

# 2019



**ORLEN**

CONSOLIDATED REPORT  
ON PAYMENTS TO  
GOVERNMENTS OF  
ORLEN GROUP IN 2019

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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 the Polish Accounting Act of 29 September 1994 (uniform text: Polish Journal of Laws 2019, item 351, Chapter 6a) („Act”) and presents payments to governments in upstream segment of the Capital Group of Polski Koncern Naftowy ORLEN S.A. („Group”) in the year 2019.

Polski Koncern Naftowy ORLEN S.A. as the Parent Company is required to prepare consolidated report on payments to governments for the year ended 31 December 2019 covering data of the Parent Company and its subsidiaries operating in upstream segment.

Payments to governments 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 value.

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

## **2. TERMINOLOGY USED**

**Government** - under the Act, any national or local authorities as well as all entities supervised or controlled by these authorities, and in other countries of the European Economic Area or countries outside the European Economic Area - any national, regional or local authority of the European Economic Area or a country outside the European Economic Area and entities supervised or controlled by those authorities.

In 2019, all payments disclosed in the ORLEN Group were made to national and local governments as well as to entities supervised or 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 Act, the operational activity which is governed by a single contract, in particular leasing, letting, license or concession, being the basis for payment liabilities to a government of individual countries.

The Group aggregated the payments within a 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.

The Group discloses payment at the country level, not at project level, when it is not possible to assign payments at the project level. Such payment is made for advances on corporate income tax.

**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.

**Principles applied to translation of financial data** - payments to governments of foreign entities operating in Canada for the year ended 31 December 2019 were translated at the average exchange rate for the reporting period (arithmetic average of daily average exchange rates published by the National Bank of Poland in a given period) – 2.8939 CAD/PLN.

**Payment** - under the Act, amount paid whether in money or in kind for activities in the extractive industry.

**Materiality threshold** - according to the Act, the Group did not disclose payments were a single payment or a series of related payments did not exceed PLN 425 thousand.

In 2019, the Group identified the following payment types:

### **– Taxes on income, production or profits (Taxes)**

Under the Act, 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 amount of which depends on the realized volume of extraction and corporate income tax.

### **– Royalties**

Payments 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 kind, remaining 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.

### **– 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 the following fees:

in Poland:

fees for establishing mining usufruct, environmental fees (for the effluent discharge to water or to the ground, the water consumption, releasing gases and dust into the air), right to geological information, rents paid on forestry land, fees for excluding land from agricultural production and stamp duty;

in Canada:

payments into the reclamation fund and fees for drilling permits.

– **Payments for infrastructure improvements (Infrastructure improvements)**

The Group presented in this item the value of expenditures on the access road to the plots.

### 3. PAYMENTS OVERVIEW

#### 3.1. Payments made to each governments by country

| COUNTRY / GOVERNMENTS  | Taxes        | Royalties     | Other fees and benefits | Infrastructure improvements | Total         |
|--|--------------|---------------|-------------------------|-----------------------------|---------------|
| <b>Poland</b>  | <b>6 343</b> | -             | <b>11 215</b>           | -                           | <b>17 558</b> |
| <b>National governments</b>  | <b>1 193</b> | -             | <b>9 508</b>            | -                           | <b>10 702</b> |
| <i>Ministry of the Environment</i>                                     | -            | -             | 9 508                   | -                           | 9 508         |
| <i>Tax Office</i>  | 1 193        | -             | -                       | -                           | 1 193         |
| <b>Local governments</b>   | <b>3 090</b> | -             | <b>608</b>              | -                           | <b>3 698</b>  |
| <i>Municipal and Commune Offices</i>                                   | 3 090        | -             | 158                     | -                           | 3 248         |
| <i>Powiat Authorities</i>  | -            | -             | 292                     | -                           | 292           |
| <i>Marshal's Offices</i>   | -            | -             | 156                     | -                           | 156           |
| <i>District Authority</i>  | -            | -             | 2                       | -                           | 2             |
| <b>Entities controlled by national and local authorities</b>           | <b>2 060</b> | -             | <b>1 099</b>            | -                           | <b>3 159</b>  |
| <i>National Fund for Environmental Protection and Water Management</i> | 2 060        | -             | -                       | -                           | 2 060         |
| <i>University of Science and Technology in Kraków</i>                  | -            | -             | 27                      | -                           | 27            |
| <i>State Water Farm Polish Waters</i>                                  | -            | -             | 1 072                   | -                           | 1 072         |
| <b>Canada</b>  | -            | <b>18 026</b> | <b>2 425</b>            | <b>824</b>                  | <b>21 275</b> |
| <b>Local governments</b>   | -            | <b>18 026</b> | <b>562</b>              | <b>824</b>                  | <b>19 412</b> |
| <i>Alberta Petroleum Marketing Commission <sup>1</sup></i>             | -            | 6 982*        | -                       | -                           | 6 982         |
| <i>Alberta Department of Energy <sup>2</sup></i>                       | -            | 11 044        | -                       | -                           | 11 044        |
| <i>Municipal District of Greenview No 16 <sup>3</sup></i>              | -            | -             | 562                     | -                           | 562           |
| <i>Rocky View County <sup>4</sup></i>                                  | -            | -             | -                       | 824                         | 824           |
| <b>Entities controlled by national and local authorities</b>           | -            | -             | <b>1 863</b>            | -                           | <b>1 863</b>  |
| <i>Alberta Energy Regulator <sup>5</sup></i>                           | -            | -             | 1 863                   | -                           | 1 863         |
|  | <b>6 343</b> | <b>18 026</b> | <b>13 640</b>           | <b>824</b>                  | <b>38 833</b> |

<sup>1</sup> entity responsible for the sale of crude oil, that Alberta province receives in kind

<sup>2</sup> 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)

<sup>3</sup> Canadian local government body to which drilling fees are paid

<sup>4</sup> local government unit maintaining, among others, access roads

<sup>5</sup> Alberta province energy regulator, is responsible, among others, for fees collection for the reclamation fund

\* In 2019, the Group made payments of royalties in kind in the form of crude oil of 40,387 boe in the amount of PLN 7,117 (representing approximately CAD 2,495 thousand, less the amount of PLN (135) thousand representing an adjustment for previous periods.

**3.2. Payments by country, project and payment type**

| <b>COUNTRY / PROJECT</b>                           | <b>Taxes</b> | <b>Royalties</b> | <b>Other fees and benefits</b> | <b>Infrastructure improvements</b> | <b>Total</b>  |
|--|--------------|------------------|--------------------------------|------------------------------------|---------------|
| <b>Poland</b>                                      | <b>6 343</b> | <b>-</b>         | <b>11 215</b>                  | <b>-</b>                           | <b>17 558</b> |
| <b>Payments not assigned to projects</b>           | <b>1 193</b> | <b>-</b>         | <b>-</b>                       | <b>-</b>                           | <b>1 193</b>  |
| <b>Extraction of rock salt</b>                     | <b>5 150</b> | <b>-</b>         | <b>1 072</b>                   | <b>-</b>                           | <b>6 222</b>  |
| <b>Exploration and recognition of hydrocarbons</b> | <b>-</b>     | <b>-</b>         | <b>10 143</b>                  | <b>-</b>                           | <b>10 143</b> |
| <i>Edge Project</i>                                | <i>-</i>     | <i>-</i>         | <i>9 199</i>                   | <i>-</i>                           | <i>9 199</i>  |
| <i>Karpaty Project</i>                             | <i>-</i>     | <i>-</i>         | <i>944</i>                     | <i>-</i>                           | <i>944</i>    |
| <b>Canada</b>                                      | <b>-</b>     | <b>18 026</b>    | <b>2 425</b>                   | <b>824</b>                         | <b>21 275</b> |
| <i>Kakwa Project</i>                               | <i>-</i>     | <i>9 935</i>     | <i>1 254</i>                   | <i>-</i>                           | <i>11 188</i> |
| <i>Peace River Oil Project</i>                     | <i>-</i>     | <i>411</i>       | <i>-</i>                       | <i>-</i>                           | <i>411</i>    |
| <i>Central Alberta Oil Project</i>                 | <i>-</i>     | <i>1 081</i>     | <i>-</i>                       | <i>-</i>                           | <i>1 081</i>  |
| <i>Ferrier Project</i>                             | <i>-</i>     | <i>6 517</i>     | <i>1 172</i>                   | <i>-</i>                           | <i>7 689</i>  |
| <i>Peace River Gas Project</i>                     | <i>-</i>     | <i>-1 151</i>    | <i>-</i>                       | <i>-</i>                           | <i>-1 151</i> |
| <i>South Alberta Project</i>                       | <i>-</i>     | <i>1 233</i>     | <i>-</i>                       | <i>824</i>                         | <i>2 056</i>  |
|  | <b>6 343</b> | <b>18 026</b>    | <b>13 640</b>                  | <b>824</b>                         | <b>38 833</b> |

The foregoing consolidated report on payments to governments was signed by the Management Board of the Parent Company on 18 March 2020.

.....  
Daniel Obajtek  
President of the Board

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Armen Artwich  
Member of the Board

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Adam Burak  
Member of the Board

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Patrycja Klarecka  
Member of the Board

.....  
Zbigniew Leszczyński  
Member of the Board

.....  
Michał Róg  
Member of the Board

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Jan Szewczak  
Member of the Board

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Józef Węgrecki  
Member of the Board