



Polski Koncern Naftowy ORLEN  
Spółka Akcyjna

Daniel Obajtek  
President & CEO

## Ladies and Gentlemen, Dear Shareholders

The decisions made and activities pursued by the ORLEN Group in 2018 will play a major part in determining the Group's future over the coming years. The efforts put into building ORLEN's potential bore the fruit of robust financial performance amid the highly volatile macroeconomic conditions. In 2018, LIFO-based EBITDA before adjustment for the reversal of impairment losses on non-current assets amounted to over PLN 8.3bn. This result was achieved on contributions from all areas of the ORLEN Group's business, especially the Downstream segment (PLN 6.0bn), and the record-breaking Retail performance (PLN 2.8bn). After adjustment for the reversal of impairment losses, LIFO-based EBITDA was in excess of PLN 9.0bn.

One of the 2018 highlights for the ORLEN Group was an update of its strategy for 2019–2022. The principal strategic objectives are to expand and enhance the Group's petrochemical production capacity, further the integration of its refinery assets, maintain its commitment to low-carbon energy, consistently drive retail sales growth, and focus on strengthening the R&D base and deploying innovations to support all business lines.

Among the ORLEN Group's strategic projects is the ongoing process to acquire Grupa LOTOS. Its success is set to enhance Poland's energy security and improve our competitive strength on the extremely demanding fuel market. Once completed, the transaction will bring measurable benefits to the regions of Pomerania and Płock, and to the shareholders and customers of both companies. A draft merger clearance application has already been filed with the European Commission, with the clearance expected to be received by mid-2019.

According to experts, sales of chemicals are projected to almost double by 2030, which is why we are looking to turn Poland into a major player in the export of such products. In 2018, we launched the Petrochemicals Development Programme (PDP), having earmarked over PLN 8bn for related investments. We estimate that measures taken to deliver the PDP may drive an annual EBITDA improvement by a remarkable PLN 1.5bn, which means that we should see returns on these initial outlays in five to six years.

The market of fertiliser products seems equally promising, as demand for fertilisers is forecast to grow strongly over the coming years. With a capacity expansion at the ORLEN Group's ANWIL and addition of four types of top-of-the-range fertilisers to its existing portfolio, the company will be able to satisfy the growing demand for nitrogen fertilisers in Poland, the competitiveness of its offering considerably boosted in relation to foreign manufacturers. A third nitrogen fertiliser plant will be built, bringing the production capacity to 1,461 thousand tonnes (up by 495 thousand tonnes) per year. The investment, worth an estimated PLN 1.3bn, may improve the company's EBITDA by as much as EUR 57m annually. The project is scheduled for completion at the end of 2021.

As we closely watch new trends in the fuel market, we are already working on the use of alternative energy sources. This year we plan to have 50 new EV chargers installed at PKN ORLEN stations, their total number expected to reach 150. They will be strategically deployed across Poland – in big cities and at main transit roads. Our plans are far more ambitious, though. The ORLEN Group has just commenced environmental and wind surveys under a licence it has secured for the construction of an offshore wind farm in the Baltic Sea. We are looking into the environmental conditions and generation potential of a wind farm project with a total capacity of up to 1,200 MW.



Polski Koncern Naftowy ORLEN  
Spółka Akcyjna

**Daniel Obajtek**  
President & CEO

Poland's energy security being one of our priorities, we are also looking for new domestic sources of hydrocarbons. In 2018, we made another high quality gas discovery in Bystrowice (the Rzeszów province). With recoverable reserves estimated at 2 bcm of high-methane gas with a methane content of over 98%, the field's producing life may be about 10 years. The ORLEN Group's 2P reserves are growing and we are taking a number of measures to sustain this welcome trend – in 2018, a nearly 38% increase was recorded in our recoverable reserves, to 211m boe. We want to remain flexible in our Upstream operations to swiftly respond to any changes in the oil and gas market. We will also maintain a prudent approach to capital expenditures so as to achieve positive cash flows within the time horizon covered by our newly announced strategy and CAPEX returns sufficient to finance further investments within the shortest possible time.

As part of our efforts to strengthen the position of ORLEN Południe, we are pursuing a number of pro-environmental projects. We have decided to build a propylene glycol unit to further utilise our glycerine output. The Trzebinia refinery's annual glycol capacity will amount to approximately 30,000 tonnes, its output sufficient to meet 75% of Poland's overall demand. We are also developing our production plant in Jedlicze, where conceptual work is under way to construct a 2G bioethanol unit.

We are increasing our independence in feedstock supplies and strengthening the stability of our production by forging new business ties with oil suppliers around the world. We are continuing to diversify our oil supply sources, thus increasing our procurement capabilities. In 2018, a third of all crude oil used by PKN ORLEN was sourced from Saudi Arabia, the United Arab Emirates, the US and African countries, while the volumes supplied by Rosneft Oil Company were reduced by some 30%.

The ORLEN Group is also investing in its foreign assets, with substantial benefits for the region's energy security. We have become the sole owner of the Czech Unipetrol, which has entrenched our leading position in Central Europe and may springboard our expansion into new foreign markets. In Lithuania, we have reinforced our cooperation with the Lithuanian Railways regarding Poland-bound transport of products. In addition, a long-standing dispute to restore traffic on the Renģe rail line has been resolved, allowing the Mažeikiai refinery to regain the shortest route for delivering its products to Latvia and Estonia. In addition, thanks to its ongoing PPF Splitter project, the Mažeikiai refinery will launch the production of high quality propylene. In the near future, the ORLEN Group will face further international challenges related to its retail chain expansion, as we are entering the Slovak market towards the end of March and beginning of April this year.

Robert Kubica's Formula 1 comeback is certainly good news, especially given the ORLEN Group's role in bringing it about. We see our sponsorship of the Williams racing team and the Polish driver as an investment promoting ORLEN's international presence. It is an important move boosting the recognition of the ORLEN brand, whose products are already available in over 90 countries, as Formula 1 events are followed by a worldwide audience of approximately 2 billion. Our sponsorship is also extended to other sports, including volleyball as well as track and field athletics. In 2018, more prize-winning sportsmen and women joined the ORLEN Sports Group, and we will help our champions compete for participation in the 2020 Olympic Games in Tokyo.



Polski Koncern Naftowy ORLEN  
Spółka Akcyjna

**Daniel Obajtek**  
President & CEO

Our excellent financial performance and delivery of our objectives in 2018 were the result of a combined effort and cooperation of a great team of people. I would like to thank the Members of our Supervisory Board and all employees of the ORLEN Group for their hard and fruitful work. We are facing further ambitious challenges related to completion of the merger with Grupa LOTOS, entry into the Slovak market and implementation of the Petrochemicals Development Programme with an extended R&D base. I believe the enthusiasm and commitment of our staff will help us smoothly follow these projects through. I also hope that the objectives we have set will take the ORLEN Group's growth momentum and benefits from all our investment projects to an even higher level in the years to come.

**Daniel Obajtek**



**President of the Management Board, Chief Executive Officer,  
PKN ORLEN S.A.**