

PKN ORLEN Growth Strategy
Regulatory announcement no 275/2016 dated 15 December 2016

PKN ORLEN S.A. ("PKN ORLEN", "Company") hereby announces that on 15 December 2016 the Management and Supervisory Boards of PKN ORLEN approved the document "PKN ORLEN Growth Strategy" ("Strategy").

PKN ORLEN growth strategy for 2017-2021 is based on three pillars: value creation, people and financial strength. Due to the high volatility of macroeconomic parameters the financial and operational targets have been presented for years 2017-2018. Simultaneously PKN ORLEN will periodically update and communicate the plans for next periods.

The main operating and financial targets for years 2017-2018 are following:

- EBITDA LIFO annual average PLN 8,8 bn.
- CAPEX annual average PLN 5,4 bn, mainly for growth projects.
- sustained current dividend policy assuming continuous increase of the dividend per share payouts. Target dividend level will be dependent on the macroeconomic situation, operating and investment plans realization and to the PKN ORLEN financial results.
- safe level of financial ratios: financial gearing below 30% and maintaining of investment grade rating.

Table 1. Financial targets

Financial target	Target 2017-2018	Estimates 2016
EBITDA LIFO annual average (PLN bn)	8,8	8,3
CAPEX annual average (PLN bn), including:	5,4	5,1
for growth	3,3	3,0
Financial gearing	below 30%	18%
Rating	investment grade	investment grade

Table 2. Financial targets – breakdown by operating segments

Operating segment	EBITDA LIFO annual average (PLN bn)		CAPEX annual average (PLN bn)	
	Target 2017-2018	Estimates 2016	Target 2017-2018	Estimates 2016
Downstream	7,6	7,1	3,7	3,8
Retail	1,8	1,7	0,6	0,5
Upstream	0,3	0,2	0,8	0,6
Corporate functions	-0,9	-0,7	0,3	0,2

Table 3. Operating targets

Operating target	Unit	Target 2018	Change target 2018 vs estimates 2016
Market share	%	64,0	5,4 p.p.
Petrochemical sales	m tonnes	5,7	1,2
Electric energy sales	TWh	3,4	3,4
Total unit logistics cost	index	94	(-) 6 %
Crude oil throughput	m tonnes	32,8	3,2
White products yield	%	79	1 p.p.
Energy Intensity Index (EII based on Solomon methodology)	point	85	(-) 1
Operational Availability Index (OA based on Solomon methodology)	point	96	2
Number of filling stations	item	2794	104
Market share in home markets	%	16,0	1,1 p.p.
Change in non-fuel sales margin	index	117	17%

Unit margin	index	108	8%
2P reserves	m boe	113	9,3
Production of hydrocarbons	th boe/d	15,7	2,4
Net number of wells	item	26	14

Table 4. Macroeconomic assumptions

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

Macroeconomic factor	Unit	Average 2017-2018
Model Downstream margin	USD / bbl	11,3
Brent/Ural differential	USD / bbl	2,2
Model refining margin with differential	USD / bbl	7,5
Model petrochemical margin	EUR / t	793
Brent crude oil price	USD / bbl	55
Canadian Light Sweet crude oil price	CAD/ bbl	62
Natural gas price in Poland	EUR/MWh	15,7
AECO gas price	CAD/GJ	2,4
CO ₂ emission certificates price	EUR/t	6,5
Electric energy price – wholesales (base)	PLN/MWh	158
USD/PLN exchange rate	USD/PLN	3,88
EUR/PLN exchange rate	EURPLN	4,27

Definitions:

Market share (%) - the ratio of sold products to the total number of product units sold on the particular market . In the case of fuel market, the share is calculated for Poland, the Czech Republic and Baltic countries.

Crude oil throughput (mln t) - the volume of crude oil processed in refineries of ORLEN Group

Total unit logistics cost (PLN/t) - total logistics cost per unit of transported fuel

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

Energy Intensity Index (EII based on Solomon methodology) (point) - Solomon Energy Intensity Index (EII) allows one to compare the energy efficiencies of a refinery with the best players in the industry

Operational Availability Index (OA based on Solomon methodology) (point) - operational availability of installation per time unit illustrates how long installation was excluded from the working cycle (renovations, repairs, inspections etc.)

Market share in home markets (%) - retail sales volumes in markets (Polish, German, Czech and Lithuanian) / cumulative retail consumption in these markets. It refers to gasoline and diesel.

Change in non-fuel sales margin (%) - change in non-fuel margin between periods. Non-fuel sales include: shop margin, bistro margin, revenues from deliverers, car wash revenues. other services and revenues.

Unit margin (gr/l) - net revenues from fuel sales at petrol stations reduced by wholesale purchase price per unit of fuel.

Production of hydrocarbons (boe/d) - daily volume of hydrocarbons production, i.e. oil and gas, expressed in barrels of oil equivalent (boe)

2P Reserves (boe) - proven and probable reserves.

Net number of drillings (item) – numer of drillings multiplied by % of share in the certain asset.

Model downstream margin = revenues (90,7% Products = 22,8% Gasoline + 44,2% Diesel + 15,3% HHO + 1,0% SN 150 + 2,9% Ethylene + 2,1% Propylene + 1,2% Benzene + 1,2% PX) – costs (input 100% = 6,5% Brent crude oil + 91,1% URAL crude oil + 2,4% natural gas).

Model refining margin = revenues (93,5% Products = 36% Gasoline + 43% Diesel + 14,5% HHO) - costs (100% input: crude oil and other raw materials). Total input calculated acc. to Brent Crude quotations. Spot market quotations.

Spread Ural Rdam vs fwd Brent Dtd = Med Strip - Ural Rdam (Ural CIF Rotterdam).

Model petrochemical margin = revenues (98% Products = 44% HDPE + 7% LDPE + 35% PP Homo + 12% PP Copo) - costs (100% input = 75% Naphtha + 25% LS VGO). Contract market quotations.

Financial gearing = net debt / equity calculated acc. to average balance sheet amount in the period.

EBITDA LIFO - Earnings Before deducting Interest ,Taxes, Depreciation and Amortization - operating income including amortization based on LIFO inventory valuation method.

Details of the Strategy are included in the presentation attached hereto regulatory announcement and will be presented to the capital market representatives during the press conference and conference call on 16 December 2016.

Data concerning 2016 as well as average for 2014-2016 are best available estimates and can be altered. The results for 2016 are based on 3 quarters of 2016 results and best estimates of the 4th quarter of 2016. Information and data concerning future periods have been estimated based on applied assumptions and can differ from actual values reported by PKN ORLEN S.A. in future financial statements.

The Strategy 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 does not include an impact of the potential change in the level of write-offs according to IAS 26 "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.

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