

Orlen Capital AB (publ)
Corporate Identity Number 556974-3114

Annual report for the financial year 2017

The Board of Directors presents the following annual report

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Unless otherwise stated all amounts are reported in euro. Information in brackets refers to prior years.

Administration Report

Information regarding the operations

The company was registered on 12 June 2014. The objective of the company is to carry out financial operations, mainly through borrowing of funds by issuing bonds or other financial instruments to private or institutional investors, direct lending of such means to companies within the same group, offer bonds and credits, or carry out other thereby related businesses. No financial services regulated in the Banking and Financing Business act (2004:297) are carried out.

The company has issued senior bonds with nominal value of EUR 1,250,000,000 in total, of which:

- the first issuance of bonds was floated on 30 June 2014 with a nominal value of EUR 500,000,000 and issue price of 99,135%. The bonds have a tenor of 7 years from the date of issuance with maturity due on 30 June 2021 and the interest rate of 2,50%. Interest is paid annually in arrears with payment on 30 June,
- the second issuance of bonds was floated on 7 June 2016 with nominal value of EUR 750,000,000 and issue price of 98,727%. The bonds have a tenor of 7 years from the date of issuance with maturity due on 7 June 2023 and the interest rate of 2,50%. Interest is paid annually in arrears with payment on 7 June.

Both bonds are listed on the Irish Stock Exchange (ISE - XS1082660744/XS1429673327) and the basis of the prospectuses were approved by the Central Bank of Ireland. The second issue of bonds is also listed on the Warsaw Stock Exchange.

The company's liabilities from issuing of bonds (including the obligation for payment of the nominal value of bonds and interest on the bonds) are secured with two guarantees provided by Polski Koncern Naftowy ORLEN SA ("PKN ORLEN") to all bondholders. The maximum value of both guarantees is EUR 2,100,000 and they expire upon the expiry of the repayments towards Orlen Capital AB.

The amounts obtained from issuance of bonds have been granted by Orlen Capital AB in a form of two loans to PKN ORLEN. Interest from both loans is paid annually and arrears in June each year.

Comparative figures covering several years

The company's financial development in brief.

	2017	2016	2015
Net sales, kEUR	0	0	0
Profit/loss after financial items, kEUR	512	494	315
Total assets,, kEUR	1,259,869	1,257,430	504,210
Solvency, %	0.3	0.2	0.2
Return on total equity, , %	2.7	2.0	2.8
Return on equity, , %	15.7	17.2	26.5

Definitions of key performance indicator are presenting in note 1.

Significant events during the financial year

No significant events have occurred during or after the ending of the financial year.

Ownership structure

Orlen Capital AB is a fully owned subsidiary to Polski Koncern Naftowy ORLEN Spółka Akcyjna (reg no KRS 0000028860), Ul. Chemikow 7, 09-411 Plock, Poland.

Basic risks and uncertainties

The company's overall risk management focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the company.

The Board has the overall responsibility for establishing and monitoring the company's risk management.

For further information on the company's financial risk management, see note 1.

Proposed appropriation of profits

The following profits are at the disposal of the Annual

Proposed appropriation of profits	2,812,998
Net profit/loss for the year	<u>394,774</u>
	<u>3,207,772</u>

The board proposes that

to be carried forward	<u>3,207,772</u>
	<u>3,207,772</u>

Corporate Governance Report

The Board assures quality of all financial statements prepared by Orlen Capital AB.

Reports to be published - Annual Report constituted according to the Annual Accounts Act and so called legally restricted IFRS - examined in addition to the elected auditors.

In the Board's apprehension and in light of Orlen Capital limited activity and few transactions, the above control system of the financial reporting are regarded as adequate.

Orlen Capital AB (publ) is a fully owned subsidiary of PKN Orlen SA, which represent all shares in the company and there is no limitation regarding the number of shares the shareholders may submit at a general meeting. As the company is a public, unlisted company, there is no authorization for the board to decide that the company should issue new or acquire own shares. Furthermore, there are no specific provisions about appointment and resignation of the board member in the Article of Association. There is neither any specific provision in the Articles of Association regarding amendment of the Articles of Association.

Income Statement	Note	2017	2016
Other operating income	2	4,170	2,109,225
Operating expenses			
Other external expenses	3	-147,978	-299,223
Personnel costs	4, 5	<u>-11,984</u>	<u>-21,593</u>
Total operating expenses		-159,962	-320,816
Operating profit/loss		-155,792	1,788,409
Profit/loss from financial items			
Other interest income and similar profit/loss items	6	34,570,795	23,463,957
Interest expenses and similar profit/loss items	7	<u>-33,903,043</u>	<u>-24,758,498</u>
Total profit/loss from financial items		667,752	-1,294,541
Profit/loss after financial items		511,960	493,868
Tax on profit for the year	8	<u>-117,186</u>	<u>-107,937</u>
Net profit/loss for the year		<u>394,774</u>	<u>385,931</u>

The statement of comprehensive income has not been prepared as there hasn't occurred any other transactions to be included in the comprehensive income. The comprehensive income is in accordance with the net profit of the year.

Balance Sheet	Note	2017-12-31	2016-12-31
Assets			
Fixed assets			
<u>Financial fixed assets</u>			
Receivables from Group companies	9, 10	<u>1,236,127,500</u>	<u>1,236,127,500</u>
Total fixed assets		<u>1,236,127,500</u>	<u>1,236,127,500</u>
Current assets			
<u>Current receivables</u>			
Accounts receivable - trade		1,875	-
Other current receivables		40,358	7,993
Prepaid expenses and accrued income	11	<u>17,536,611</u>	<u>17,292,628</u>
		<u>17,578,844</u>	<u>17,300,621</u>
<u>Current investments</u>			
Other current investments		<u>6,105,773</u>	<u>3,993,910</u>
<u>Cash and bank balances</u>		<u>56,946</u>	<u>8,361</u>
Total current assets		<u>23,741,563</u>	<u>21,302,892</u>
Total assets		<u>1,259,869,063</u>	<u>1,257,430,392</u>

Equity and liabilities	Note	2017-12-31	2016-12-31
Equity			
<u>Restricted equity</u>			
Share Capital (500 000 shares)		<u>60,000</u>	<u>60,000</u>
<u>Non-restricted equity</u>			
Retained earnings		2,812,999	2,427,068
Net profit for the year		<u>394,774</u>	<u>385,931</u>
		<u>3,207,773</u>	<u>2,812,999</u>
Total equity		<u>3,267,773</u>	<u>2,872,999</u>
Non-current liabilities			
Bond loans	9, 10, 12	<u>1,240,449,553</u>	<u>1,238,467,767</u>
Total non-current liabilities		<u>1,240,449,553</u>	<u>1,238,467,767</u>
Current liabilities			
Accounts payable - trade		51,887	29,147
Current tax liabilities		17,499	48,570
Other current liabilities		1,418	3,021
Accrued expenses and deferred income	13	<u>16,080,933</u>	<u>16,008,888</u>
Total current liabilities		<u>16,151,737</u>	<u>16,089,626</u>
Total equity and liabilities		<u>1,259,869,063</u>	<u>1,257,430,392</u>

Statement of change in equity

	Share capital	Other non-restricted equity	Received shareholder contribution	Total equity
Equity 2016-12-31	60,000	1,512,999	1,300,000	2,872,999
Unconditional shareholders contribution	-	-	-	-
Other comprehensive income	-	-	-	-
Net profit/loss for the year	-	<u>394,774</u>	-	<u>394,774</u>
Equity 2017-12-31	60,000	1,907,773	1,300,000	3,267,773

500 000 shares

0,12 EUR quota value

The statement of comprehensive income has not been prepared as there hasn't occurred any other transactions to be included in the comprehensive income. The comprehensive income is in accordance with the net profit of the year.

Cash flow statement	2017	2016
Operating activities		
Operating profit before financial items	-155,792	1,788,409
Interest received	34,570,795	23,463,957
Interest paid	-33,903,043	-24,758,498
Paid income tax	<u>-113,297</u>	<u>-107,937</u>
	398,663	385,931
Increase/decrease in other current liabilities	-278,223	-750,882,983
Increase/decrease in accounts payables	22,740	9,258
Increase/decrease in other current liabilities	<u>2,017,268</u>	<u>751,525,695</u>
Cash flow from operating activities	2,160,448	1,037,901
Investing operations		
Cash flow from investing operations	0	0
Financing activities		
Received shareholders contribution	=	<u>1,300,000</u>
Cash flow from financing activities	0	1,300,000
Cash flow of the year	2,160,448	2,337,901
Cash at the beginning of the year	<u>4,002,271</u>	<u>1,664,370</u>
Cash at the end of the year	<u>6,162,719</u>	<u>4,002,271</u>

Notes

Note 1 Accounting and valuation principles

General information

Orlen Capital AB (publ), with corporate identity number 556974-3114, is a limited liability company registered in Sweden with its registered office in Stockholm. The office address is Sveavägen 9, 111 57 Stockholm, Sweden. The objective of the company's business is to conduct financial activities and to conduct any other activities related thereto, including issuing bonds and deposits and loans to investors.

The parent company of the largest group which Orlen Capital AB (publ) is a subsidiary of is Polski Koncern Naftowy Orlen SA, corporate identity number KRS 0000028860, Ul. Chemikow 7, 09-411 Plock, Poland. The consolidated report of Polski Koncern Naftowy ORLEN Spolka Akcyjna is available at the following address: Polski Koncern Naftowy ORLEN Spolka Akcyjna, ul. Chemikow 7, 09 - 411 Plock, e-mail address ir@orlen.pl.

Accounting and valuation principles

The annual report of Orlen Capital AB (publ) has been prepared in accordance with the Annual Accounts Act and the Swedish Financial Reporting Board's recommendation RFR 2 Accounting for Legal Entities. Application of RFR 2 means that the company as far as possible applies all EU-approved International Financial Reporting Standards (IFRS) and interpretations of the IFRS Interpretations Committee (IFRIC) as part of the Annual Accounts Act and Security Act, and considered the relationship between accounting and taxation.

In the report, valuations of items are at cost. The following describes the principal accounting policies adopted.

New and changed standards and interpretations not yet has taken effect

A number of new and amended IFRS that enter into force for reporting periods beginning January 1, 2018 or later has been published by the IASB. The new standard 9 for financial instruments handles classification, valuation and accounting of financial assets and liabilities. The changes that can be applicable in the company is that financial instruments should be recognized as its acquisition value and the net realized value of receivables should be reported as current assets that shall be calculated in accordance with the principles of impairment testing and loss risk reserve. In addition, interest income and interest expenses shall be reported in accordance with the effective interest rate method and the company should disclose the principles to apply for hedging.

As the company already values its financial instruments at acquisition value as well as applies the effective interest rate method for calculating interest income and expenses the new standards has no significant impact on the company's accounts.

Foreign currency

The company's reporting currency and the functional currency is euro. Receivables and liabilities in foreign currencies are converted according to the rate of exchange on the closing date rate. Exchange differences are recognized in the income statement.

Borrowing costs

Borrowing costs are recognized in the income statement in the period in which they occur.

Income taxes

The tax expense represents the sum of current and deferred tax.

Tax on profit for the year

The current tax is calculated on the taxable profit for the period. The taxable profit differs from the reported results in the income statement when it is adjusted for non-taxable income and non-deductible expenses and income and expenses that are taxable or deductible in other periods. The company's current tax is calculated using tax rates that have been determined or announced at the balance sheet date.

Loan receivables and debts

For accounting of financial instruments, the company applies a method based on cost according to the Annual Accounts Act. Capital discount and direct issuing costs in raising loans are accrued, but not later than the time until the debt becomes due.

Loan debts are reported initially to the received amount after transaction costs have been deducted. If the reported amount differs from the amount to be repaid at the due date the difference is accrued as interest cost or interest income over the term of the loan. Loan debts are no longer reported when the loans have been settled through repayment or when they have been waived.

Loan receivables from group companies and bonds are reported in accordance with the effective interest method. The effective interest rate is the rate that discounts estimated future cash receipts and payments during the fixed interest rate period to equal the carrying amount of the receivable. The Company's bond loans are measured at amortized cost, which means that the difference between the discounted value and the loan's respective bond loan's face value is amortized over the respective loan. The amortizations are recognized as interest expense and interest income. Accrued transaction costs related to loans are amortized over the term of the loan and reported net as interest income / expense

At each reporting date, the Company assesses whether there is fair evidence that the loans

are impaired. Objective evidence consists of observable events that have occurred and have a negative impact on the ability to recover the cost. If fair evidence exists for this, expected future cash flows are discounted, using the original effective interest rate. If the presented value is lower than the carrying amount, the impairment loss is recognized.

Fixed assets

Fixed assets and long term-liabilities are expected to be regained or repaid after more than twelve months from the balance sheet date. Current assets short term liabilities are expected to be regained or repaid within twelve months from the balance sheet date.

Current assets

Current assets are reported at the lower of acquisition cost and the lower of cost and net realizable value. Acquisition cost is defined as expenditures for the asset plus costs directly attributable to the acquisition. Net realizable value is defined as the sales value less estimated selling expenses.

Cash and cash equivalents

Cash and cash equivalents include cash and bank deposits and other short-term highly liquid investments that are readily convertible to cash and are subject to an insignificant risk of changes in value. To be classified as cash and cash equivalents duration may not exceed three months from the date of acquisition. The company's cash balance at the cash pool account is presented as "other current investments".

Provisions

Provisions are recognized when the company has an existing obligation (legal or informal), as a result of a past event, and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made.

The sum represents the best estimate of the expenditure required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties associated with the obligation. When a provision is calculated by estimating the expenditures expected to be required to settle the obligation, the carrying value is equal to the present value of these payments

Shareholders contribution

Shareholders contribution given by an owner is accounted for as an increase in the entities accounted value. Shareholders contribution received by an owner is accounted for directly into equity.

Contingent

A contingent liability is a possible obligation arising from past events and whose existence will only be confirmed by one or more uncertain future events not wholly within the control of the company that may occur or does not occur, or a present obligation arising from past

events, but not recognized as a liability or provision because it is not probable that an outflow of resources will be required to settle the obligation or the obligation cannot be measured with sufficient reliability. Contingent liabilities are presented in note 14.

Cash flow statement

The cash flow statement shows the company's changes in the company's cash and cash equivalents during the financial year. The cash flow statement has been prepared using the indirect method. The reported cash flow shows only transactions which have resulted in in- and outgoing payments.

Financial risk management and financial instruments

A financial asset or financial liability is recognized in the balance sheet when the Company becomes a party to the instrument's contractual terms. A receivable is recognized when the company has performed and a contractual obligation exists for the counterparty to pay, even if the invoice has not been sent. Liabilities are recognized when the counterparty has performed and there is contractual obligation to pay, even if the invoice has not been received. Accounts payable are recognized when an invoice is received. A financial asset is derecognized when the contractual rights are realized, expire or the company loses controller over them. A financial liability is derecognized from the statement of financial position when the contractual obligation is fulfilled or otherwise extinguished.

Loans and bonds are recognized at amortized cost using the effective interest method and interest income and expenses are recognized using the effective interest method. The effective interest rate is the rate that discounts estimated future payments during a financial instrument's expected duration of the financial asset or liability's net value. The calculation includes all paid or received fees by contractors, such as transaction costs and all premiums and discounts.

At each reporting date the Company assesses based on objective evidence whether there is a need to test the loan for recoverability. Objective evidence consists of observable circumstances that have occurred and have a negative impact on the ability to recover the acquisition cost. If objective evidence exists, expected future cash flows are discounted using the original effective interest rate. If the present value of cash flows related to financial instrument is lower than its carrying amount, the impairment charge is presented in profit/loss for the year.

The Company's business activities are exposed to various types of financial risks, including market, liquidity and credit risks. Market risks primarily consist of interest rate risk. The Company's Board of Directors is ultimately responsible for exposure management and monitoring of the company's financial risks.

Market risk

Currency risk

Currency risk is the risk that the fair value or future cash flows will fluctuate due to changes in exchange rates. Orlen Capital AB is not exposed to any currency risk as both the loan to the parent company and the issued bonds are in the same currency, euro.

Interest rate risk

Interest rate risk refers to the risk that the fair value or future cash flows will fluctuate as a result of changes in market interest rates.

The company's interest rate risk profile of the interest-bearing financial instruments was:

	2017-12-31 EUR	2016-12-31 EUR
<u>Fixed interest rate</u>		
Receivables from Group companies	1 251 984 598	1 251 423 291
Bond loans	1 266 001 816	1 265 796 110

The company has minimized the interest rate risk by matching the loan obligations with the obligations of the bond.

Operational risk

Operational risk can be the risk of direct or indirect loss arising from a variety of occasions associated with a company's processes, personnel, and infrastructure and from external factors other than credit, market and liquidity risks such as those derived from regulations and generally accepted customs. Operational risks arise from all of a company's activities.

Orlen Capital AB (publ) was formed with the purpose to engage in the activities described in the previous paragraph on the company's operations.

The operational risk of the company is reduced by the board's continuous monitoring of the company's financial statements and a general and continuous business knowledge.

Liquidity and finance risk

Liquidity risk can be the risk that a company will encounter difficulty in meeting obligations arising from its financial liabilities.

The financing risk is the risk that the company cannot raise sufficient funds at a reasonable cost. Maturity Distribution of contractual payment obligations related to the Company's financial liabilities are presented in note 12. Interest payments are determined based on the conditions prevailing at the balance sheet date.

The company's loan agreements contain no terms that could cause actual payment date to be

substantially earlier than indicated by note 12.

Credit risk

Credit risk refers to the risk that the counterparty to a transaction causes the company a loss by not fulfilling their contractual obligations. Orlen Capital AB (public) limits their risk by only leave intercompany loans.

The total value of financial assets represents the maximum credit risk exposure:

	2017-12-31	2016-12-31
	EUR	EUR
Receivables from Group companies	1 251 984 598	1 251 423 291
Other current investments	6 105 773	3 993 910
Cash and bank balances	<u>56 946</u>	<u>8 361</u>
	1 258 147 317	1 255 425 562

Capital risk management

The company's objectives for managing capital are to safeguard the company's ability to continue its operations to generate reasonable returns for shareholders and benefits for other stakeholders.

The Company monitors its capital structure on the basis of the gearing ratio. The gearing ratio is calculated as net debt divided by total capital. Net debt is calculated as liabilities to credit institutions less cash. Total capital consists of total equity and net debt.

At the end of the financial year the debt/equity ratio is:

	2017-12-31	2016-12-31
Debt with related companies	1 266 001 816	1 265 796 110
Decreased by cash equivalents	<u>-6 162 719</u>	<u>- 4 002 271</u>
Net debt	1 259 839 097	1 261 793 839
Total equity	<u>3 267 773</u>	<u>2 872 999</u>
Total equity	1 259 869 063	1 257 430 392
Debt/equity ratio	99,7%	99,8%

Definitions of key performance indicator

Solvency

Equity and untaxed reserves (with deferred tax allowance) in relative proportion to total assets.

Return on equity,

Profit/loss before deduction of financial income and expenses in relative proportion to total assets.

Return on equity,

Profit/loss after financial income and expenses in relative proportion to equity and untaxed reserves (with deferred tax allowance).

Note 2 Other operating income

	<u>2017</u>	<u>2016</u>
Income from recharged costs	4,170	-
Operating income from related companies	=	<u>2,109,225</u>
Total	<u>4,170</u>	<u>2,109,225</u>

Note 3 Auditor fee

	<u>2017</u>	<u>2016</u>
Deloitte AB		
Auditor assignment	2,316	22,563
Audit activities outside the audit assignment	-	-
Tax audit	-	-
Other assignments	=	=
	<u>2,316</u>	<u>22,563</u>

During the comparison year the auditor was KPMG AB.

Auditing means the statutory audit of annual accounts, book-keeping, the board and the managing director's administration of the company as well as auditing and other review conducted in accordance with the agreement or contract. This includes other duties that are incumbent on the company's auditor as well as advice or other assistance resulting from observations during such examination or performance of such tasks.

2017 2016

Note 4 Remuneration by country

2017 2016

Remuneration by country amount to

Sweden

The board and managing director 2,874 5,844

Poland

The board and managing director 6,324 12,857

Total 11,984 21,593

Note 5 Remuneration, social costs and pension

2017 2016

Average number of employees

Women 1 1
Total 1 1

Board members and leading executives

Women 1 1
Men 3 3
Total 4 4

Remuneration, social costs and pension

Remuneration to the board and managing director 9,198 18,702
Salaries and remunerations to other employees 1,381 801
Total 10,579 19,503

Social costs according to law and contract 1,337 2,090
Other personnel costs 68 -
Total 11,984 21,593

Note 10 Transactions with related parties

	<u>2017-12-31</u>	<u>2016-12-31</u>
Receivables on related parties		
Loan granted	1,236,127,500	1,236,127,500
Transaction costs	3,598,000	3,598,000
Accrual of transaction costs	<u>-2,193,781</u>	<u>-1,750,922</u>
Total	<u>1,237,531,719</u>	<u>1,237,974,578</u>
Non-current liabilities		
Bond loans	1,250,000,000	1,250,000,000
Transaction costs	3,598,000	3,598,000
Accrual of transaction costs	-2,193,781	-1,750,922
Discount loan	-13,872,500	-13,872,500
Accrued discount	<u>4,322,053</u>	<u>2,340,267</u>
Total	<u>1,241,853,772</u>	<u>1,240,314,845</u>
	<u>2017</u>	<u>2016</u>
Operating income from related companies	=	<u>2,109,225</u>
Total	=	<u>2,109,225</u>

Orlen Capital AB is a fully owned subsidiary to Polski Koncern Naftowy ORLEN Spółka Akcyjna (reg no KRS 0000028860), Ul. Chemikow 7, 09-411 Plock, Poland.

The bond is guaranteed by the parent company Polski Koncern Naftowy Orlen SA. The bond bears 2,5 % interest. The interest is paid annually in arrears in the month of June.

No other transactions with related parties during the financial or the previous year.

Note 11 Prepaid expenses and accrued income

	<u>2017-12-31</u>	<u>2016-12-31</u>
Accrued interest income from loan to parent company	15,857,098	15,295,791
Other prepaid costs	<u>1,679,513</u>	<u>1,996,837</u>
	<u>17,536,611</u>	<u>17,292,628</u>

Note 12 Non-current liabilities

	<u>2017</u>	<u>2016</u>
Non-current liabilities due for payment:		
Within one year	1,981,784	1,981,786
Within five years	9,908,920	9,908,930
After five years	<u>1,228,558,849</u>	<u>1,226,577,051</u>
Total	<u>1,240,449,553</u>	<u>1,238,467,767</u>

Note 13 Accrued expenses and deferred income

	<u>2017-12-31</u>	<u>2016-12-31</u>
Accrual audit fee	8,551	15,000
Accrued interest	16,001,816	15,796,110
Accrued vacation pay	72	-74
Other posts	<u>70,494</u>	<u>197,852</u>
Total	16,080,933	16,008,888

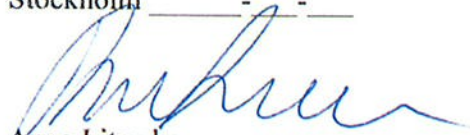
Note 14 Pledged assets and contingent liabilities

The company does not have any pledged assets or contingent liabilities.

Note 15 Significant events after the end of the financial year

No significant events have occurred after the ending of the financial year.

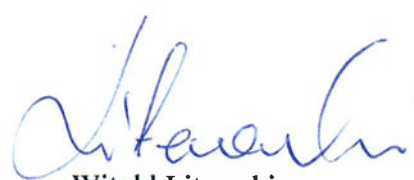
Stockholm _____



Anna Litewka
Managing director



Robert Jasinski
Chairman



Witold Literacki
Chairman

Our auditors report has been given

Deloitte AB



Anders Linné
Authorized public accountant