

**ORLEN Group strategy update for 2019-2022**  
**Regulatory announcement no 108/2018 dated 20 December 2018**

PKN ORLEN S.A. ("PKN ORLEN", "Company") hereby announces that on 20 December 2018 the Management and Supervisory Boards of PKN ORLEN approved ORLEN Group strategy update for 2019-2022 ("Strategy update").

The approved document updates "PKN ORLEN growth strategy" dated 15 December 2016 in respect of PKN ORLEN directions of development, refers to the level of realization of targets determined for 2017-2018 and sets the Company's financial and operating targets for the next two years, ie. 2019-2020. The need for the update arose due to high volatility of macroeconomic factors and the need to present the targets for the next two-year period.

The presented material takes no account of the Grupa Lotos acquisition and integration process. Once the European Commission clearance is secured and a controlling interest in Grupa Lotos is acquired, a new strategy for the ORLEN Group will be unveiled.

PKN ORLEN assumed following operating and financial targets for years 2019-2020:

- EBITDA LIFO (before impairments) annual average PLN 10,3 bn,
- CAPEX annual average PLN 6,8 bn,
- Financial gearing below 30%,
- Net debt/EBITDA covenant below 1,5,
- maintaining of investment grade rating,
- regular dividend payment, reflecting current financial standing of PKN ORLEN.

Table 1. Financial targets

Financial target	Target 2019-2020	Estimates 2017-2018
EBITDA LIFO annual average (before impairments, PLN bn)	10,3	9,2
CAPEX annual average (PLN bn), including:	6,8	4,6
- growth	3,9	2,7
- maintenance and regulatory	2,9	1,9
Financial gearing	below 30%	7,1%
Net debt/EBITDA	below 1,5	0,3

Table 2. Financial targets – breakdown by operating segments

Operating segment	EBITDA LIFO annual average (before impairments, PLN bn)		CAPEX annual average (PLN bn)	
	Target 2019-2020	Estimates 2017-2018	Target 2019-2020	Estimates 2017-2018
Downstream	8,3	7,4	4,9	2,9
Retail	2,4	2,2	0,7	0,7
Upstream	0,5	0,3	0,7	0,8
Corporate functions	-0,9	-0,7	0,5	0,2

Table 3. Operating targets

Operating target	Unit	Target 2022	Change target 2022 vs estimates 2018
<b>DOWNSTREAM</b>			
Crude oil throughput	m tonnes	33,7	0,3
White products yield	%	80,6	1,8 p.p.

Energy Intensity Index (EII based on Solomon methodology)	point	85,6	0,5 p.p.
Electric energy production	TWh	8,6	1,2
Wholesales of fuels ( diesel oil, gasoline, jet)	m tonnes	20,1	2,1
Petrochemical sales	m tonnes	6,2	1,1
<b>RETAIL</b>			
Non-fuel margin	index	130	30%
Number of filling stations	item	2 959	150
Market share in fuels market	%	18,4	2,4 p.p.
Unit fuel margin	index	103	3%
<b>UPSTREAM</b>			
Production of hydrocarbons	boe/d	25 th.	7 th.
Share of liquid hydrocarbons	%	Poland 6% Canada 49%	Poland 6 p.p. Canada 3 p.p.
Net number of wells	item	13,8	(-) 6
Netback	PLN/boe	75	7

Table 4. Macroeconomic assumptions

The above targets are presented with the following macroeconomic conditions assumptions:

Macroeconomic factor	Unit	Average 2017-2018 (estimates)	Average 2019-2020
Model Downstream margin	USD / bbl	12,2	13,5
Brent/Ural differential	USD / bbl	1,4	3,1
Model refining margin with differential	USD / bbl	7,1	8,6
Model petrochemical margin	EUR / t	900	808
Brent crude oil price	USD / bbl	64	73
Canadian Light Sweet crude oil 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 <sub>2</sub> emission certificates price	EUR/t	11,3	16,1
Electric energy price – wholesales (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

**Definitions:**

**Upstream**

**Netback** (PLN/boe) – average realized 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**

**Energy Intensity Index (EII based on Solomon methodology)** (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.

**Crude oil throughput** (m tonnes) – volume of crude oil processed by the ORLEN Group refineries.

**White products yield** (%) – yield of dry and wet gas, gasoline, fuel fraction, diesel and light heating oil (LHO) to crude oil throughput.

### **Retail**

**Unit fuel margin** (gr/l) – net revenue from fuel sales at service stations less wholesale cost of fuels per unit of fuel.

**Market share in fuels 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 oil only.

**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.

Data for 2018 and 2017-2018 averages are estimates based on the Q3 2018 actuals and Q4 2018 estimates, and are subject to change. Information and data relating to future periods are estimates prepared on the basis of assumptions and may differ from the actual data published in PKN ORLEN financial statements in the future.

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.

The Strategy update does not include the impact of potential transactions of acquisitions, disposals and effects of other projects realization within the organic growth that may appear in next years. It also does not include an impact of macroeconomic situation scenario other than assumed, one-off events or change in regulations that may appear in place of the current ones.

The Strategy update does not include an impact of the potential change in the level of write-offs according to IAS 36 "Impairments of assets". Impairment tests will be conducted on the base of the realised financial data during work on the future financial statements of PKN ORLEN.

The Strategy update does not include an impact of the potential adjustments due to implementation of IFRS 16 "Leasing". Reliable estimates of IFRS 16 implementation effect will be known by the end of the current year for the purposes of preparing the yearly financial statement for 2018.

*This announcement has been prepared pursuant to Art. 17 item 1 of the Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (market abuse regulation) and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC.*

**PKN ORLEN Management Board**