



Polski Koncern Naftowy ORLEN
Spółka Akcyjna

Daniel Obajtek
President & CEO

Ladies and Gentlemen, Dear Shareholders

In 2018, PKN ORLEN undertook and was engaged in a number of investment projects, which will contribute to building its competitive advantage in the demanding fuel and energy sector. The efforts put last year into building the Company's potential were reflected in its robust financial performance, with separate LIFO-based EBITDA coming in at PLN 5.0m. It should be noted, though, that the slightly lower LIFO-based EBITDA compared to the year before was achieved despite the negative impact of macroeconomic variables and temporary unavailability of production units. This proves that we have fully leveraged the favourable market conditions triggered by the introduction of extensive legislative changes in 2016. Of vital importance were especially measures taken by Prime Minister Mateusz Morawiecki to tackle the grey market. As a result, gasoline and diesel oil sales at PKN ORLEN grew by nearly 7% and over 8% (y/y), far above the fuel consumption growth rates on the Polish market.

One of the key challenges currently facing PKN ORLEN is to smoothly complete its acquisition of Grupa LOTOS. The transaction would bring a host of benefits to the national economy, including enhanced energy security. It would also strengthen the combined entity's competitive edge on the back of substantial savings from reduced costs of production, procurement and logistics. At the end of 2018, we filed our draft merger clearance application with the European Commission, and we hope to obtain the clearance by mid-2019.

Our goal is to establish Poland as a net exporter rather than an importer of petrochemicals. To this end, last year saw the launch of our Petrochemicals Development Programme (PDP), which aims to expand the olefins plant, increase our phenol capacities and construct an aromatic derivatives complex. Representing the largest investments in the petrochemical area made by PKN ORLEN in Plock and Włocławek, these projects are scheduled for completion in 2023 at an estimated cost of about PLN 8.3bn. Since they may contribute to an increase in annual EBITDA by a remarkable PLN 1.5bn, the expected payback period will be five to six years.

PKN ORLEN is improving its business flexibility by continuing to diversify crude oil supply sources. We are forging business ties with international players, increasing our ability to purchase oil from sources other than those lying east of Poland. While supporting the stability of our own production, these efforts have also strengthened Poland's energy security. We have already been able to reduce the volumes supplied by Rosneft Oil Company by some 30%. In 2018, 30% of all crude oil used by PKN ORLEN was sourced from Saudi Arabia, the United Arab Emirates, the US and African countries.

To meet the expectations and needs of our customers, we rolled out a new functionality in the ORLEN Mobile application allowing motorists to pay for fuel directly at the pump. We also opened a drive-through service station, a unique format in Europe, where motorists can pay for fuel and other items without leaving their vehicles. We introduced new fuels at PKN ORLEN's retail network: EFFECTA 95 and EFFECTA DIESEL, whose benefits include improved cleaning properties and lower emissions. At the same time, we are investing to advance the uptake of electromobility by installing EV chargers at our stations. Ultimately, we plan to deploy 150 such charging stations throughout Poland, with 50 to be placed in service by the end of this year.

As part of our efforts to advance low-emission solutions, we have started the analytical phase of our potential project to build an offshore wind farm in the Baltic Sea. Currently, environmental studies and wind measurements within our licence area are in progress. We are analysing, among other things, the project's generation potential and environmental constraints, and we may be aiming for a total capacity of up to 1,200 MW.



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PKN ORLEN has consistently worked to enhance the attractiveness of its non-fuel offering, promoting economic patriotism in the sense that it supports Polish producers without compromising on quality. At the end of 2018, there were 1,667 stop.cafe outlets in Poland, including 354 O!SHOPs, where, among other things, we sell our O! proprietary brand products, such as spring water. We have launched the "Drink Polish juices" programme and rolled out the sale of Polish made fruit juices across our entire service station network in Poland. We support not only Polish fruit growers, but also local food processing firms, often run as family businesses. At present, over 70% of all products offered by PKN ORLEN are made in Poland.

Strengthening our relations with the investor community was one of our priority objectives for 2018. To this end, we launched the ORLEN W PORTFELU scheme dedicated to our retail shareholders, which is unique on the nationwide scale. In addition to such benefits as special discounts on fuels and non-fuel products, the scheme has an educational dimension, offering helpful insights into the workings of the capital market – with the Investment Academy course due to start soon, relying on CFA Society Poland for expert support. By offering the scheme we reach out to people who not only buy products and services at our service stations, but also perceive our shares as a valuable long-term investment.

PKN ORLEN invests in Polish sport. We have extended the ORLEN Sports Group by inviting a few more recognised athletes to join. One of the main objectives of our collaboration will be to prepare our champions to compete for participation in the 2020 Olympic Games in Tokyo. We continue our support for Polish volleyball, and we have also contributed to Robert Kubica's return to Formula 1 by sponsoring the Williams racing team and the Polish driver. We perceive this sponsorship as an investment to turn ORLEN into a globally recognisable brand. After all PKN ORLEN products are now available in more than 90 countries, and Formula 1 races attract an audience of about two billion around the globe. Having become involved as a sponsor, we can again watch Robert Kubica competing for the F1 Grand Prix, but above all we promote our Company and Poland to an international audience.

I would like to thank all those who have contributed to PKN ORLEN's vigorous and successful development. My special thanks go Members of our Supervisory Board and our Employees. We are looking forward to new ambitious projects ahead of us, which I believe we will successfully follow through. The developments we saw in 2018 go to show our employees' enormous potential. I am confident that we will accomplish all our goals, bringing numerous benefits to our stakeholders.

Daniel Obajtek

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