

PKN ORLEN Strategy 2014-2017

July 23rd 2014



***„We discover and process natural resources
to fuel the future”***

- **Strategic credo**
- **Pillars of value creation**
- **Supporting slides**

Consistent implementation of strategic objectives approved in 2012



Shareholders



- Systematic dividend payment:
 - PLN 1.5 per share for 2012
 - PLN 1.44 per share for 2013

Value creation



- Record results in the Retail segment in 2013
- Acquisition of Canadian upstream companies
- Macroeconomic environment below the assumptions and consequently lower EBITDA

Financial strength



- Financial gearing below 30%
- Financing diversification: retail bonds and Eurobonds

PKN ORLEN perception



- The Best Managed Company in the Oil Sector in the Central and Eastern Europe in 2013
- The World's Most Ethical Company 2014



- Strong position on large and growing markets
- Strong customer focus
- Integrated value chain
- Operational excellence
- Sustainable Upstream development
- Modern management culture

Pillars of PKN ORLEN Strategy for 2014-2017



Value creation

EBITDA: PLN 5.1 billion*

Financial strength

Dividend: DPS increase**

People

Values: ORLEN



*The average annual EBITDA LIFO in 2014-2017

** DPS, *Dividend per Share* - dividend per share paid by the company

➤ **Strategic credo**

➤ **Pillars of value creation**

➤ **Supporting slides**

Value creation: Downstream

Integrated assets and strong market position



Value creation levers



- **Integrated value chain management**
 - comprehensive downstream value chain management
 - product portfolio and conversion level extension



- **Operational excellence**
 - key indicators - consistent improvement in the Solomon rating
 - Group's assets structure optimization and restructuring



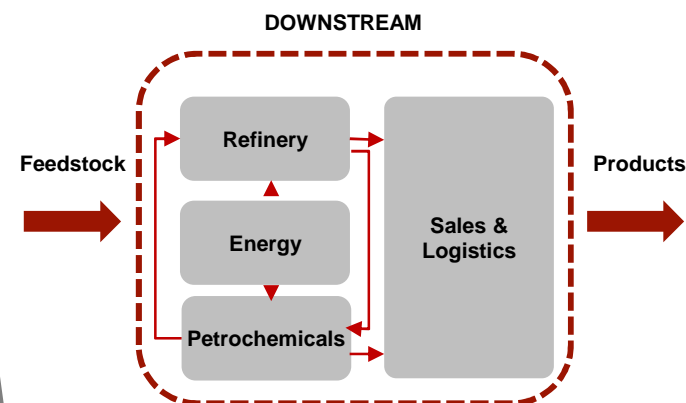
Effective sales strategy

- alignment of sales model with the best practices
- strengthening the position on home markets



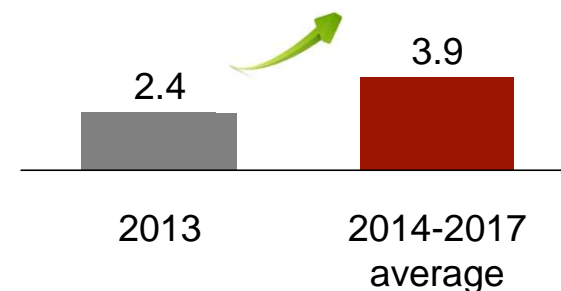
- **Development of industrial cogeneration**
 - new capacity construction, i.e. CHP Włocławek (463 MWe) and CHP Płock (600MWe)
 - modernization of existing assets

Integrated value chain



EBIDTA LIFO growth in Downstream

PLN billion



Value creation: Retail

Modern network off fuel station loyal customer base and strong brand **ORLEN**



Value creation levers



➤ Modern network of fuel stations

- further development of both the CODO channel and the DOFO channel
- increase of fuel sales per one station



➤ Focus on customer

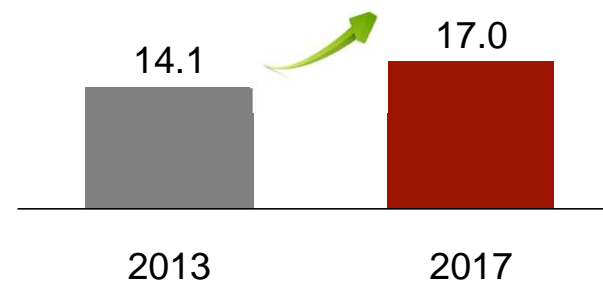
- Introduction of new services and products
- new store formats under the ORLEN brand implementation as well as a new format of Stop Cafe



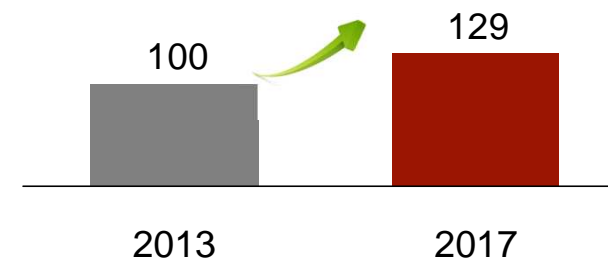
➤ Strong brand

- loyalty program full potential leverage
- e-commerce development

Home fuel markets' share increase*, %



Non-fuel margin increase, index



* Poland, Czech Rep., Germany and Lithuania

Value creation: Upstream

Increase of hydrocarbons' production in stable and safe regions



Value creation levers



➤ Organic growth in Poland

- focus on the most perspective areas of the unconventional upstream assets
- development of conventional upstream projects



➤ Development of Upstream in Canada

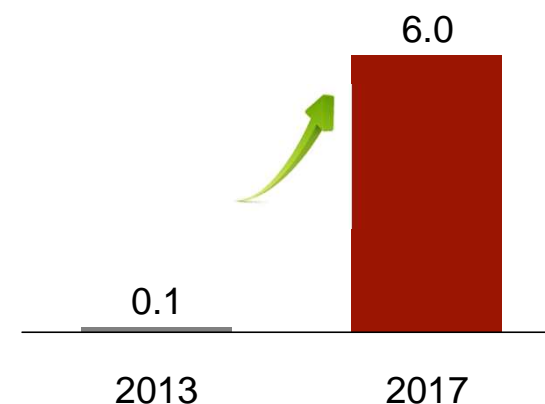
- production increase to 16 thousand boe/day
- oil and gas 2P* reserves increase to 53 million boe



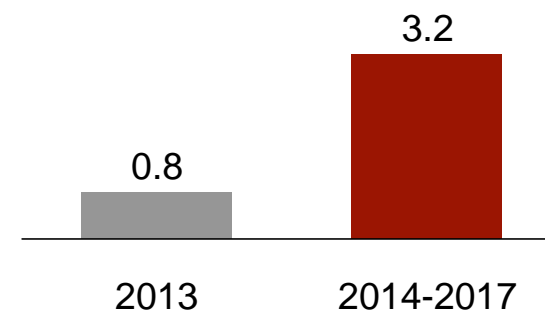
➤ Opportunistic purchase of assets

- conditioned by the value of free cash flow (FCF)** in Poland as well as on other markets

Hydrocarbons' production, million boe/year



CAPEX, PLN billion

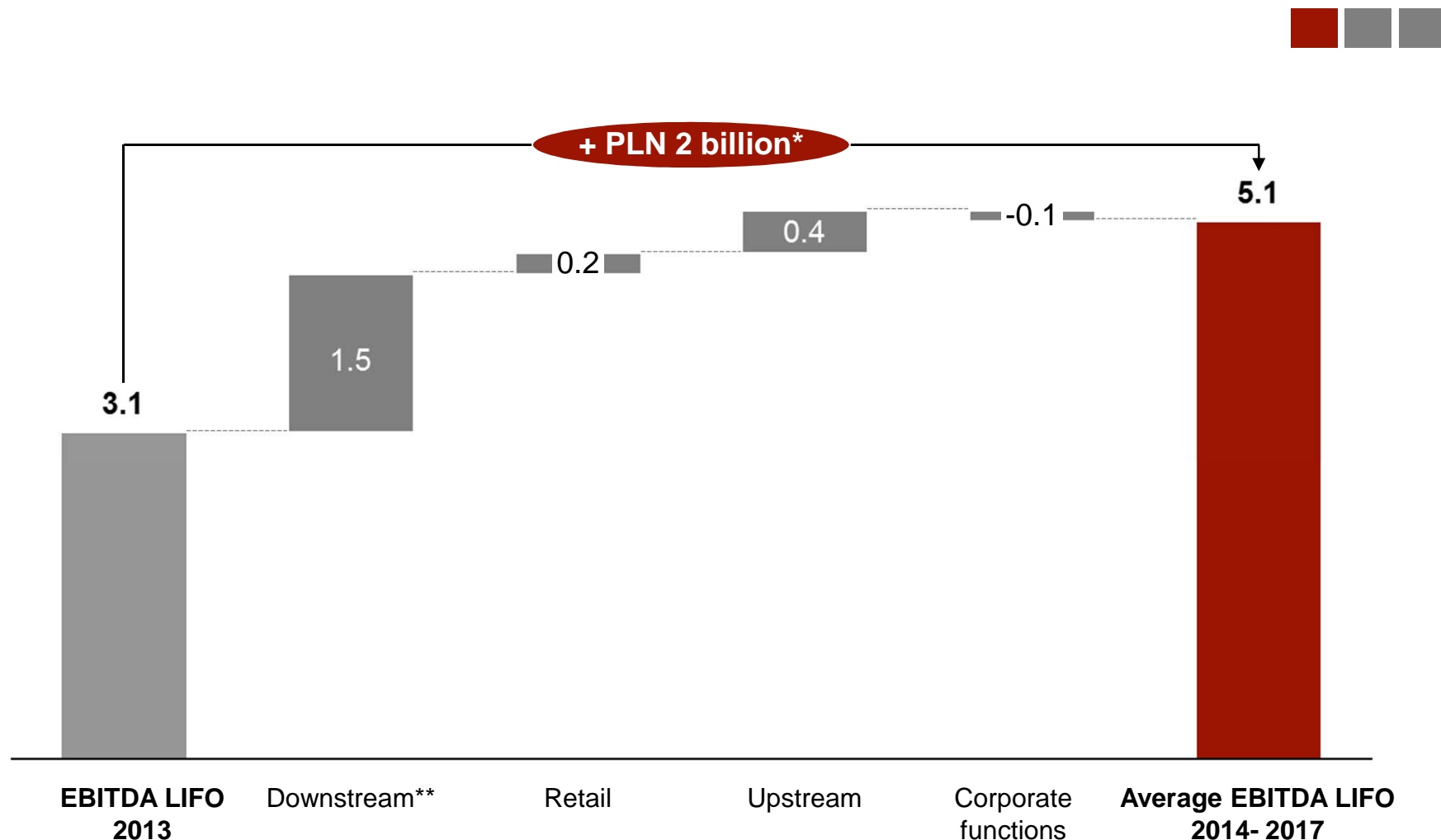


*2P - Proven & Probable resources

**FCF= EBITDA LIFO- CAPEX

Value creation: EBITDA

The average annual EBITDA LIFO growth of PLN 2 billion



* Including PLN 1.6 billion for Development & Efficiency and PLN 0.4 billion as the macro effect

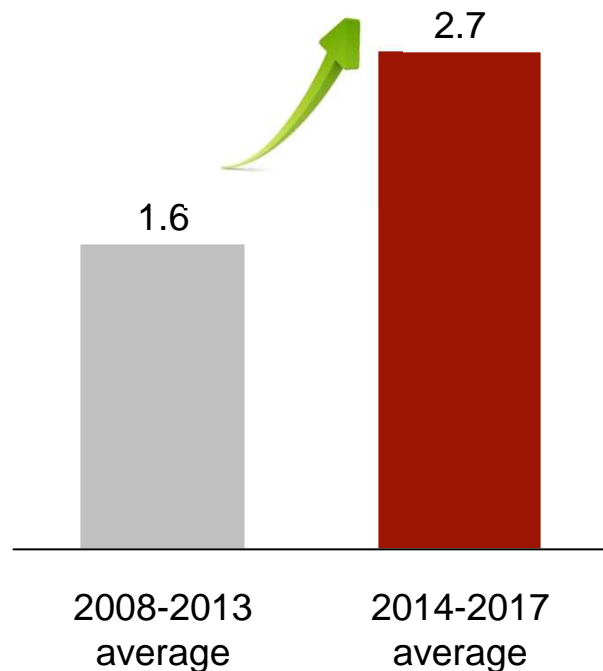
**Including PLN 1.1 billion for Refining, PLN 0.3 billion for Petrochemicals, PLN 0.1 billion for Energy (CCGT Włocławek)

Value creation: CAPEX

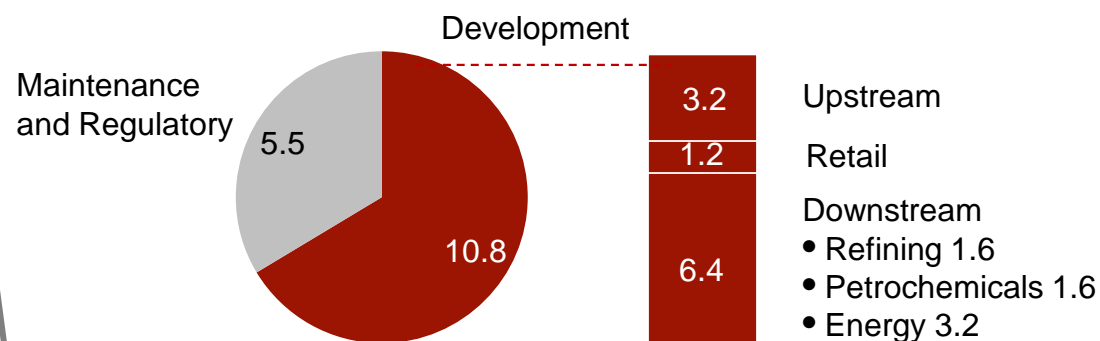
Growing spending on development projects



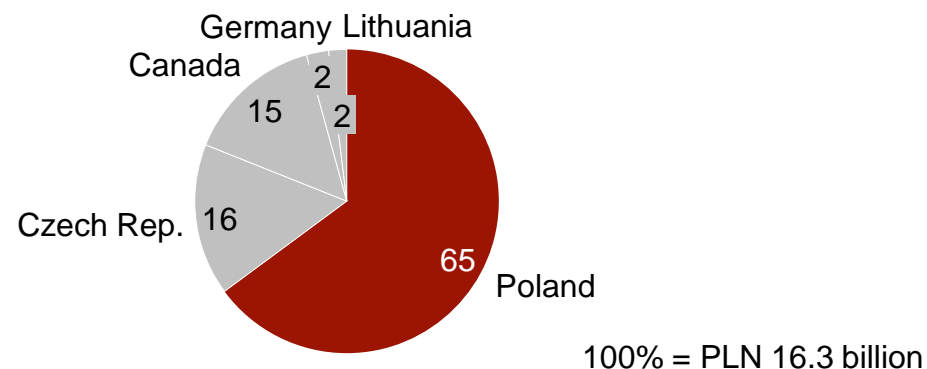
The increase of expenditure on development projects
PLN billion



CAPEX structure by the type of investment,
2014-2017, PLN billion



CAPEX structure by country,
2014-2017, %

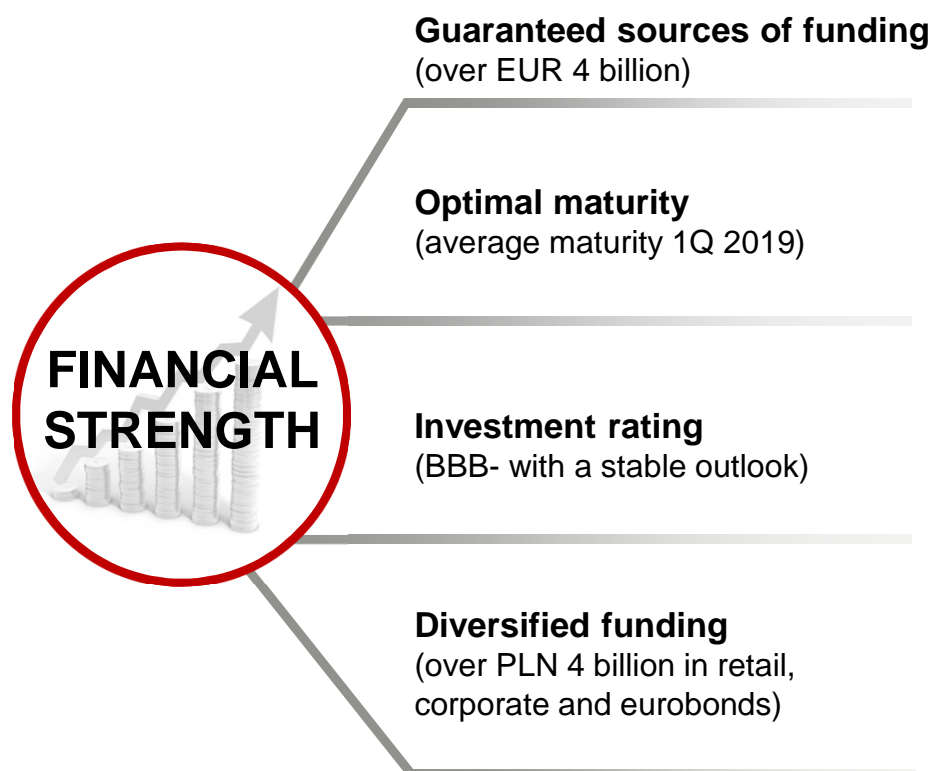


Financial strength

Flexibility and resilience to crisis scenarios



Foundations



Objectives

- **Financial ratios**
 - Rating - investment grade
 - Financial gearing - below 30%
 - Net debt/EBITDA LIFO– less than 2
- **Dividend** – a steady increase of DPS*
- **Positive free cash flow****
- **Additional cash flow**
 - up to PLN 1 billion from non-integrated assets divestment
 - up to PLN 3 billion from the mandatory reserves release***

* DPS, *Dividend per Share* - dividend paid by the company per share under the current dividend policy assuming dividend yield of 5%, with respect to the average share price from the previous year, taking into account the implementation of strategic financial indicators and forecasts of the macroenvironment

** FCF= EBITDA LIFO – CAPEX

*** As a result of the new law on mandatory reserves. Positive cash flows are partially offset by the repurchase of the mandatory reserves tranches

People

ORLEN's values as the foundation for modern management culture



RESPONSIBILITY

We respect our customers, shareholders, the natural environment and local communities

PROGRESS

We explore new opportunities

PEOPLE

Our advantages are know-how, teamwork and integrity

ENERGY

We are enthusiastic about what we do

DEPENDABILITY

You can rely on us



People

Responsibility for people, the environment and our partners



Health & Safety



- Safety first: zero tolerance for accidents
- Rigid HSE culture in the Capital Group

Environmental protection



- Strengthening the image of an industry leader in the environmental protection
- Business objectives implementation while respecting the environment

Social responsibility



- Responsibility towards local communities, the environment and business partners

People

Development of the human capital and innovation



Employees



- Investing in a continued development of employees' competencies
- Consistent development of an experienced team of specialists

Leaders



- Focusing on inspiring Leaders – employees working with passion, energy and engagement
- Adequate response to the changing environment

Innovations



- Systematic increase in spending on Research and Development
- Implementation of innovative solutions



Retail

Leveraging the opportunities for further growth



Downstream

Profitability increase of the integrated value chain



Upstream

Consistent and balanced increase of upstream portfolio



Value creation

Financial strength

People

- **Strategic credo**
- **Pillars of value creation**
- **Supporting slides**

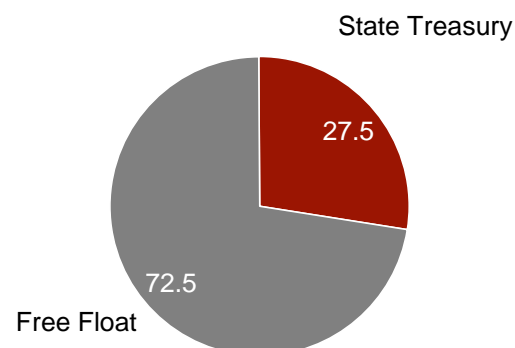
PKN ORLEN – Company profile



Business profile

- **The largest company in Poland and the Central Europe**, holding 323rd position in the Fortune Global 500 list
- Listed on the Warsaw Stock Exchange since 1999
- **Market capitalization:** PLN 17.9 billion (as of 15/07/14)

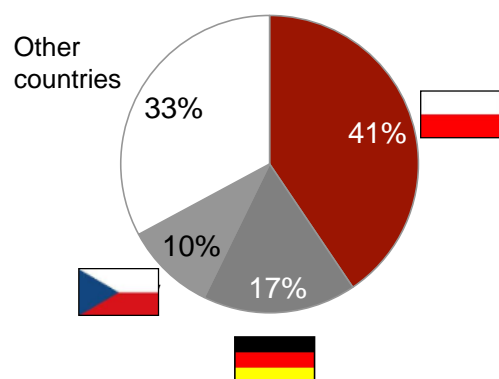
Shareholders, %



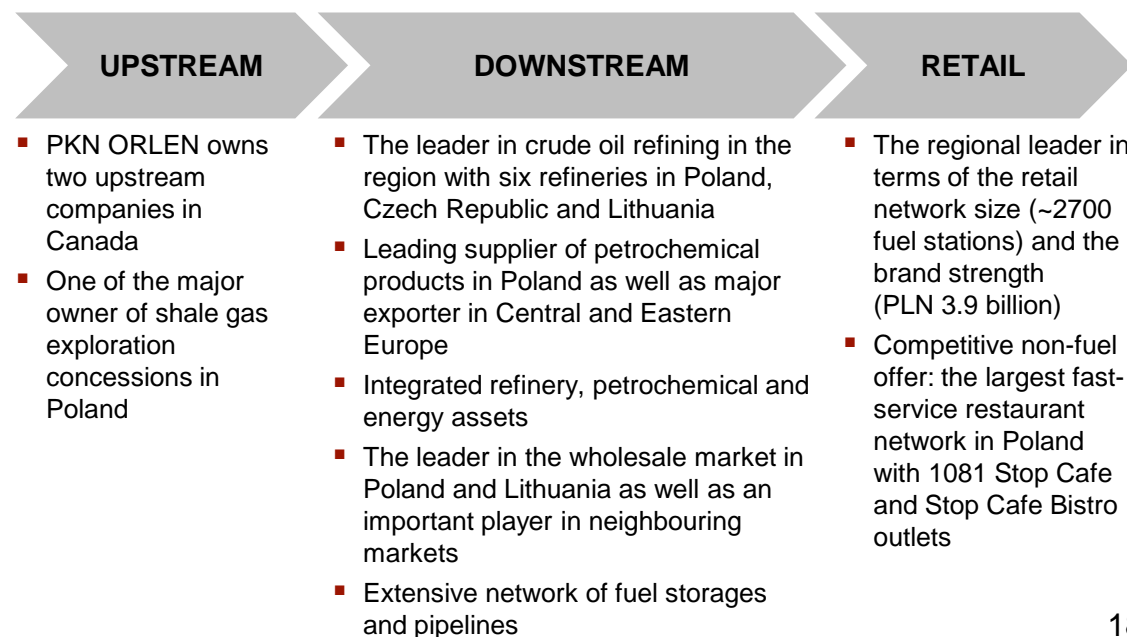
TOP 10 products by revenue

- Diesel
- Gasoline
- Heavy Fuel Oil
- Light Fuel Oil
- Jet-A1
- LPG
- Bitumen
- Polyethylene
- Polypropylene
- Benzene

Revenues by country of sale, 2013 (%)



PKN ORLEN value chain



DOWNSTREAM: Value creation foundations

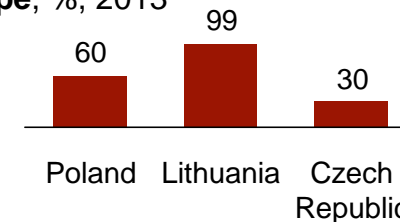


High-class production assets

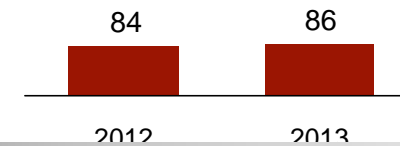
- **Integrated, high-class** refinery, petrochemical and energy **assets** in Poland
- **Competitive refinery and petrochemical product slate**, allowing to obtain attractive margins
- **Industrial cogeneration** integrated with production (operational flexibility)

Strong position on growing in-land markets

- **Strong position on the wholesale market in Central and Eastern Europe**, %, 2013



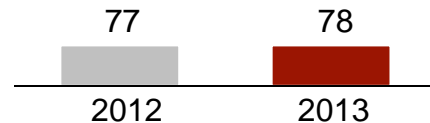
- **High in-land sales share**, %



Outstanding operational competences

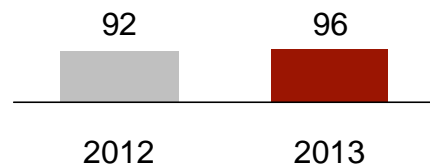
- **High fuel yield**

%



- **Operational availability**

%



Integrated, high-class assets and a strong position on a competitive market

DOWNSTREAM: Value creation levers (1/2)



The main development goals of the Downstream sector: further integration of the value chain, construction of flexible power energy assets and constant improvement of sales models



- Alignment of sales models with best practices (heavy fuel oil, JET, oil, bitumen)
- Strengthening the position on home fuel markets in the Central and Eastern Europe
- Constant improvement of flexibility and efficiency including logistics unit costs further reduction
- Optimization of the Capital Group's structure



- Extension of product slate and conversion level including the utilization of the vacuum residue
- Constant improvement of key Solomon's indicators
- Selective investments (among others Polyethylene and Metathesis installation)
- Value chain extension in petrochemicals: considered projects include production of acrylates, SAP-super absorbent
- Optimization of the Capital Group's structure



- Highly efficiency industrial co-generation plants as a source of both steam and power for downstream processes
- New power plants construction: CCGT Włocławek (463 MWe) and CCGT Płock (600 MWe)
- Existing power assets modernization: CHP Płock, CHP Litvinov, CHP Trzebinia
- Development of energy trading competencies

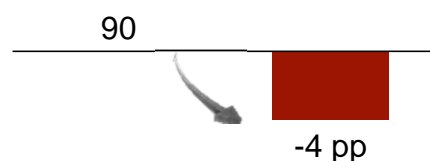
DOWNSTREAM: Value creation levers (2/2)



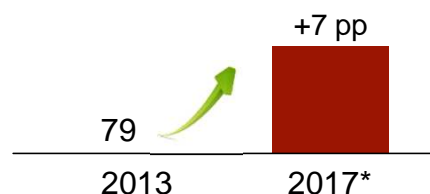
Share in the
Polish fuel market,
%



Utilization ratio -
refinery**, %

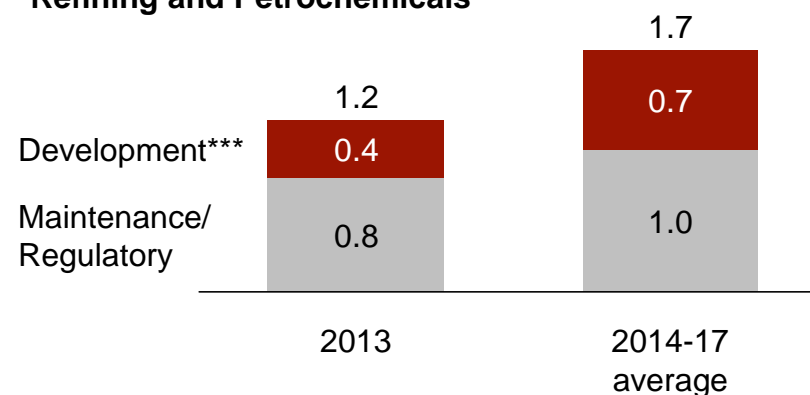


Utilization ratio -
olefins, %

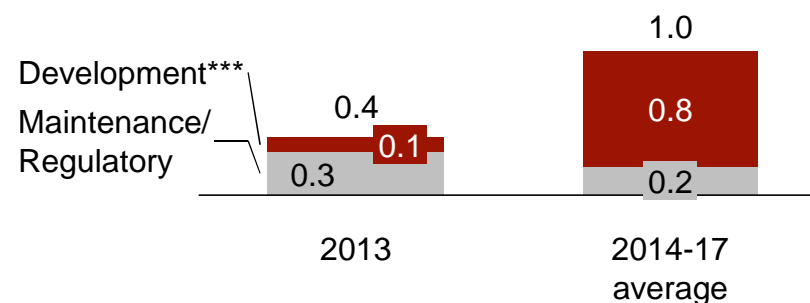


CAPEX, annual average, PLN billion

Refining and Petrochemicals



Energy



* Production indicators (i.e. utilization ratio for refinery and olefins, energy intensity) are presented as 2016-2017 average, in order to offset impact of exceptional events, such as longer maintenance shutdowns

**Lower utilization ratio due to the impact of ORLEN Lietuva refinery

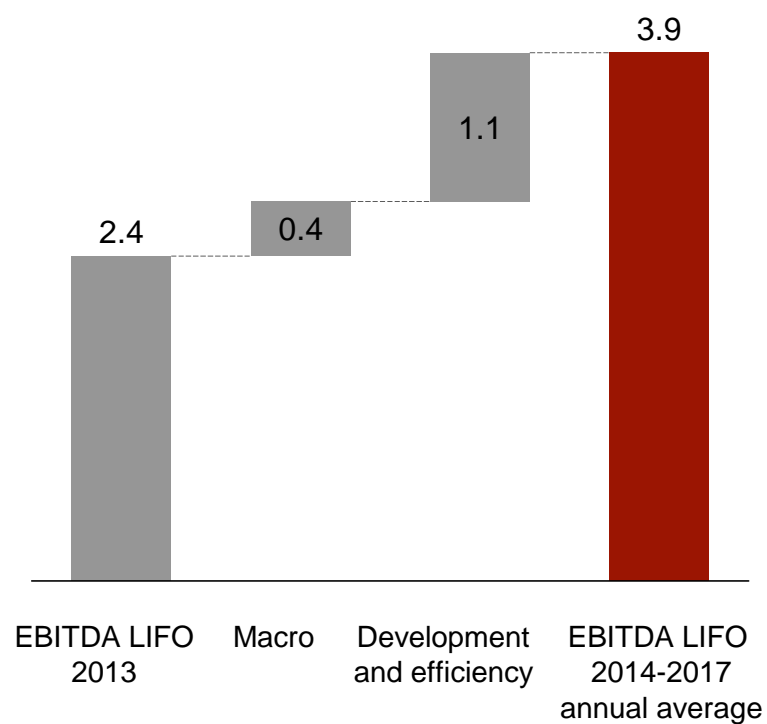
***Key development projects in Refining PLN 1.6 billion (cumulative) including: vacuum residue utilization and construction of a new base oils production unit HROS II. Petrochemicals PLN 1.6 billion (cumulative) including a Polyethylene installation and a metathesis plant. Energy PLN 3.2 billion (cumulative) including CCGT Wloclawek, CCGT Plock and new steam turbine for CHP Trzebinia. 21

DOWNSTREAM: Value creation results



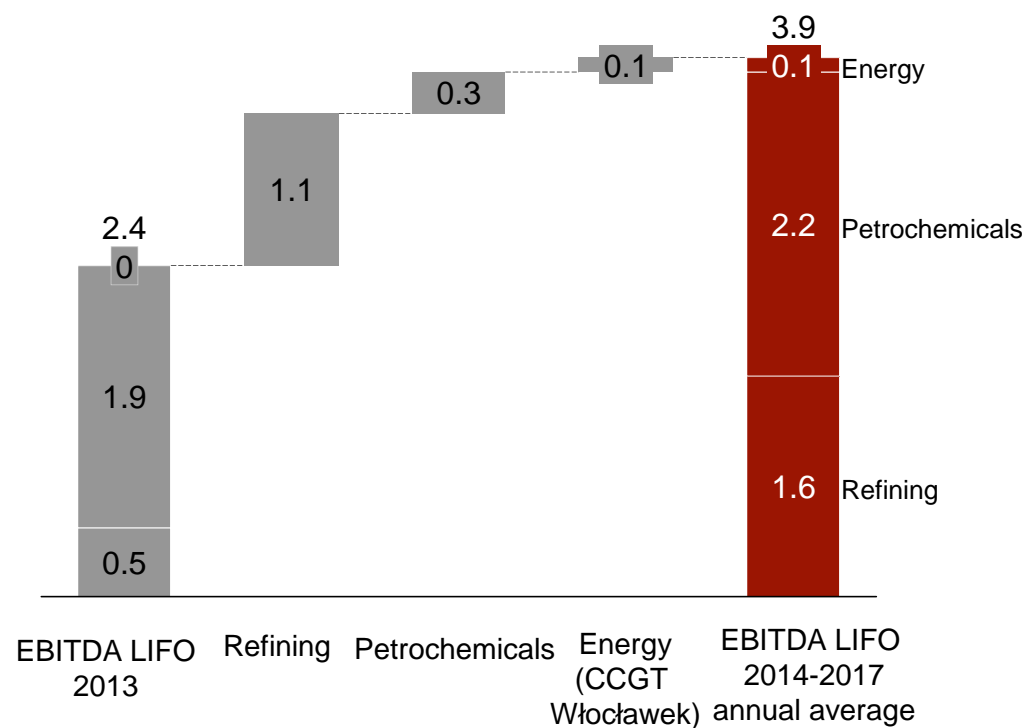
EBITDA LIFO, 2013-2017

PLN billion



EBITDA LIFO by segments, 2013-2017

PLN billion

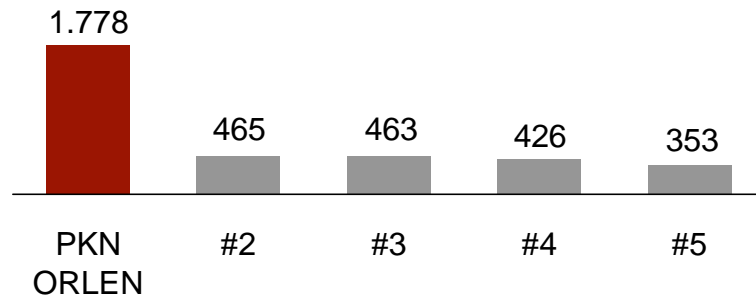


RETAIL: Value creation foundations



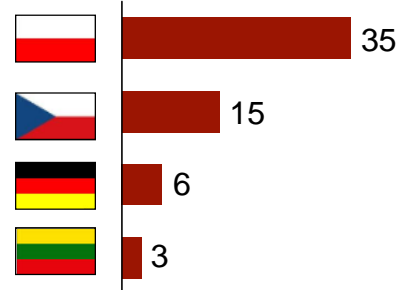
PKN ORLEN operates a modern and the largest sales network in the region

Fuel stations in Poland, 2013

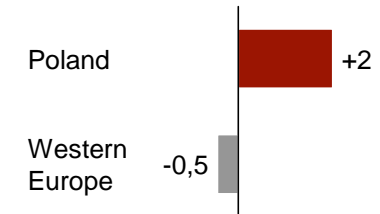


PKN ORLEN is an unquestionable leader on a very attractive market

Retail market shares, 2013 %



Change in fuel demand in Europe, CAGR 2013-17, %



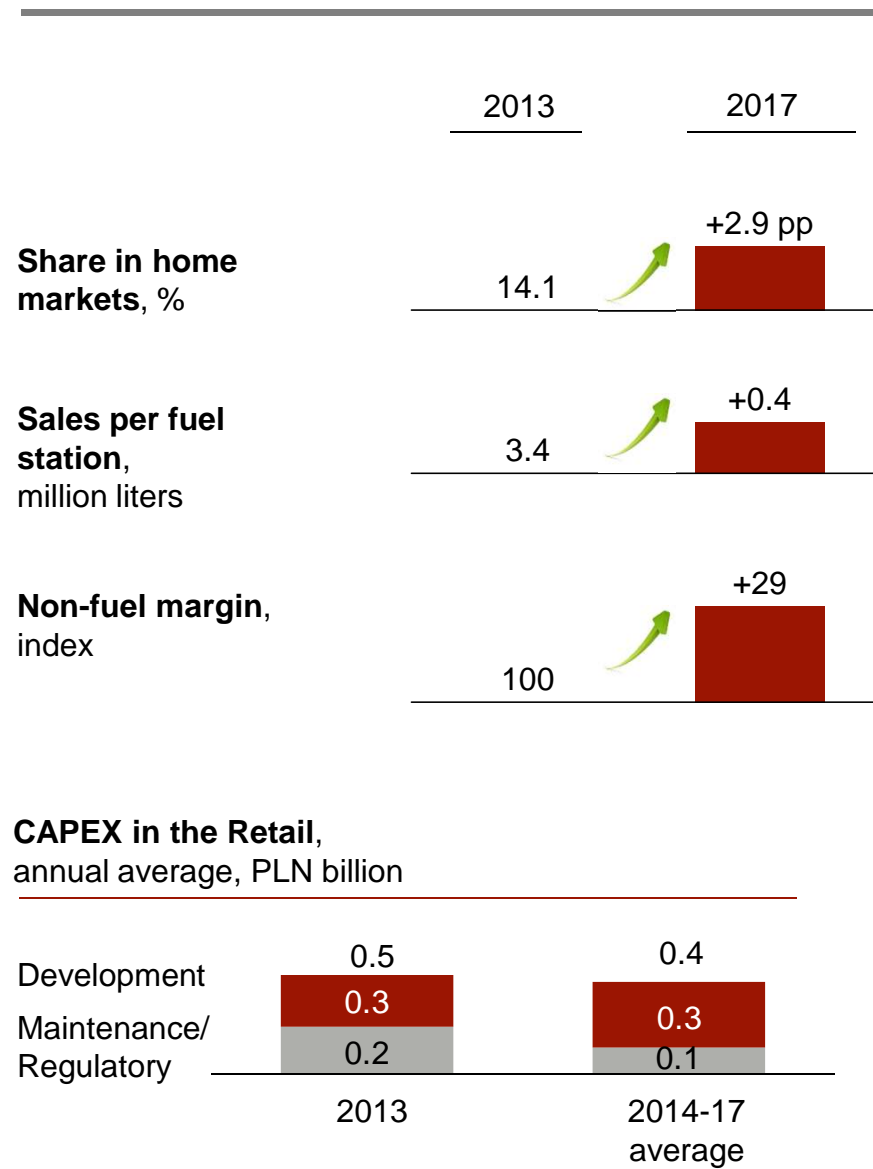
Source: PKN ORLEN, Wood Mackenzie

The largest group of loyal customers in Poland

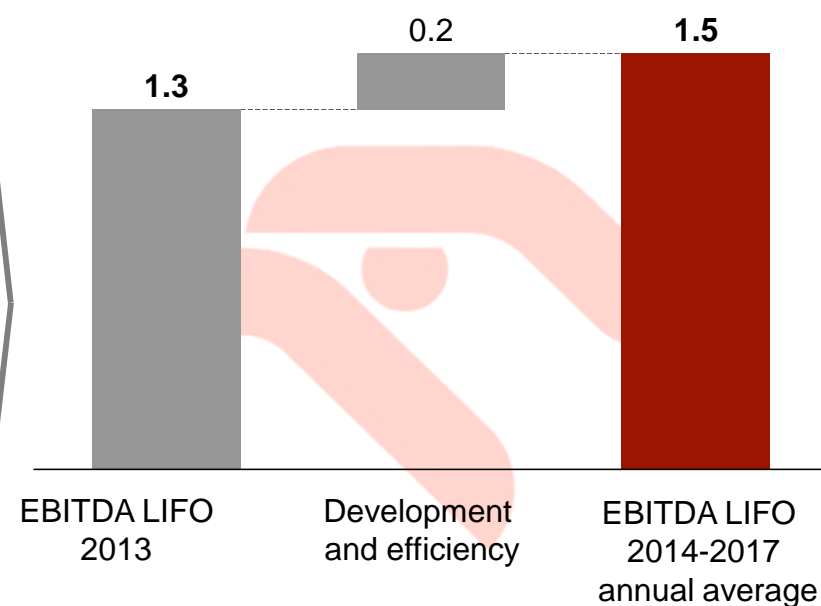
- **~11 million customers of a loyalty program**, dynamic growth in non-fuel sales through the use of modern **store concepts, Stop Cafe, Bistro Cafe**
- **The most valuable Polish Brand** (~ PLN 3.9 billion) according to the Rzeczpospolita daily, confirmed by a high customer recognition (~100%) and numerous awards

A modern and the largest sales network in the region with a strong and recognizable brand

RETAIL: Value creation levers and results



EBITDA LIFO
PLN billion



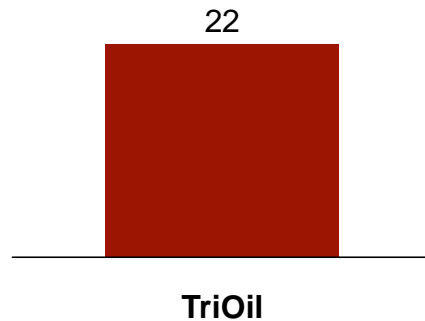
UPSTREAM: Value creation foundations



Upstream development is based upon safe foundations

➤ Production assets in Canada, 2013

Oil and gas reserves (2P*), million boe



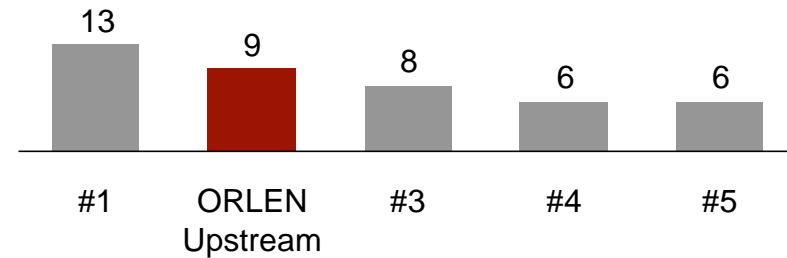
Organic exploration projects focused on Polish licenses

➤ Leader in the shale gas exploration:

9 concessions and 2 frackings

➤ 2 conventional exploration projects for oil and gas

Number of unconventional wells in Poland**, 2013



Competences to ensure strategic goals achievement

- Strong team with core competences for different types of projects
- Activity on technologically advanced Canadian market
- Know-how transfer between teams in Poland and Canada

Safe production assets and advanced unconventional gas projects

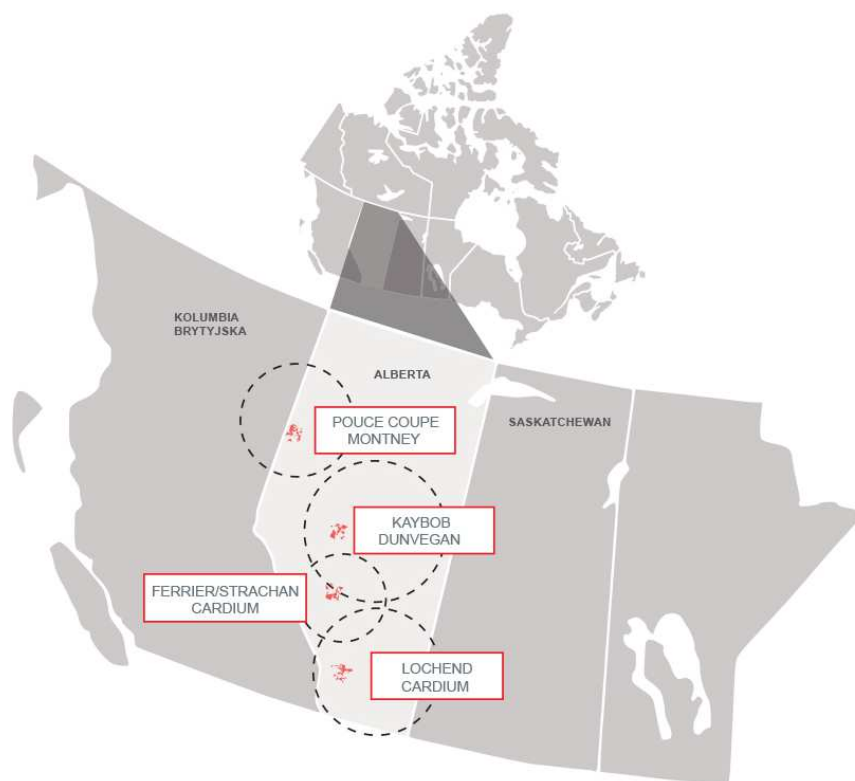
*2P - Proven & Probable

** Includes horizontal and vertical wells

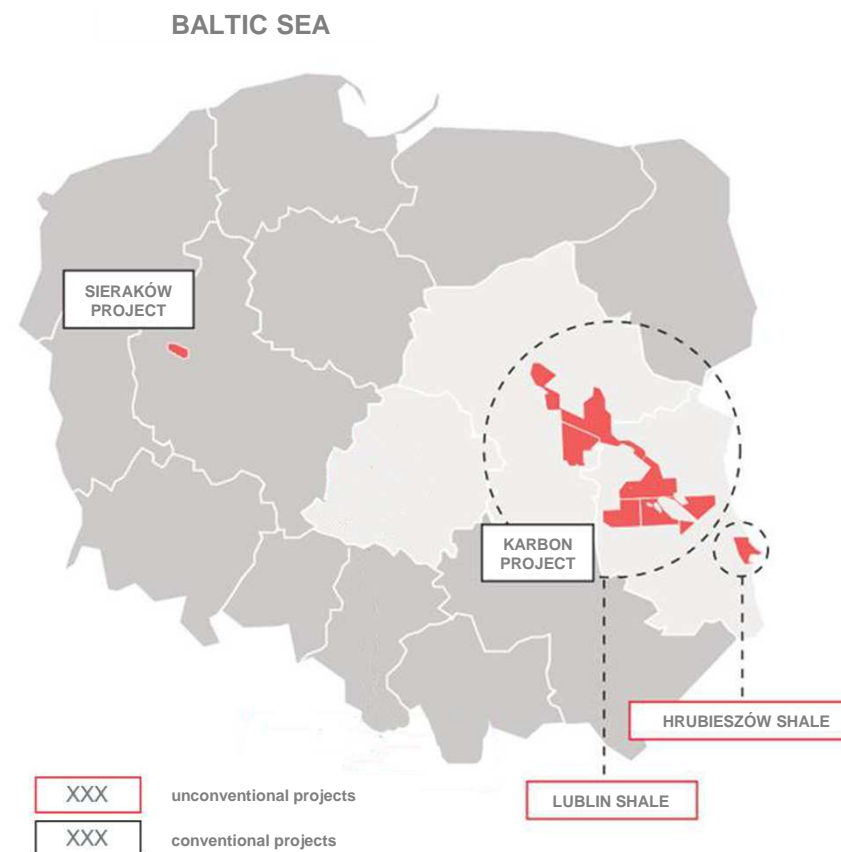
UPSTREAM: Hydrocarbons exploration and production areas



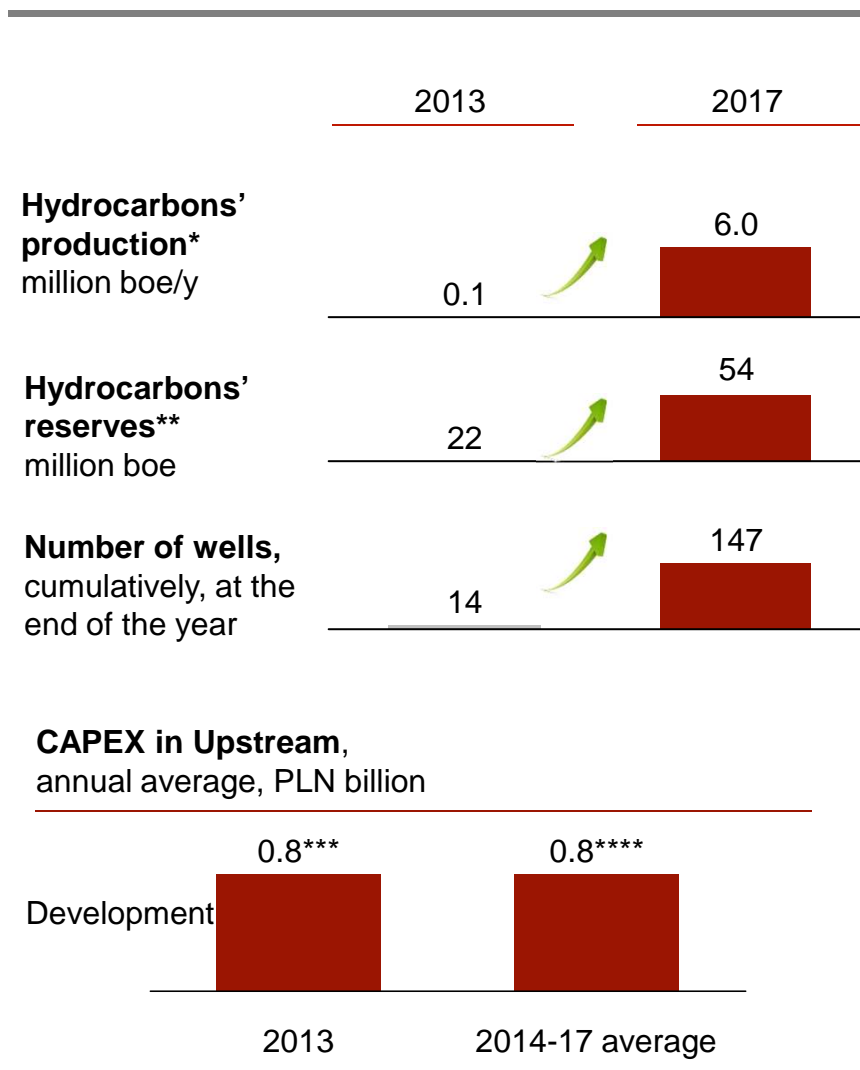
Production projects in Canada



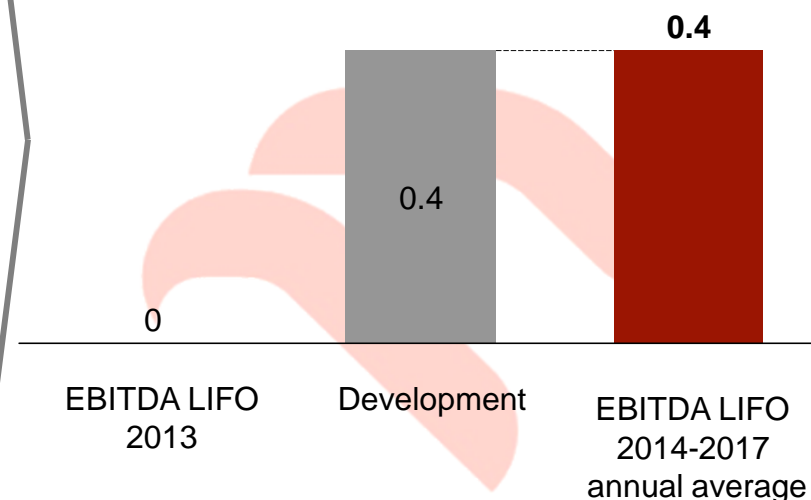
Exploration projects in Poland



UPSTREAM: Value creation levers and results



EBITDA LIFO
PLN billion



* In 2017 the production of hydrocarbons in Poland will reach 0.2 million boe/y and 5.8 million boe/y in Canada

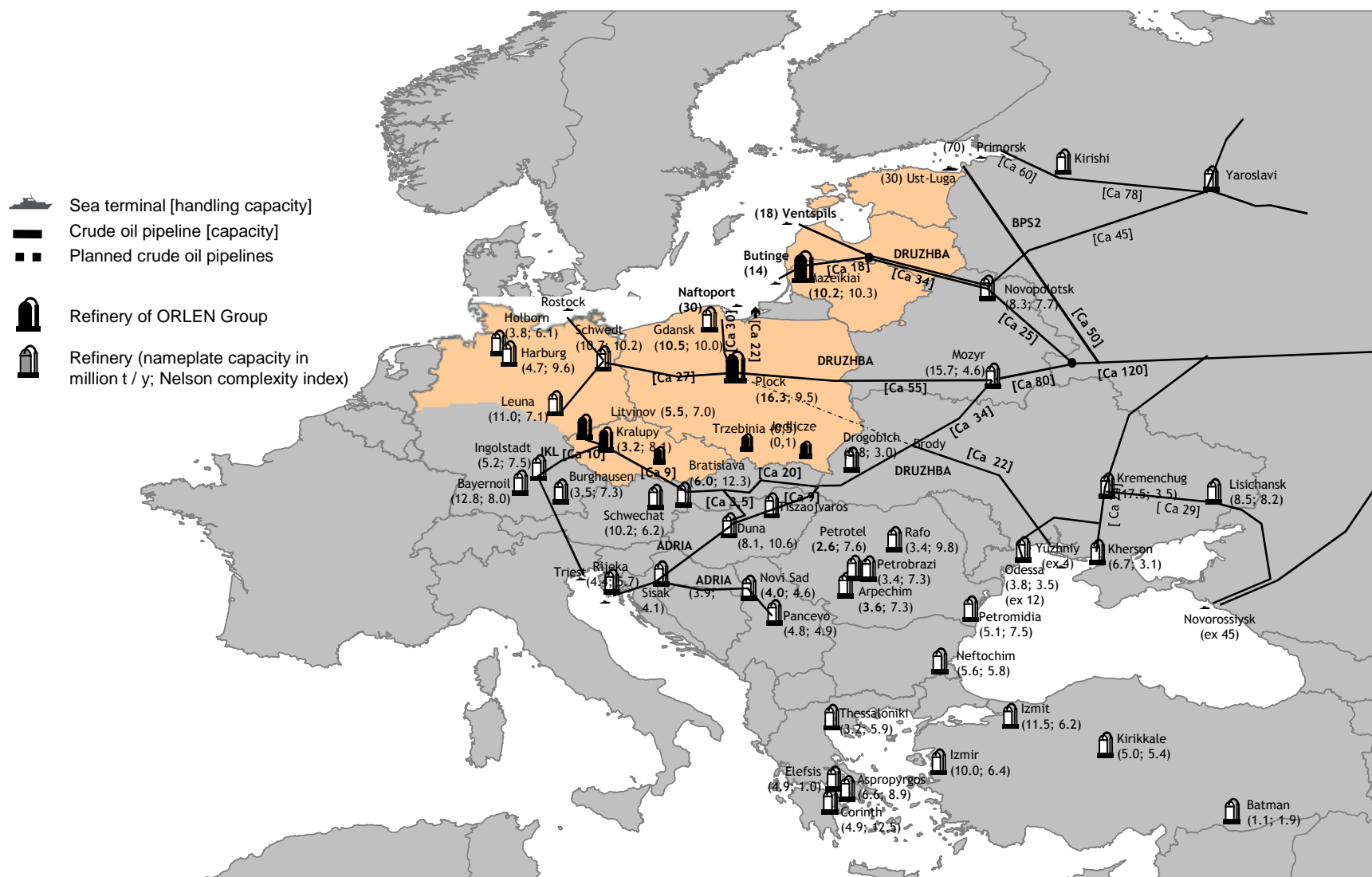
** Reserves of hydrocarbons in Poland are estimated at 1 million boe, and 53 million boe in Canada

*** Acquisition of an upstream company TriOil in 2013, for PLN 0.5 billion

**** Acquisition of an upstream company Birchill in 2014, for PLN 0.7 billion, development of exploration projects in Poland, exploration and production projects in Canada.

The amount does not include additional pool for work intensification in Poland or diversification of portfolio in Poland and abroad, depending on the free cash flow (FCF)

Crude oil pipeline network in Europe




Source: Oil & Gas Journal, PKN ORLEN calculations, Concawe, Reuters, WMRC, EIA, NEFTE Compass, Transneft.ru

PKN ORLEN in numbers, 2013



	Nameplate capacity, million t	Fuel yield, %	Fuel sales, million t	Other refining sales, million t	Sales, thousands t
Refining	35.2	77%	15.5	7.7	5 174
Poland – Płock	16.3	78%	6.5	5.3	
Czech Republic – Litvinov	5.5	79%	2.1	0.4	
– Kralupy	3.2				
Lithuania – Orlen Lietuva	10.2	75%	6.9	2.0	
Petrochemicals					5 174
<i>of which key products:</i>					
polyethylene					450
polypropylene					408
benzene					380
plastics					423
fertilizers					1 034
Energy	Thermal capacity, MWt		Electric capacity, MWe		
CHP Płock	2150		345		
CHP Litvinov	860		112		
CHP Możejki	1390		160		



 Retail	Number of retail sites	Market share, %	Number of retail sites by segments		Number of food outlets	
ORLEN Group	2697	14	ORLEN Group	2 697	Poland	1 081
Poland	1 778	35	Premium	1 443	Stop Cafe	726
Germany	555	6	Economic	1 074	Bistro Cafe	355
Czech Republic	338	15	Other	180		
Lithuania	26	3.5				



	Reserves (2P), million boe	Average production, thousand boe/d	Share of crude oil and condensate in production, %	Concessions	Projects	Wells
Poland				18	6	14
Unconventional				9	3	9
Conventional				9	3	5
TriOil	22	3.8	60			

Macro assumptions



Macroeconomic factor	Unit	2013	2014-2017
Model Downstream margin	USD / bbl	10.7	11.0
Brent/Ural differential	USD / bbl	1.0	1.0
Model Refining margin and differential	USD / bbl	4.4	4.4
Model Petrochemical margin	EUR / t	730	767
Brent crude oil price	USD / bbl	109	104
Edmonton crude oil price	CAD/ bbl	93.3	90.2
Natural gas price in Poland	EUR/MWh	28.5	28.5
Natural gas price in Henry Hub (USA)	USD/MMBtu	3.7	4.5
CO ₂ emission allowance price	EUR/t	3.5	11.2
Wholesale electricity price	PLN/MWh	159	181
PLN/USD exchange rate	PLN/USD	3.16	3.13
PLN/EUR exchange rate	PLN/EUR	4.20	4.08

Definitions of the Key Performance Indicators



Business segment	Entity	Definition
Upstream		
Production of hydrocarbons	<i>million boe/year</i>	Annual volume of hydrocarbons production, i.e. oil and gas, expressed in barrels of oil equivalent (boe)
Downstream		
Sales volume diesel + gasoline	<i>million t</i>	The volume of automotive fuels: diesel and gasoline sold by the ORLEN Group via retail and wholesale channels
Crude oil processing	<i>million t</i>	The volume of crude oil processed in refineries of ORLEN Group
Market share	%	The ratio of sold products to the total number of product units sold on the particular market
Fuel yield	%	Total (light distillates + middle distillates) / to crude oil throughput; light distillates - gasoline, naphtha, LPG; middle distillates - diesel, light heating oil (LHO) and JET
Model Downstream margin	<i>USD/bbl</i>	Revenues (90.7% Products = 22.8% Gasoline + 44.2% Diesel + 15.3% HFO + 1.0% SN 150 + 2.9% Ethylene + 2.1% Propylene + 1.2% Benzene + 1.2% PX) – Costs (100% input = 6.5% BRENT crude oil + 91.1% URAL crude oil + 2.4% natural gas)
PKN ORLEN model refining margin	<i>USD/bbl</i>	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
Brent/ Urals differential	<i>USD/bbl</i>	The difference between quotations of two grades of crude oil, example of formula: Spread Ural Rdam vs fwd Brent Dtd = Med Strip - Ural Rdam (Ural CIF Rotterdam)
PKN ORLEN model petrochemical margin	<i>EUR / t</i>	Revenues (98% Products = 44% HDPE + 7% LDPE + 35% PP Homo + 12% PP Copo) - costs (100% input = 75% Naphtha + 25% LS VGO). Contract market quotations
Share of middle distillates	%	Ratio of produced volumes of Diesel, LFO and JET fuel to the total volumes of processed crude oil
In-land premium	<i>USD/t</i>	The difference between quotations on international markets (CIF ARA) and prices on the Polish market
Retail		
Sales per station	<i>million liters</i>	Retail sales volumes of the ORLEN Group calculated as an average volume per station effectively operating in a certain period on markets (Polish, German, Czech and Lithuanian).
Market share in home markets	%	Retail sales volumes on markets (Polish, German, Czech and Lithuanian) / cumulated retail consumption from these markets. It refers only to diesel and gasoline
Non-fuel sales index	<i>index</i>	Change in non-fuel sales between periods. Non-fuel sales includes: shop margin, bistro margin, revenues from deliverers, car wash index and other services and revenues

Glossary of Terms, Acronyms and Abbreviations



Term / Acronym / Abbreviation	Definition
bbl	<i>barrel</i> – is an unit of fluid volume used in the oil trade. 1 barrel of oil = 42 U.S. gallons = 158.9683 l (~ 159 l). In Europe, the amount of oil is commonly express in tones.
boe	<i>barrels of oil equivalent</i> – the conventional method of expressing calorific value of fuel
CAGR	Compound Annual Growth Rate
CAPEX	Capital expenditure
CCGT	<i>Combined Cycle Gas Turbine</i> - stationary power plant, using combination of a gas turbine burning natural gas whose hot exhaust powers a steam power plant
CSR	Corporate Social Responsibility
DOFO	<i>Dealer Owned Franchise Operated</i> – fuel station owned by franchisees carried on under the franchise agreement concluded with Concern
Gearing	net debt / equity calculated acc. to balance sheet amount at the end of the year
EBITDA	<i>Earnings Before deducting Interest , Taxes, Depreciation and Amortization</i> – financial indicator used as a proxy for a company's current operating profitability
EC	Combined Heat and Power plant
HFO	Heavy Fuel Oil
H&S	<i>Health and Safety</i> – regulations relating the occupational health and safety
JET A-1	Aviation fuel for jet engines, refined with special additives
Rating / Solomon benchmarking	A comparative analysis of refinery production areas (production efficiency, maintenance, margin, return on investment, operational expenditure) with the top indicators for the industry, giving a direct reference to the competition
TRR	<i>Total Recordable Rate</i> – indicator expressing the security level in a company, measured as the number of accidents x 1,000,000/Number of work hours
Hydrocarbons	Organic compounds consisting entirely of hydrogen and carbon. Crude oil and natural gas are mixtures of hydrocarbons

Disclaimer



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