



CONSOLIDATED REPORT ON PAYMENTS TO GOVERNMENTS OF ORLEN GROUP IN 2016

2016



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1. BASIS FOR THE PREPARATION AND INFORMATION ON PRINCIPLES ADOPTED FOR PREPARING THE CONSOLIDATED REPORT ON PAYMENTS TO GOVERNMENTS

The consolidated report on payments to governments („Report”) has been prepared in accordance with Minister of Finance Regulation of 19 February 2009 („Regulation”) on current and periodic information provided by issuers of securities and conditions for recognition as equivalent information required by the law of a non-Member state (uniform text: Official Journal 2014, item 133, as amended Official Journal 2016, item 860, point 13) and presents payments to governments in the extractive industry of the Capital Group of Polski Koncern Naftowy ORLEN S.A. („Group”) in the year 2016.

Polski Koncern Naftowy ORLEN S.A. as the Parent Company is required to prepare consolidated report on payments to governments as at 31 December 2016 covering data of the Parent Company and its subsidiaries involved in the extractive industry.

Payments presented in the Report relate to exploration, recognition and extraction of hydrocarbons in Poland and in Canada and extraction of rock salt in Poland.

The Group discloses returns in the period of receiving them and are presented in the Report as negative values.

More information on extractive industry is presented in the Management Board Report on the operations of the ORLEN Group and PKN ORLEN S.A. published on website: <http://www.orlen.pl/EN/InvestorRelations/FinancialData/Pages/FinancialResults.aspx>

2. TERMINOLOGY USED

Government - under the Regulation, any national or local authority as well as all entities controlled by that authority, and in other countries of the European Economic Area („EEA”) or countries outside the EEA - any national, regional or local authority of the EEA or a country outside the EEA and entities supervised or controlled by those authorities.

In 2016, all payments disclosed in the Group were made to national and local governments as well as to entities controlled by that authority in Poland and to local governments and entities supervised or controlled by national and local authority in Canada.

Project - under the Regulation, the operational activity which is governed by a single contract, licence, lease or concession, being the basis for payment liabilities to a government of individual countries.

The Group aggregated the payments within a single project if several such agreements were substantially interconnected. Substantially interconnected means geographically integrated concession units and purpose of work carried out on them resulting, to a significant extent they are considered jointly for the program of conducted exploration and prospecting works and construction of the necessary infrastructure for development of hydrocarbons.

Reporting currency - the reporting currency of the foregoing Report is Polish Zloty (PLN). Payments are presented in PLN thousands. All amounts are rounded to the nearest thousand.

Materiality threshold - according to the Regulation, the Group did not include payments were a single payment or a series of related payments did not exceed PLN 424.7 thousand.

Principles applied to translation of financial data - payments to governments of foreign entities operating in Canada as at 31 December 2016 were translated using the average exchange rate published by the National Bank of Poland as at 31 December 2016 - 3.0995 CAD/PLN.

Payments - under the Regulation, amount paid whether in money or in kind for activities in the extractive industry.

In the Report the Group presented the total amount of payments made in the financial year on its own behalf or through business partners.

In 2016, the Group identified the following payment types:

- Taxes on income, production or profits (Taxes)

Under the Regulation, taxes levied on income, production or profits excluding taxes on consumption, such as value added tax, personal income tax or sales tax.

The Group presented in this item mining fees as a tax on production, the size of which depends on the realized volume of extraction.

- Royalties

Fee for use of non-current assets of the entity for the rights to the exploration and exploitation of natural resources (e.g. minerals or crude oil and natural gas).

The Group has this type of payments for crude oil, natural gas and gas condensate of NGL (natural gas liquids) in Canada. Payments for crude oil are made in cash and in kind, remaining only in cash. The value of payments in kind is determined based on the volume and the reference price of a given species of crude oil specified by the Alberta Department of Energy.

- Concession fees

In 2016, the Group incurred concession fees be granted concessions and fees for extending the duration of the concession.

- License fees, lease fees, charges for start-ups and other benefits arising from the granting of licenses or concessions (Other fees and benefits)

Under this item the Group presented fees for the mining usufruct of exploration and prospecting concessions, environmental fees (for the effluent discharge to water or to the ground, the water consumption, releasing gases and dust into the air) in Poland and lease payments in respect of the concessions and payments into the reclamation fund in Canada.

3. PAYMENTS OVERVIEW

3.1. Payments made to each governments by country

COUNTRY / GOVERNMENTS	Taxes	Royalties	Concession fees	Other fees and benefits	Total
Poland	4 913	-	276	2 721	7 910
National governments	-	-	264	2 006	2 270
Ministry of Treasury	-	-	205	-	205
Ministry of the Environment	-	-	59	2 006	2 065
Local governments	2 667	-	7	715	3 389
Municipal Office of Mogilno	1 410	-	-	-	1 410
Inowroclaw Commune Office	1 257	-	-	-	1 257
Marshal's Office of the Kujawsko-Pomorskie	-	-	-	715	715
Municipal Office of Lubień Kujawski	-	-	6	-	6
Lanięta Commune Office	-	-	1	-	1
Entities controlled by national and local authority	2 246	-	5	-	2 251
National Fund for Environmental Protection and Water Management	2 246	-	5	-	2 251
Canada	-	12 410	4 157	1 559	18 126
Local governments	-	12 410	4 157	965	17 532
Alberta Petroleum Marketing Commission ¹	-	4 752*	-	-	4 752
Alberta Department of Energy ²	-	7 658	4 157	965	12 780
Entities controlled by national and local authority	-	-	-	594	594
Alberta Energy Regulator ³	-	-	-	594	594
	4 913	12 410	4 433	4 280	26 036

¹ entity responsible for the sale of crude oil, that Alberta province receives in kind under royalties due

² department of energy of Alberta province, is responsible, among others, for the sale of concession rights to crude oil and natural gas, lease fees collection of those concession rights and royalties collection of the extracted gas and gas condensate NGL (natural gas liquids)


³ Alberta province energy regulator, is responsible, among others, for fees collection for the reclamation fund

* In 2016, the Group made payments of royalties in kind in the form of crude oil of 32,294 boe in the amount of PLN 4,868 thousand translated using the average exchange rate published by the National Bank of Poland as at 31 December 2016 (representing approximately CAD 1,570 thousand), less the amount of PLN (116) thousand representing an adjustment for previous periods.

3.2. Payments by country, project and payment type

COUNTRY / PROJECT	Taxes	Royalties	Concession fees	Other fees and benefits	Total
Poland	4 913	-	276	2 721	7 910
Extraction of rock salt	4 446	-	205	715	5 366
Edge	-	-	-	816	816
Karpaty	-	-	-	665	665
Lublin Shale	-	-	-	525	525
Plotki	467	-	-	-	467
Exploration and recognition of rock salt	-	-	71	-	71
Canada	-	12 410	4 157	1 559	18 126
Kakwa	-	4 991	-	965	5 956
Central Alberta Gas	-	-	3 675	-	3 675
Central Alberta Oil	-	2 976	-	-	2 976
Ferrier	-	1 849	482	594	2 925
Peace River Gas	-	1 891	-	-	1 891
South Alberta	-	703	-	-	703
	4 913	12 410	4 433	4 280	26 036

The foregoing consolidated report on payments to governments was signed by the Management Board of the Parent Company on 14 March 2017.



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Wojciech Jasiński
President of the Board

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Sławomir Jędrzejczyk
Vice-President of the Board

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Mirosław Kochalski
Vice-President of the Board

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Piotr Chelmiński
Member of the Board

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Zbigniew Leszczyński
Member of the Board

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Krystian Pater
Member of the Board