

***Consolidated report on payments to public
administration
for year 2016***

***ended December 31, 2016
(in PLN)***

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1. Basis for preparing the consolidated report on payments to public administration

The basis for preparing this report on payments to public administration is regulations introduced through Chapter 6a of the Accounting Act of September 29, 1994 ("Act") (consolidated text: Polish Journal of Laws of 2016, item 1047). According to these regulations, starting from 2016, entities operating in extractive industries and entities engaged in the logging of primary forests, provided that they meet the criteria specified in the above act, are to prepare a report on payments made to public administration as at the balance sheet date alongside their annual financial statements. The Act defines entities operating in extractive industries as entities pursuing activities consisting of the exploration, prospecting, discovery, production and mining of mineral resources, oil, natural gas or other commodities within the types of economic activity listed in section B, divisions 05-08 of the Polish Classification of Economic Activities. This consolidated report on payments to public administration presents the data of subsidiary PGE Górnictwo i Energetyka Konwencjonalna Spółka Akcyjna ("Subsidiary"), a PGE Group company, the main economic activity of which is activity listed in section D, division 35, of the Polish Classification of Economic Activities.

The Act also imposes obligation to prepare consolidated report on payments to public administration. The consolidated report on payments to public administration shall include data of the parent company and its subsidiaries operating in extractive industries and entities engaged in the logging of primary forests, if they meet the criteria specified in the Act.

In the PGE Capital Group the only entity meeting the criteria of Chapter 6a of the Act, is PGE Górnictwo i Energetyka Konwencjonalna Spółka Akcyjna (the "Company", „PGE GiEK S.A."). Accordingly, this consolidated report on payments to public administration presents only data of PGE GiEK S.A.

The main economic activity of PGE GiEK S.A. is activity listed in section D, division 35, of the Polish Classification of Economic Activities ("PKD"), i.e.:

- electricity production (PKD 35.11.Z),
- electricity transmission (PKD 35.12.Z),
- electricity distribution (PKD 35.13.Z),
- electricity trade (PKD 35.14.Z),
- production and supply of steam, hot water and air for air conditioning installations (PKD 35.30.Z).

The Company also conducts economic activity listed in PKD in section B Mining and quarrying. It is mainly lignite mining (PKD 05.20.Z), which is mainly used as a fuel in power plants belonging to the Company and to a low extent sold to external consumers.

Moreover, in accordance with the Statutes, activities of the Company include also:

- quarrying of ornamental and building stone, limestone, gypsum, chalk and slate (PKD 08.11.Z)
- operation of gravel and sand pits; mining of clays and kaolin (PKD 08.12.Z),
- mining of minerals for chemical industry and for production of fertilizers (PKD 08.91.Z),
- extraction of peat (PKD 08.92.Z),
- extraction of salt (PKD 08.93.Z),
- other mining and quarrying not elsewhere classified (PKD 08.99.Z).

Those activities are of marginal significance for the Company and are conducted as activities accompanying lignite mining.

Organisation structure of the Company includes 12 Branches:

- Branch Elektrownia Bełchatów,
- Branch Kopalnia Węgla Brunatnego Bełchatów,
- Branch Kopalnia Węgla Brunatnego Turów,
- Branch Elektrownia Turów,
- Branch Elektrownia Opole,
- Branch Zespół Elektrowni Dolna Odra,
- Branch Elektrociepłownia Gorzów,
- Branch Elektrociepłownia Lublin Wrotków,
- Branch Elektrociepłownia Rzeszów,
- Branch Elektrociepłownia Kielce,
- Branch Zespół Elektrociepłowni Bydgoszcz,
- Branch Elektrociepłownia Zgierz.

Mining activities are conducted at two Branches, i.e.:

- Kopalnia Węgla Brunatnego Bełchatów (Bełchatów lignite mine),
- Kopalnia Węgla Brunatnego Turów (Turów lignite mine).

Mining activity conducted pursuant to a concession for lignite mining issued by the Ministry of the Environment.

2. Principles applied for the preparation of the report on payments to public administration

According to art. 63e point 6 of the Act, payments are understood as amounts paid, in cash or in kind, for activities specified in point 1 or 2, on the following account:

- receivables from production,
- taxes on income, production or profits of companies, excluding taxes on consumption such as tax on goods and services, personal income tax or tax on sales,
- royalties,
- dividends,
- concession fees and premiums for discovery and production,
- licence fees, lease fees, fees for launching activities as well as other considerations for issuing a licence or concession,
- payments for infrastructure improvements;

The activity listed in points 1 and 2 of art. 63e of the Act is activity consisting of the exploration, prospecting, discovery, production and mining of minerals, oil, natural gas or other commodities within the types of economic activity listed in section B, divisions 05-08 of the Polish Classification of Economic Activities, as well as the activity referred to in section A, division 02, in group 02.2 of the Polish Classification of Economic Activities – wood harvesting within primary forest areas.

The Company does not harvest wood from primary forest areas therefore all amounts indicated in this report, unless explicitly stated otherwise, apply only to mining activity being conducted in the Company's two Branches listed above and do not include amounts paid to public administration on the account of other types of activity carried out at the Company's other Branches.

This report on payments to public administration takes into consideration the following items:

Payment title defined in art. 63a of the Accounting Act	Titles of taxes and fees assigned by the Subsidiary to each of the payment titles listed in the Accounting Act
Receivables from production	Subsidiary did not make any such payments in 2016
Taxes on income, production or profits of companies, excluding taxes on consumption such as tax on goods and services, personal income tax or tax on sales	corporate income tax
Royalties	Subsidiary did not make any such payments in 2016
Dividends	Subsidiary did not make any such payments in 2016
Concession fees and premiums for discovery and production	production fee, mining use fee
Licence fees, lease fees, fees for launching activities as well as other considerations for issuing a licence or concession	fee for perpetual usufruct of land fee for excluding land from agricultural and forestry production fee for paid use of geological information fee for economic use of the environment property tax vehicle tax agricultural tax forest tax
Payments for infrastructure improvements	Subsidiary did not make any such payments in 2016

Income tax from legal entities

In 2014 PGE GiEK S.A. signed the 25-year agreement concerning the tax capital named "PGK PGE 2015" where PGE Polska Grupa Energetyczna S.A. is the representing entity. Apart from the representing entity and PGE GiEK S.A. other companies from the PGE Capital Group also entered PGK PGE 2015. PGK PGE 2015 has become the Corporate Income Tax payer as from January 1, 2015. The Polish Corporate Income Tax Act treats tax groups as separate income tax payers. This means that companies within PGK PGE 2015 are not treated as separate entities for corporate income tax purposes, with PGK PGE 2015 being treated as one whole entity instead. PGK PGE 2015's tax base will constitute the group's aggregate income, calculated as the excess of the income of the companies that make up the group over their losses. Thus from 2015 Corporate Income Tax of the Company is not transferred directly to the tax authority, but to the representing entity of PGK PGE 2015. Then the representing entity pays the Corporate Income Tax, calculated from the total income of PGK PGE 2015, to the tax authority.

Considering the above circumstances, and in connection with the fact that corporate income tax is calculated at the Company's level, in this report it is recognised in amounts remitted to the representing entity in full amount calculated on the total income of the Company, not only income from the mining activities.

Information provided in the report

The payment amounts presented in this report constitute the amounts of cash transfers to public administration in 2016 on account of specific titles, less any returns received in 2016. The Subsidiary did not make any in-kind payments to public administration in 2016.

According to art. 63f sec. 2 of the Act, the payment report is to contain the following information:

- total amount of payments made to public administration of a given state, broken down into payments to specific public administration levels;
- total amount of payments broken down into the titles listed in art. 63e point 3 to specific public administration levels of a given state;
- in the event that payments were attributed by the entity to a specific project – total amount of payments by specific project and broken down by the payment titles listed in art. 63e point 6.

The Company attributed its payments to public administration to two projects. These projects are related to activities conducted in:

- Kopalnia Węgla Brunatnego Bełchatów (Bełchatów lignite mine),
- Kopalnia Węgla Brunatnego Turów (Turów lignite mine).

3. Payments to public administration in 2016

Total amount paid, by payments to relevant levels of public administration

Public administration levels	Payments in 2016
Municipal Offices and Commune Offices	
Commune Office Kleszczów	68 686 043.00
Commune Office Bogatynia	44 532 582.54
Commune Office Rzęśnia	37 282 167.40
Commune Office Szczerców	21 566 156.60
Commune Office Sulmierzyce	13 709 424.60
Commune Office Kielczygłów	919 819.00
Town Hall Kamieńsk	497 701.00
Commune Office Bełchatów	325 326.00
Town Hall Bełchatów	313 621.00
Commune Office Kluki	203 733.00
Commune Office Rusiec	39 756.00
Town and Community Council Pajęczno	6 581.00
Town Hall Złoczew	6 205.00
Commune Office Siemkowice	4 140.00
Commune Office Osjaków	2 734.00
Commune Office Strzelce Wlk.	2 136.00
Commune Office Konopnica	1 945.00
Commune Office Widawa	1 928.00
Town and Community Council Działoszyn	1 180.00
Town Hall Zgorzelec	767.00
Commune Office Nowa Brzeźnica	514.00
Commune Office Wrocław	434.00
County Offices	
County Office Zgorzelec	2 174 112.68
County Office Bełchatów	714 922.06
County Office Pajęczno	26 529.75
County Office Radomsko	12 568.22
County Office Sieradz	2 439.00
Marshal Offices and subordinated units	
Marshal Office of Łódzkie voivodship	12 726 690.21
Lower Silesia Office of Geodesy and Agricultural Areas in Wrocław	7 405 161.85
Marshal Office of Dolnośląskie voivodship	197 417.00
Ministries	
The Ministry of the Environment Warsaw	32 221 082.06
Other entities	
The National Fund for Environmental Protection and Water Management Warsaw	35 520 366.80
Regional Directorate of Forests Łódź	22 500 476.89
Regional Directorate of Forests Wrocław	4 693 325.25
Forest District Pieńsk	560 210.19
PGE – Corporate Income Tax CIT *	55 109 214.39
Total	361 969 410.49

* as described in point 2, in connection with having signed a tax group agreement, the Subsidiary does not make payments for corporate income tax to the relevant tax authority but instead transfer it to the parent company – PGE Polska Grupa Energetyczna S.A. The presented amount constitutes the balance of tax payments to PGE and received returns of overpayments.

Total amount paid to relevant levels of public administration, by payment title

Public administration levels	Taxes levied on the income, production or profits of companies	License fees, exploration and production charges	License fees, lease fees, charges for commencing activities and other payments arising from the granting of licenses or concessions
Municipal Offices and Commune Offices			
Commune Office Kleszczów	-	21 219 429.00	47 466 614.00
Commune Office Bogatynia	-	7 964 328.60	36 568 253.94
Commune Office Rząśnia	-	18 272 570.40	19 009 597.00
Commune Office Szczerców	-	5 732 916.60	15 833 240.00
Commune Office Sulmierzyce	-	91 305.60	13 618 119.00
Commune Office Kielczygłów	-	-	919 819.00
Town Hall Kamieńsk	-	-	497 701.00
Commune Office Bełchatów	-	-	325 326.00
Town Hall Bełchatów	-	-	313 621.00
Commune Office Kluki	-	-	203 733.00
Commune Office Rusiec	-	-	39 756.00
Town and Community Council Pajęczno	-	-	6 581.00
Town Hall Złoczew	-	-	6 205.00
Commune Office Siemkowice	-	-	4 140.00
Commune Office Osjaków	-	-	2 734.00
Commune Office Strzelce Wlk.	-	-	2 136.00
Commune Office Konopnica	-	-	1 945.00
Commune Office Widawa	-	-	1 928.00
Town and Community Council Działoszyn	-	-	1 180.00
Town Hall Zgorzelec	-	-	767.00
Commune Office Nowa Brzeźnica	-	-	514.00
Commune Office Wrocław	-	-	434.00
County Offices			
County Office Zgorzelec	-	-	2 174 112.68
County Office Bełchatów	-	-	714 922.06
County Office Pajęczno	-	-	26 529.75
County Office Radomsko	-	-	12 568.22
County Office Sieradz	-	-	2 439.00
Marshal Offices and subordinated units			
Marshal Office of Łódzkie voivodship	-	-	12 726 690.21
Lower Silesia Office of Geodesy and Agricultural Areas in Wrocław	-	-	7 405 161.85
Marshal Office of Dolnośląskie voivodship	-	-	197 417.00
Ministries			
The Ministry of the Environment Warsaw	-	31 283 985.90	937 096.16
Other entities			
The National Fund for Environmental Protection and Water Management Warsaw	-	35 520 366.80	-
Regional Directorate of Forests Łódź	-	-	22 500 476.89
Regional Directorate of Forests Wrocław	-	-	4 693 325.25
Forest District Pieńsk	-	-	560 210.19
PGE - Corporate Income Tax CIT *	55 109 214.39	-	-
Total	55 109 214.39	120 084 902.90	186 775 293.20

* as described in point 2, in connection with having signed a tax group agreement, the Subsidiary does not make payments for corporate income tax to the relevant tax authority but instead transfer it to the parent company – PGE Polska Grupa Energetyczna S.A. The presented amount constitutes the balance of tax payments to PGE and received returns of overpayments.

Total amount paid due to particular projects including title payments

Project Bełchatów lignite mine

Public administration levels	Licence fees, exploration and production charges	License fees, lease fees, charges for commencing activities and other payments arising from the granting of licenses or concessions
Municipal Offices and Commune Offices		
Commune Office Kleszczów	21 219 429.00	47 466 614.00
Commune Office Rzęśnia	18 272 570.40	19 009 597.00
Commune Office Szczerców	5 732 916.60	15 833 240.00
Commune Office Sulmierzyce	91 305.60	13 618 119.00
Commune Office Kielczygłów	-	919 819.00
Town Hall Kamieńsk	-	497 701.00
Commune Office Bełchatów	-	325 326.00
Town Hall Bełchatów	-	313 621.00
Commune Office Kluki	-	203 733.00
Commune Office Rusiec	-	39 756.00
Town and Community Council Pajęczno	-	6 581.00
Town Hall Złoczew	-	6 205.00
Commune Office Siemkowice	-	4 140.00
Commune Office Osjaków	-	2 734.00
Commune Office Strzelce Wlk.	-	2 136.00
Commune Office Konopnica	-	1 945.00
Commune Office Widawa	-	1 928.00
Town and Community Council Działoszyn	-	1 180.00
Commune Office Nowa Brzeźnica	-	514.00
County Offices		
County Office Bełchatów	-	714 922.06
County Office Pajęczno	-	26 529.75
County Office Radomsko	-	12 568.22
County Office Sieradz	-	2 439.00
Marshal Offices and subordinated units		
Marshal Office of Łódzkie voivodship	-	12 645 771.66
Ministries		
The Ministry of the Environment Warsaw	26 499 356.13	382 284.92
Other entities		
The National Fund for Environmental Protection and Water Management Warsaw	30 210 814.40	-
Regional Directorate of Forests Łódź	-	22 500 476.89
Total	102 026 392.13	134 539 881.50

Project Turów lignite mine

Public administration levels	Licence fees, exploration and production charges	License fees, lease fees, charges for commencing activities and other payments arising from the granting of licenses or concessions
Municipal Offices and Commune Offices		
Commune Office Bogatynia	7 964 328.60	36 568 253.94
Town Hall Zgorzelec	-	767.00
Commune Office Wrocław	-	434.00
County Offices		
County Office Zgorzelec	-	2 174 112.68
Marshal Offices and subordinated units		
Lower Silesia Office of Geodesy and Agricultural Areas in Wrocław	-	7 405 161.85
Marshal Office of Dolnośląskie voivodship	-	197 417.00
Marshal Office of Łódzkie voivodship	-	80 918.55
Ministries		
The Ministry of the Environment Warsaw	4 784 629.77	554 811.24
Other entities		
The National Fund for Environmental Protection and Water Management Warsaw	5 309 552.40	-
Regional Directorate of Forests Wrocław	-	4 693 325.25
Forest District Pieńsk	-	560 210.19
Total	18 058 510.77	52 235 411.70

Warsaw, March 7, 2017

Signatures of Members of the Management Board of PGE Polska Grupa Energetyczna S.A.

President

of the Management Board **Henryk Baranowski**

Vice-President

of the Management Board **Bolesław Jankowski**

Vice-President

of the Management Board **Wojciech Kowalczyk**

Vice-President

of the Management Board **Marek Pastuszko**

Vice-President

of the Management Board **Paweł Śliwa**

Vice-President

of the Management Board **Ryszard Wasilek**

Vice-President

of the Management Board **Emil Wojtowicz**