
[2] Crude oil and NGL (mainly condensate)

# Supporting innovation and expanding R&D base

| | |
|---|---|
| **Building a culture of innovation** | • Promoting internal and external innovation within the organisation<br>• Creating an innovation-conducive environment in the ORLEN Group |
| **Strategic development directions** | • Development of the PKN ORLEN Strategic Research Agenda<br>• Deployment of innovation acquisition tools: accelerator and CVC fund<br>• Fostering collaboration with start-ups |
| **Stepping up R&D work and expanding research infrastructure** | • Creation of the Research and Development Centre as a platform for collaboration between PKN ORLEN and the scientific and business communities<br>• In-house research and testing to improve processes, products and inputs<br>• Developing proprietary technologies |

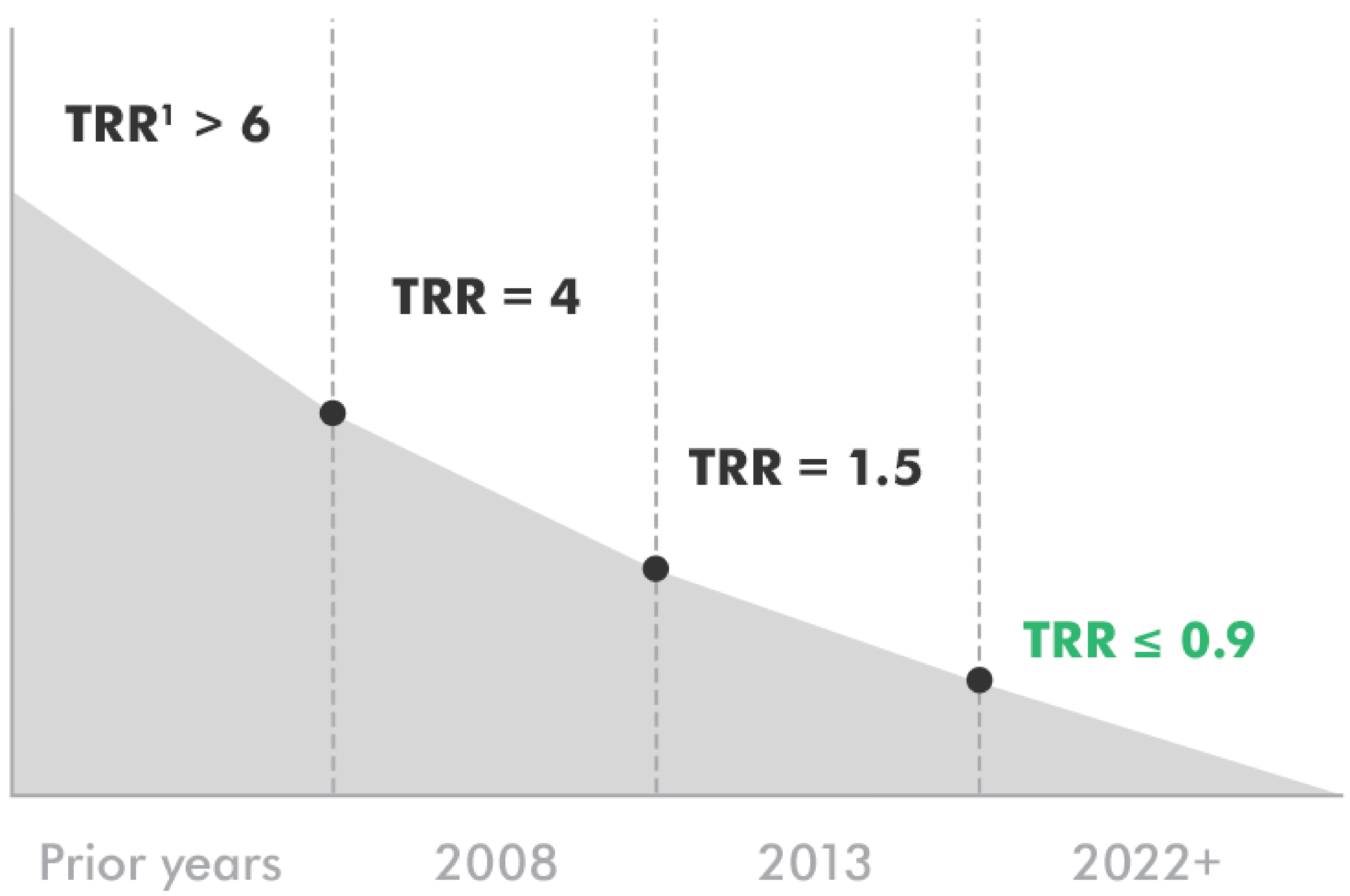
# Focusing on safety, natural environment and local communities

## Health and safety at work

Zero tolerance policy towards accident hazards

No accidents at work

Further improvement of process safety




## Environmental protection

Aligning PKN ORLEN with new environmental requirements

Reducing environmental impacts

Stepping up environmental protection efforts

## Corporate social responsibility

Support for local producers and business partners

Caring for local communities

[1] TRR – the total recordable rate is an international measure of the rate of recordable cases, calculated as: number of workplace accidents in a period/number of manhours worked in the period * 1,000,000

# Financial strength: flexibility and readiness for market challenges

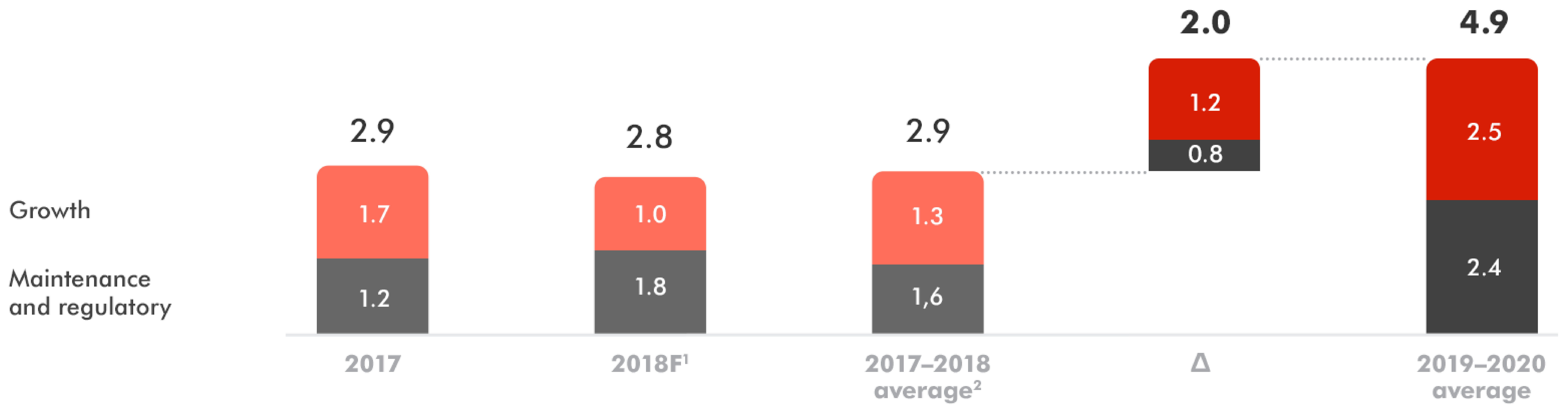
| | |
|---|---|
| **Solid fundamentals** | • Investment grade rating<br>• Financial geraring below 30% by 2022<br>• Net debt/EBITDA covenant below 1.5 by 2022 |
| **Secured financing** | • Diversified financing<br>• Opportunistic non-organic growth |
| **Dividend payments** | • Regular dividend payments reflecting current financial situation |

# Agenda

# Downstream: 2019–2020 targets

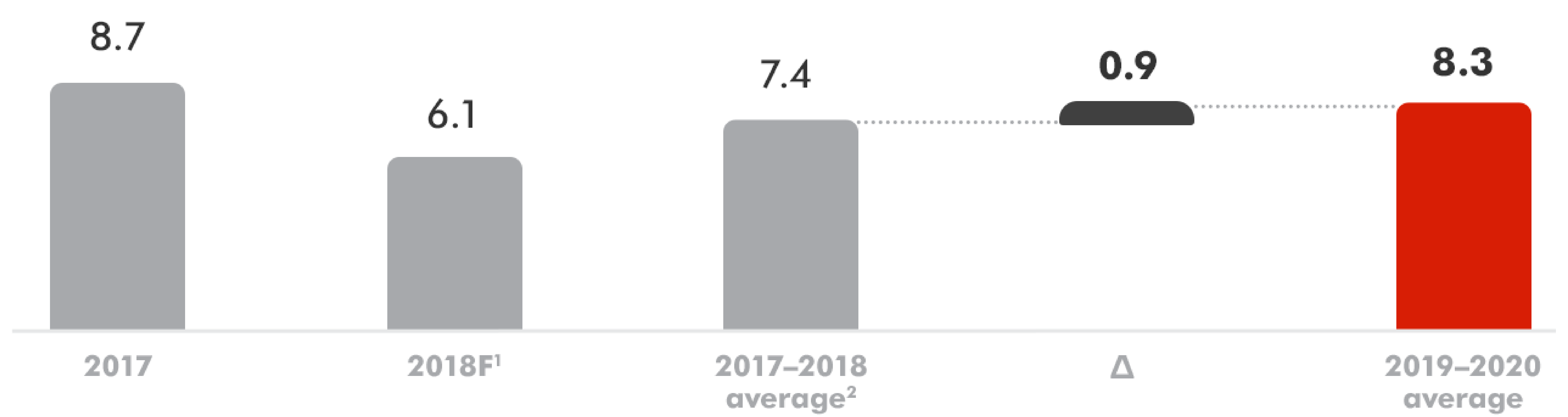
## CAPEX in Downstream

PLNbn




## EBITDA LIFO

PLNbn

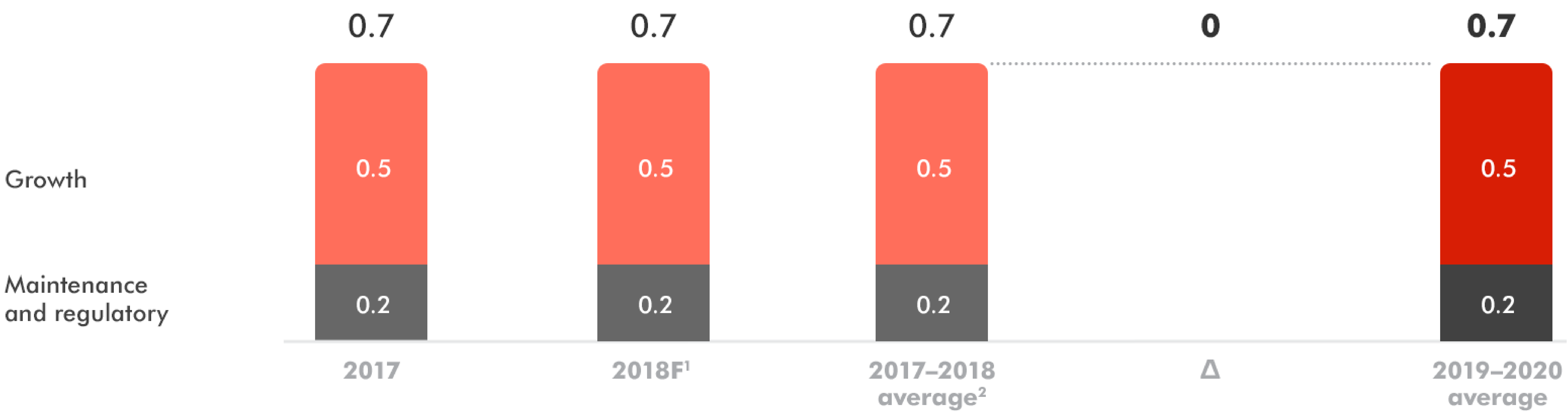



[1] 2018 forecast based on Q1-Q3 actuals and Q4 forecast
[2] 2017-2018 averages include 2017 actuals and 2018 forecast, based on Q1-Q3 actuals and Q4 forecast

# Retail: 2019–2020 targets

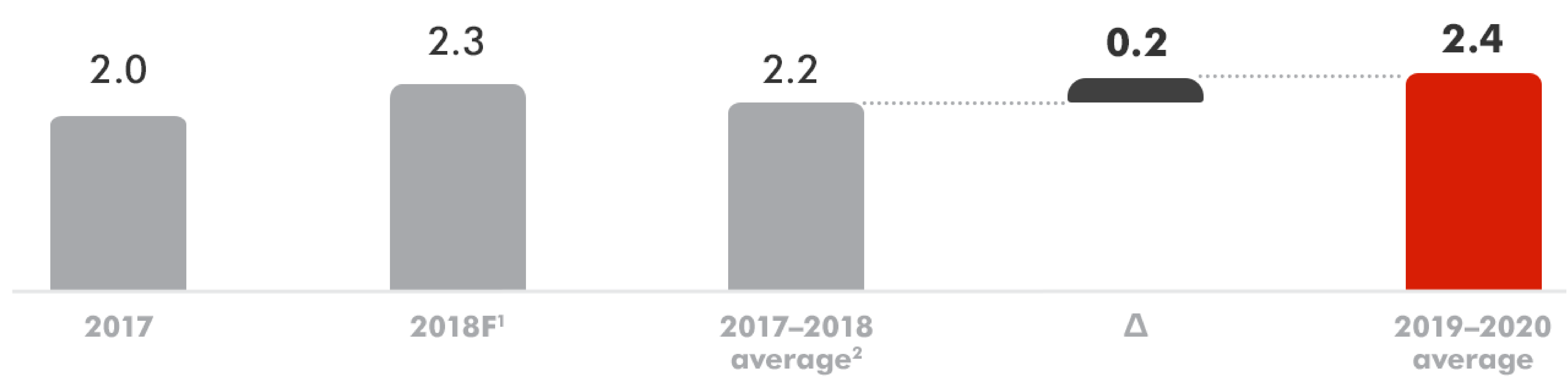
## CAPEX in Retail

PLNbn




## EBITDA LIFO

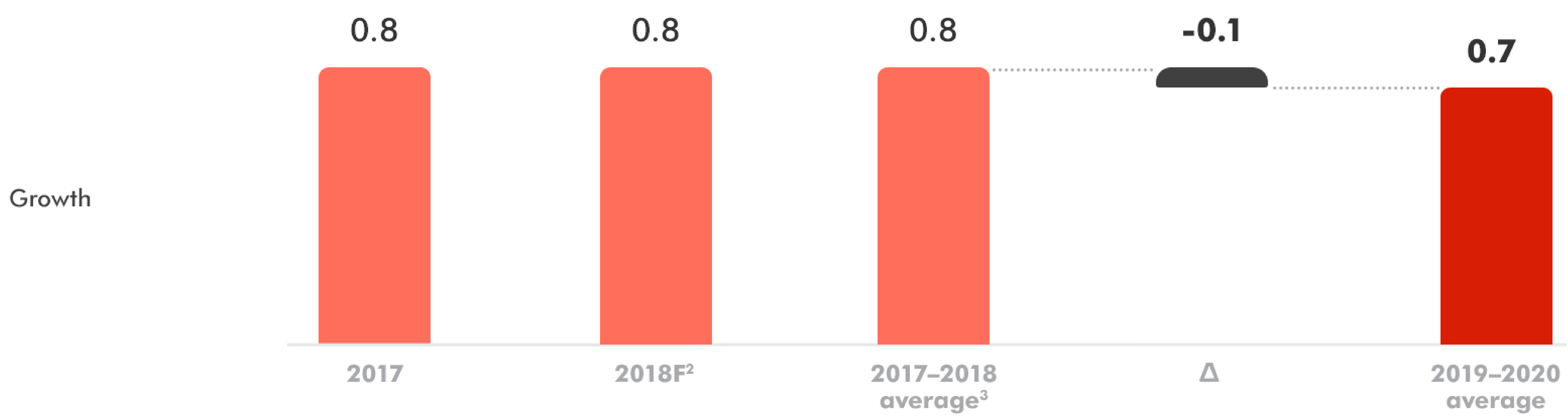
PLNbn



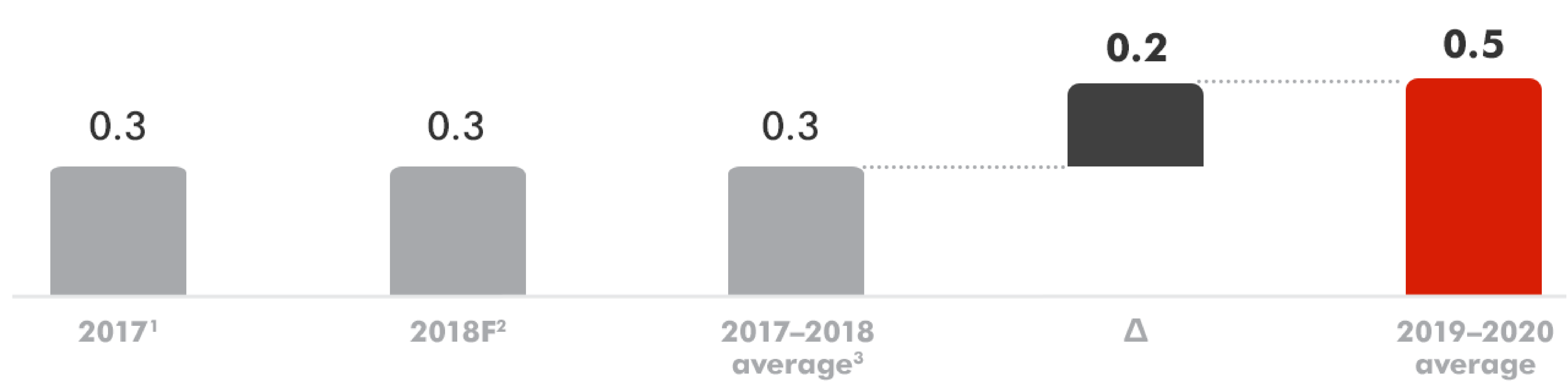

[1] 2018 forecast based on Q1-Q3 actuals and Q4 forecast
[2] 2017-2018 averages include 2017 actuals and 2018 forecast, based on Q1-Q3 actuals and Q4 forecast

# Upstream: 2019–2020 targets

## CAPEX in Upstream
PLNbn



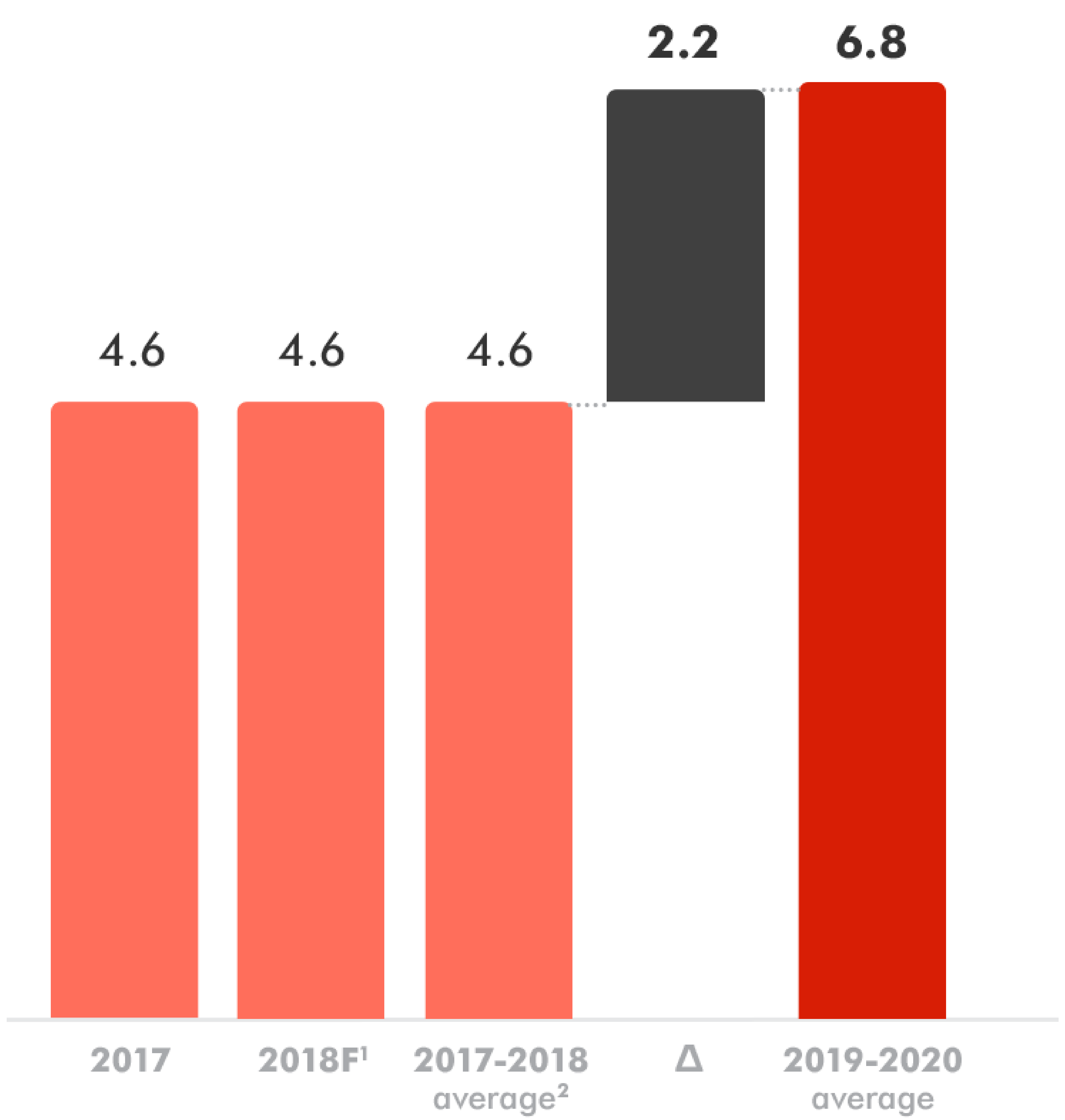

## EBITDA LIFO
PLNbn



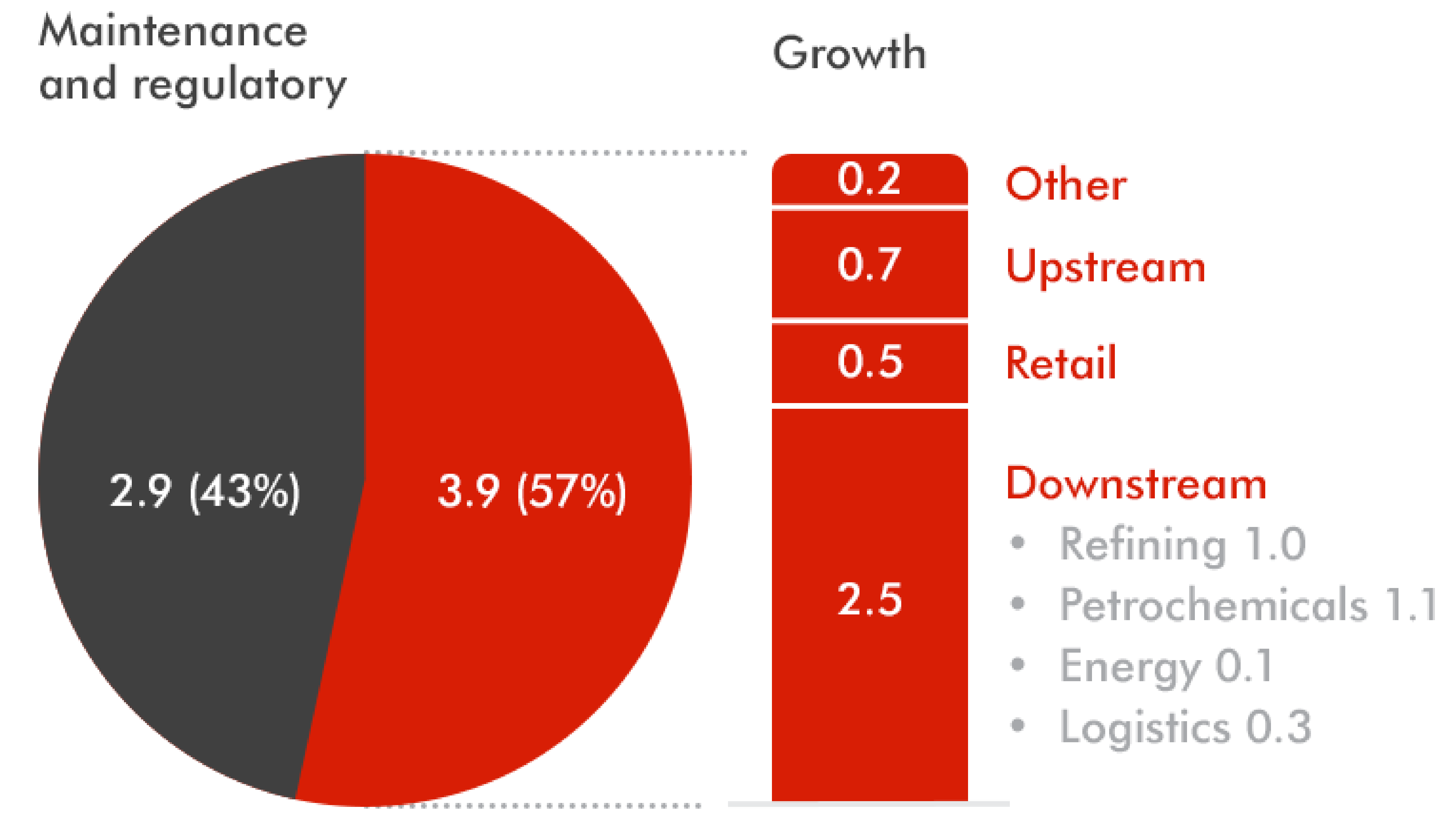

[1] 2017 EBITDA before impairment of assets
[2] 2018 forecast based on Q1-Q3 actuals and Q4 forecast
[3] 2017-2018 averages include 2017 actuals and 2018 forecast, based on Q1-Q3 actuals and Q4 forecast

# Capital expenditure focused on growth

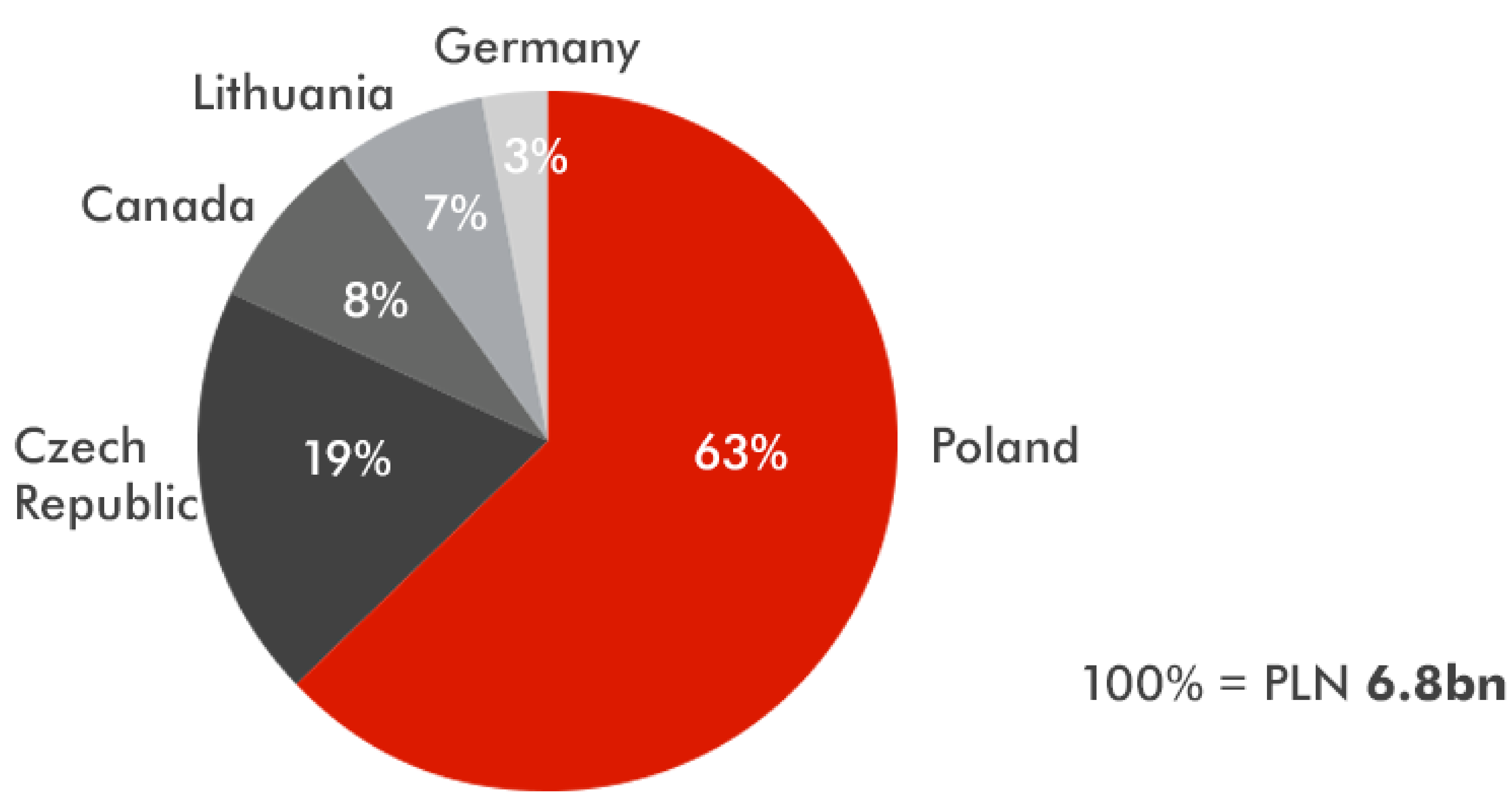
**CAPEX**
PLNbn




**CAPEX by segment**
2019–2020 average, PLNbn




**CAPEX by country**
2019–2020 average, %



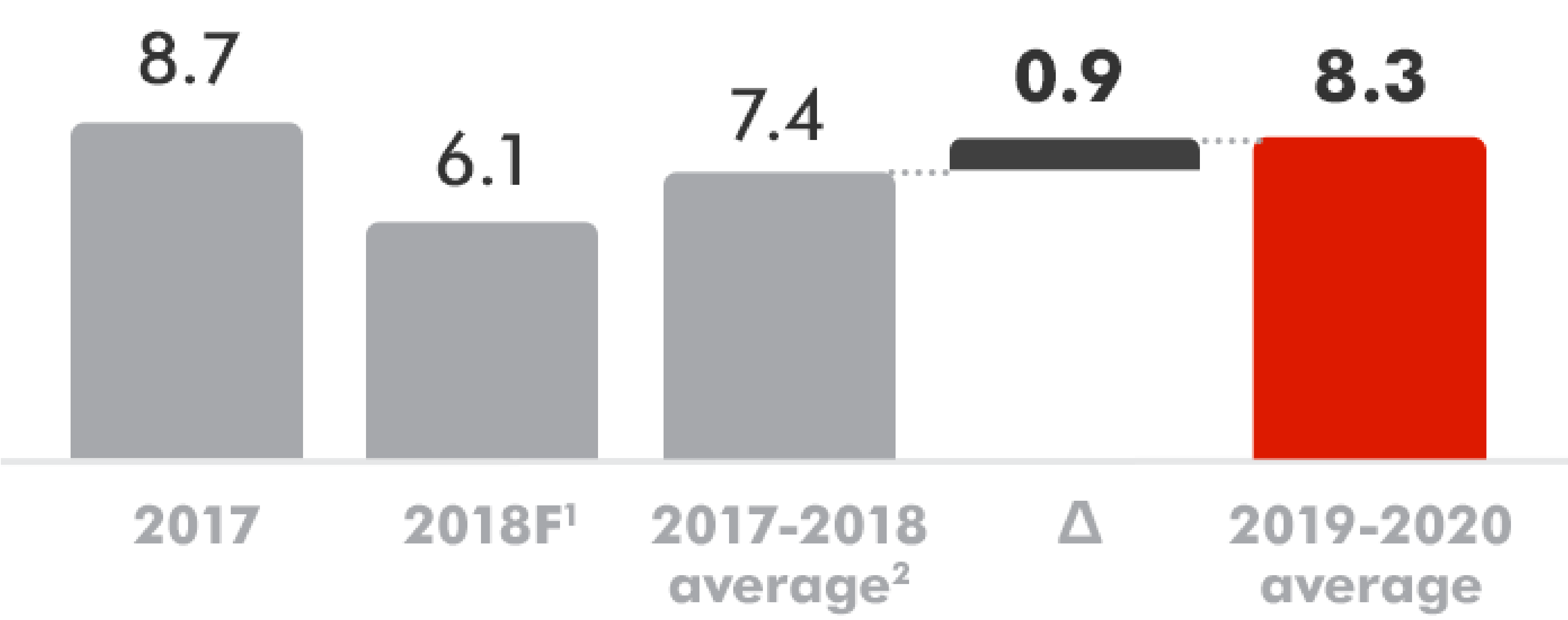

[1] 2018 forecast based on Q1-Q3 actuals and Q4 forecast
[2] 2017-2018 averages include 2017 actuals and 2018 forecast, based on Q1-Q3 actuals and Q4 forecast

# Average full-year EBITDA LIFO to increse by PLN 1.1bn in 2019-2020 vs 2017-2018

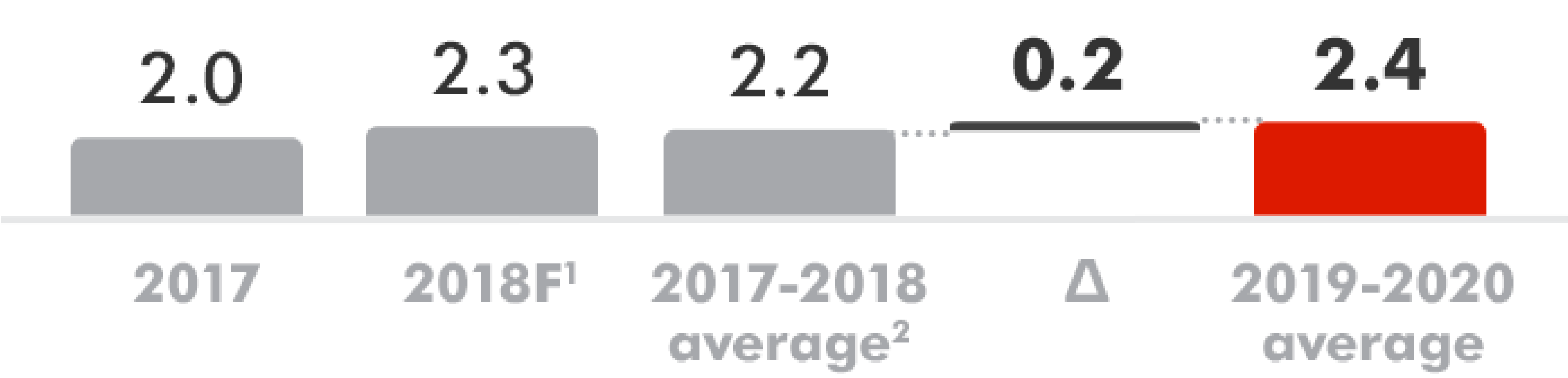
## EBITDA LIFO by segment

PLNbn

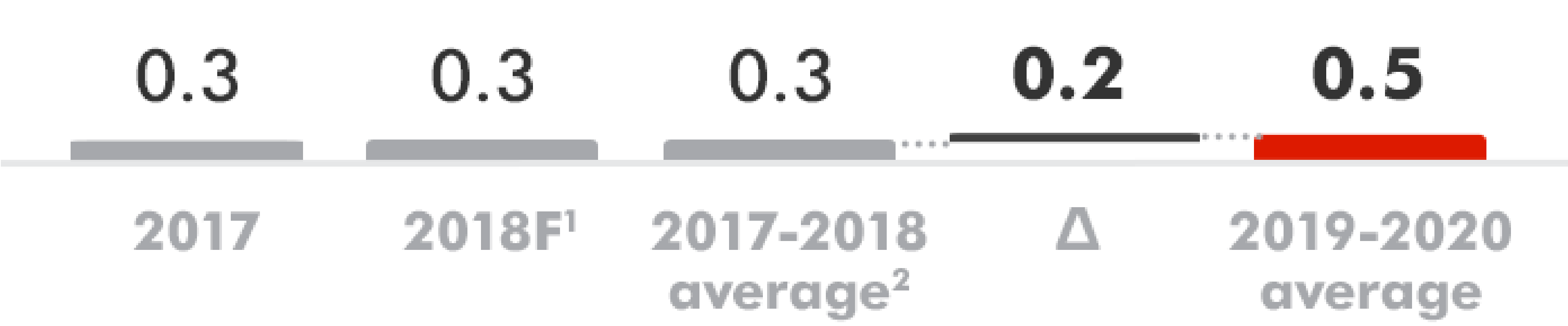
### Downstream



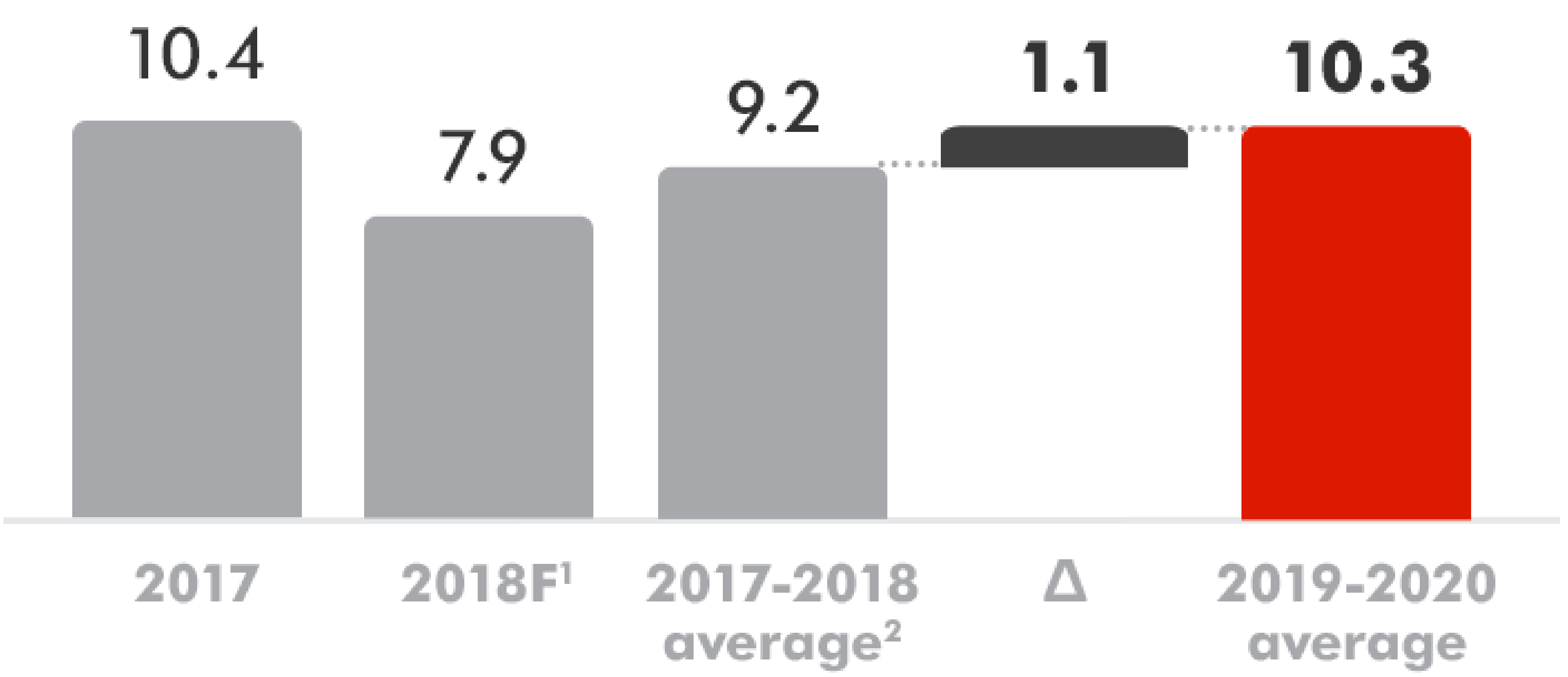

### Detal




### Upstream




### ORLEN Group[3]




[1] 2018 forecast based on Q1-Q3 actuals and Q4 forecast

[2] 2017-2018 averages include 2017 actuals and 2018 forecast, based on Q1-Q3 actuals and Q4 forecast

[3] Includes costs of Corporate Functions: PLN (0.6bn) in 2017 and PLN (0.8bn) in 2018F; 2017-2018 average of PLN (0.7bn); 2019-2020 average of PLN (0.9bn). Before impairment of non-current assets of: PLN (0.2bn) in 2017, PLN (0.0bn) in 2018; 2017-2018 average of PLN (0.1bn). Change of EBITDA LIFO: 2019-2020 average vs 2017-2018 average of PLN 1.1bn. Effects of macro factors, improved productivity and growth, of at least PLN 0.6bn on average, offsets one-ffs (compensation and penalties) of PLN 0.6bn on average recorded in 2017-2018

# Agenda

# Summary

**Better-than-expected earnings in 2017 and 2018 are solid foundation for further growth**

- Higher profit genertation
- Growth programme execution
- Strong financial fundamentals and dividend payments

**Dynamic market and business environment requires consistency and flexibility**

- Constant changes in energy markets and growing prominence of alternative fuels
- Oil should still remain in the foreseeable future the most important feedstock for production of fuels and rapidly developing petrochemical products
- The ORLEN Group responds with a vision for rapid growth, 2019–2020 financial and operational targets and update of plans, communicated on a regular basis, particularly once the planned acquisition of Grupa LOTOS is completed

**Strategy invariably based on the three pillars of Value Creation, People and Financial Strength**

- Value Creation – integrated assets and strong market position in Downstream; expansion of sales network and strong customer relations in Retail; cautious continuation in Upstream.
- People – innovation and ramping up R&D commitment to create value; health and safety at work; environmental protection; and commitment to ORLEN values
- Financial Strength – stable financial foundations; secured financing and dividend payments

**2019–2020 average annual targets:** **EBITDA LIFO:** PLN 10.3bn | **CAPEX:** PLN 6.8bn

Some numbers presented herein, ie. totals and sub-totals are rounded. As a result the presented totals and/or sub-totals may not equal to the arithmetic calculations

# Agenda

# Macroeconomic assumptions

| Macroeconomic factor | Unit | 2017–2018 average | 2019–2020 average |
|---|---|---|---|
| **Model downstream margin** | USD/bbl | **12.2** | **13.5** |
| **Brent/Urals differential** | USD/bbl | **1.4** | **3.1** |
| **Model refining margin + differential** | USD/bbl | **7.1** | **8.6** |
| **Model petrochemical margin** | EUR/t | **900** | **808** |
| **Brent crude price** | USD/bbl | **64** | **73** |
| **Canadian Light Sweet crude price** | CAD/bbl | **66** | **73** |
| **Natural gas price in Poland** | EUR/MWh | **22.6** | **20.0** |
| **AECO gas price** | CAD/GJ | **1.8** | **1.8** |
| **$CO_2$ emission allowances price** | EUR/t | **11.3** | **16.1** |
| **Wholesale electricity price (base)** | PLN/MWh | **179.9** | **211.5** |
| **USD/PLN exchange rate** | USD/PLN | **3.69** | **3.70** |
| **EUR/PLN exchange rate** | EUR/PLN | **4.26** | **4.17** |

Source: PKN ORLEN in-house analysis based on IHS Markit data

# Definitions of Key Performance Indicators (KPIs)

| Area | Unit | Definition |
|---|---|---|
| **Upstream** | | |
| **2P reserves** | boe | Proven and probable reserves of hydrocarbons |
| **Netback** | PLN/ boe | Average realised price less costs of production (transport, marketing and production costs) and production taxes per barrel of oil equivalent |
| **Production of hydrocarbons** | boe/d | Daily oil and gas production volume in barrels of oil equivalent (boe) |
| **Downstream** | | |
| **Crude oil throughput** | million tonnes | Volume of crude oil processed by the ORLEN Group refineries |
| **Refinery energy intensity (Solomon EII)** | point | Solomon Energy Intensity Index (EII) permits to compare a refinery's energy efficiency against the best performers in the industry. The higher the indicator value, the lower the efficiency. |
| **White product yield** | % | Yield of dry and wet gas, gasoline, fuel fraction, diesel and light heating oil (LHO) to crude oil throughput |
| **Retail** | | |
| **Change in non-fuel margin** | % | Period-on-period change in non-fuel margin. Non-fuel margin comprises store margin, bistro margin, revenues from suppliers (contributions), car wash and other revenues and services. |
| **Share in fuel market** | % | Volume of retail fuel sales in Poland, Germany, the Czech Republic and Lithuania, divided by the total retail consumption in these markets. Gasoline and diesel only. |
| **Unit fuel margin** | gr/l | Net revenue from fuel sales at service stations less wholesale cost of fuels per unit of fuel |

# Abbreviations and acronyms

| Abbreviation | Definition |
| --- | --- |
| **bbl** | Barrel – unit of liquid measure used in the oil industry. 1 barrel of oil = 42 US gallons = 158.9683 litres (ca. 159 litres). In Europe, crude oil is commonly measured in tonnes |
| **boe** | Barrel of oil equivalent. It is customarily used to measure the heating value of fuels |
| **CAPEX** | Capital expenditure |
| **CCGT** | Combined Cycle Gas Turbine |
| **CNG** | Compressed natural gas |
| **CVC** | Corporate venture capital – direct investments in third-party start-ups |
| **EU ETS** | European Union Emissions Trading System |
| **Financial leverage** | Net debt to equity, calculated as at end of period |
| **HVO** | Hydrotreated vegetable oil |
| **IMO** | International Maritime Organisation |
| **EBITDA LIFO** | Earnings before interest, depreciation and amortisation calculated on a LIFO basis |
| **LNG** | Liquefied natural gas |
| **LPG** | Liquefied petroleum gas |
| **R&D** | Research and development |

# Abbreviations and acronyms

| Abbreviation | Definition |
|---|---|
| **REBCO** | Russion Export Blend Crude Oil |
| **RED I/RED II** | Renewable Energy Directive I/II |
| **Solomon ranking/ benchmarking** | Comparative analysis of key areas of manufacturing performance (efficiency, maintenance, margin, return on investment, operating expenses) against industry leaders, providing insight into how a plant compares to its competitors |
| **TRR** | Total Recordable Rate – a workplace safety indicator, calculated as: number of accidents x 1,000,000/number of man-hours |
| **TWh** | Terawatt-hour of electrical energy |
| **Hydrocarbons** | Organic compounds composed of carbon and hydrogen. Crude oil and natural gas are mixtures of hydrocarbons. |

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