



**Jacek Krawiec**  
President & CEO

**Ladies and Gentlemen, Dear Shareholders,**

In many ways 2014 was an eventful and unpredictable year, and the effects of the changes and processes we witnessed are more than likely to continue into the coming years. Undoubtedly, one of the major factors that influenced the functioning of the European economy was the turmoil in the eastern part of the continent. A concern for many countries, it is giving rise to dilemmas, discussions and risks, as well as the key challenge – how to improve energy security. One thing is certain: overcoming this challenge will require infrastructure investments on the one hand, and development of common solutions for Europe as a whole on the other. Combined with global changes in the supply of and demand for commodities and the deepest slump in oil prices in many years, and coupled with the expected persisting instability in this area, this builds into a picture of long-term volatility currently faced by the economy in general, the change-sensitive energy sector, and the ORLEN Group as well.

But we have an answer to the current global developments – it is the well-thought-out and flexible strategy to 2017 we presented in July 2014. We will seek to guarantee stable growth at minimum risk, increase diversification of our revenue streams, and focus on the most promising areas of our business. With the strong financial standing we have achieved over the past years, we are well positioned to pursue investments planned for the next three years, totalling in excess of PLN 12bn and including mainly growth-oriented initiatives.

The CCGT unit in Włocławek will go on stream at the end of 2015 to produce electricity and heat in co-generation. We have started construction of another CCGT unit, in Płock, scheduled for completion at the end of 2017. As a result, in three years' time the Group's combined generation capacities in Poland, including the existing projects, will reach over 1.5 GWe.

We are also looking at opportunities for the development of our petrochemical business in the Downstream segment. In 2014, PKN ORLEN launched a Metathesis unit project, which will help increase the Płock plant's annual output of propylene to 550,000 tonnes, and will thus strengthen our competitive position. However, the European petrochemical market is facing a number of challenges, including those stemming from the currently-negotiated Transatlantic Trade and Investment Partnership (TTIP), changes in the economics of the Asian and North American markets, and high production costs in Europe driven by more stringent climate policy targets. We realise that only those with innovative product portfolios stand the best chance of winning the race. This is why we are actively working on a number of projects, including consolidation and expansion of our research and development capabilities, as well as means to increase the share of EU funding in the financing of our investments.

In our refining business, being the area that poses the greatest difficulties in the volatile macroeconomic environment, PKN ORLEN is focusing on improving production yields and optimising operations. One of the key objectives here is to finalise the acquisition of the residual interest in Česká Rafinérská from ENI. Once completed, the transaction is expected to facilitate the comprehensive management of our Czech assets and strengthen Unipetrol's position on the Czech market.



Unquestionably, our Retail segment, which is of most importance to individual customers, continues to offer very promising development prospects. With growing consumer awareness and changes in the purchasing habits, customers tend to increasingly pay attention not only to the staple offering of service stations but also to the quality of non-fuel and additional services. PKN ORLEN is constantly working on new solutions to expand its range of non-fuel services. Our efforts have brought about swift development of the popular Stop Cafe and Stop Cafe Bistro brands, but also a pilot project carried out with TESCO and the Eurocash Group to test operation of their retail stores at the stations, as well as new e-commerce formats such as the 'Station with a Parcel' service (parcel collection points at service stations). All these initiatives allow us to better leverage our network's potential.

In the Upstream segment, in 2014 the ORLEN Group acquired another production company in Canada, Birchill Exploration, and merged it with its existing since 2013 Canadian operations, TriOil. The acquisition nearly doubled our 2P oil and gas reserves, to approximately 50m boe, and our hydrocarbon production is planned to reach 6m boe in 2017. We also regularly monitor further acquisition opportunities in North America, perceiving them as a way to build the ORLEN Group's position on the global upstream market, and to acquire the know-how necessary for our drilling projects in Poland. On the domestic market, PKN ORLEN is a leader in oil and gas exploration, with 11 non-conventional wells and further 3 boreholes drilled in search for conventional hydrocarbon deposits.

We are also consistently pursuing consolidation projects. We have merged our refining assets in southern Poland, which will now be able to actively compete in the demanding market under ORLEN Południe name. Companies responsible for maintenance of PKN ORLEN's and ANWIL's production assets have been consolidated to form ORLEN Serwis. The production assets of ORLEN Asfalt and ORLEN Oil have been integrated with the Płock plant, with a concurrent expansion of the two companies' trading activities. As part of our efforts to concentrate on the core business, in 2014 we sold ORLEN Medica. I strongly believe that all those processes will translate into further value growth for the ORLEN Group.

The ORLEN Group's Strategy for 2014-2017 reflects the suppressed consumption of fuels due to prolonged economic downturn, refining overcapacity and the mounting pressures on margins caused by the shale revolution in the United States and economic changes in Russia. As a result, the originally forecast cash flows were revised and PLN 5.4bn write-downs were recognised in the Company's 2014 financial statements; they included PLN 4.2bn impairment of the equity interest in ORLEN Lietuva. These adjustments are of a non-cash nature and have no effect on the ORLEN Group's current operations.

Factoring out the effects of the impairment losses on non-current assets and inventory write-downs following the decline in oil prices, our 2014 LIFO-based EBITDA reached the record level of PLN 5.2bn, notably with a considerable positive contribution from each segment of the Group. The integrated Downstream segment contributed PLN 4.2bn. In the Retail segment, LIFO-based EBITDA rose to another all-time high of PLN 1.4bn, while in the promising Upstream segment it was reported at PLN 0.2bn, driven by the Canadian production assets.

Polski Koncern Naftowy ORLEN Spółka Akcyjna

a Polish company, with its registered office at Chemików 7, 09-411 Płock, Poland  
entered into the Register of Entrepreneurs kept by the District Court for the Capital City of Warsaw,  
XIV Commercial Division of the National Court Register under the number KRS 28860  
NIP: 774-00-01-454, share capital/paid up capital: 534.636.326,25 PLN



In 2014, we adhered to our dividend policy by paying dividend of PLN 1.44 per share from the 2013 profit. We completed the final round of our PLN 1bn retail bond issue programme launched in 2013, and successfully placed EUR 500m worth of eurobonds on the market. The huge interest of investors in PKN ORLEN debt securities is a testament to the credibility of our company as a reliable partner on the capital market. Importantly, by diversifying our financing sources we were able to strengthen a strong platform for the implementation of our ambitious investment plans for the coming years.

When looking at the activities of the ORLEN Group one should bear in mind that, whatever the area of operations, each of these activities is supported by the effort of individual people, both employees and also our trading partners, customers, and members of local communities. This is why People are one of the pillars of the Group's strategy. In line with our corporate credo – *ORLEN. Fuelling the future*, we seek to ensure that all our initiatives take into account the interests of our stakeholders, and this is why we place so much emphasis on building and constantly improving a modern management culture rooted in corporate values. We are aware that, just like diversification of revenue sources and solid financial fundamentals, a company's operating practices underpinned by responsibility and trust, regardless of the level or region of operation, can be viewed as a safeguard against potential crises and shocks. Our vision for the ORLEN Group of the future is one of an organisation that is more advanced in the pursuit of sustainable development objectives, takes care to support the natural environment, sport and culture and to deliver on its business goals, consistently develops projects which serve the local communities, builds human capital and sets new standards for creating leaders.

**Dariusz Jacek Krawiec**

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**CEO, President of the Management Board  
PKN ORLEN S.A.**

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