

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

Annual report for the financial year 2016

Office translation

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 2014-06-12. 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 loans and credits, and carry out other thereby related businesses. No financial services regulated in the Banking and Financing Business act (2004:297) will be carried out.

Comparative figures covering several years

The company's financial development in brief.

	2016	2015	2014
Net sales, kEUR	0	0	0
Profit/loss after financial items, kEUR	494	315	-61
Total assets, kEUR	1,257,430	504,210	503,511
Debt/asset ratio, %	0.2	0.2	0.2
Return on total assets, %	2.0	2.8	1.0
Return on equity, %	17.2	26.5	neg

Definitions of key performance indicator are presenting in note 1.

Significant events during and after the ending of the financial year

In June 2016 a second bond of 750 000 000 EUR was issued. The bonds maturity is 7 years. The issue is guaranteed by the parent company Polski Koncern Naftowy ORLEN SA and the net value of the bond is 740 452 500 EUR, which is re-lent at the same amount. The bonds are listed at the stock exchange market in Ireland and Warsaw.

No other 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.

The company is exposed to the following risks through the use of financial instruments:

- Market risk
- Credit risk
- Liquidity risk
- Operational risk

Market risk

Market risk can be the risk that a change in market prices will affect a company's income or the value of its holdings of financial instruments.

Currency risk

Orlen Capital AB (publ) 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

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

	2016-12-31	2015-12-31
<u>Fixed interest rate</u>		
Receivables from Group companies	1 251 423 291	501 113 113
Bond loans	1 265 796 110	505 081 707

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

Credit risk

Credit risk can be the risk of financial loss to a company if a counterparty fails to fulfill its contractual obligations.

Orlen Capital AB (publ) limits its exposure to credit risk by only granting loans to affiliated parties.

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

	2016-12-31	2015-12-31
Receivables from Group companies	1 251 423 291	501 113 113
Cash and bank balances	<u>4 002 271</u>	<u>1 664 370</u>
	1 255 425 562	502 777 483

Liquidity risk

Liquidity risk can be the risk that a company will encounter difficulty in meeting obligations arising from its financial liabilities which shall be settled by way of cash payment.

Orlen Capital AB's obligation to the bondholders includes annual interest payments and the final repayment at maturity.

The bond is guaranteed by the parent company Polski Koncern Naftowy Orlen SA, which minimizes the possible liquidity risk for the company.

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, 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.

Proposed appropriation of profits

The following means are at the disposal of the Annual
General Meeting

Unappropriated profits	2,427,068
Net profit/loss for the year	<u>385,931</u>
	euro <u>2,812,999</u>

The Board of Directors proposes that the earnings are

carried forward	<u>2,812,999</u>
	euro <u>2,812,999</u>

Income Statement

	Note	2016	2015
Other operating income		2,109,225	226,140
Operating expenses			
Other external expenses	2	-299,223	-104,138
Personnel costs	3, 4	<u>-21,593</u>	<u>-20,752</u>
Total operating expenses		-320,816	-124,890
Operating profit/loss		1,788,409	101,250
Profit/loss from financial items			
Other interest income and similar profit/loss items	5	23,463,957	13,799,656
Interest expenses and similar profit/loss items	6	<u>-24,758,498</u>	<u>-13,585,880</u>
Total profit/loss from financial items		-1,294,541	213,776
Profit/loss after financial items		493,868	315,026
Tax on profit for the year	7	<u>-107,937</u>	<u>-66,704</u>
Net profit for the year		<u>385,931</u>	<u>248,322</u>

Balance Sheet	Note	2016-12-31	2015-12-31
Assets			
Fixed assets			
<u>Financial fixed assets</u>			
Receivables from Group companies	8, 9	<u>1,236,127,500</u>	<u>496,918,790</u>
Total fixed assets		<u>1,236,127,500</u>	<u>496,918,790</u>
Current assets			
<u>Current receivables</u>			
Other current receivables		7,993	-
Prepaid expenses and accrued income	10	<u>17 292 628</u>	<u>5 626 348</u>
		<u>17,300,621</u>	<u>5,626,348</u>
<u>Current investments</u>			
Other current investments	11	<u>3,993,910</u>	<u>1,626,537</u>
<u>Cash and bank balances</u>			
		<u>8,361</u>	<u>37,833</u>
Total current assets		<u>21,302,892</u>	<u>7,290,718</u>
Total assets		<u>1,257,430,392</u>	<u>504,209,508</u>

Balance Sheet	Note	2016-12-31	2015-12-31
Equity and liabilities			
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		2,427,068	878,746
Net profit for the year		<u>385,931</u>	<u>248,322</u>
		<u>2,812,999</u>	<u>1,127,068</u>
Total equity		<u>2,872,999</u>	<u>1,187,068</u>
Non-current liabilities			
Bond loans	8, 9	<u>1,238,467,767</u>	<u>497,845,574</u>
Total non-current liabilities		<u>1,238,467,767</u>	<u>497,845,574</u>
Current liabilities			
Accounts payable - trade		29,147	19,889
Current tax liabilities		48,570	66,704
Other current liabilities		2,837	659
Accrued expenses and deferred income	12	<u>16,009,072</u>	<u>5,089,614</u>
Total current liabilities		<u>16,089,626</u>	<u>5,176,866</u>
Total equity and liabilities		<u>1,257,430,392</u>	<u>504,209,508</u>
Pledged assets			
		None	None
Contingent liabilities			
		None	None

Statement of change in equity

	Share- capital	Other non-restricted equity	Total equity
Equity 2015-12-31	60,000	1,127,068	1,187,068
Unconditional shareholders contribution	-	1,300,000	1,300,000
Net profit/loss for the year	-	385,931	385,931
Equity 2016-12-31	60,000	2,812,999	2,872,999

Cash flow statement	2016-01-01 -2016-12-31	2015-01-01 -2015-12-31
Operating activities		
Operating profit before financial items	1,788,409	101,250
Interest received	23,463,957	13,799,656
Interest paid	-24,758,498	-13,585,880
Paid tax	<u>-107,937</u>	<u>-66,704</u>
	385,931	248,322
Increase/decrease other short-term receivables	-750,882,983	-147,196
Increase/decrease accounts payables	9,258	-3,000
Increase/decrease other short-term liabilities	<u>751,525,695</u>	<u>452,853</u>
Cash flow from operating activities	1,037,901	550,979
Investing operations		
Cash flow from investing operations	0	0
Financing activities		
Received shareholders contribution	<u>1,300,000</u>	=
Cash flow from financing activities	1,300,000	0
Cash flow of the year	2,337,901	550,979
Cash at the beginning of the year	<u>1,664,370</u>	<u>1,113,391</u>
Cash at the end of the year	<u>4,002,271</u>	<u>1,664,370</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.

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.

Current tax

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.

Receivables and accounts payable

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.

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 liabilities

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 recognized in the memorandum items in the balance sheet.

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.

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:

	2016-12-31	2015-12-31
	EUR	EUR
<u>Fixed interest rate</u>		
Receivables from Group companies	1 236 127 500	495 675 000
Bond loans	1 250 000 000	500 000 000

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

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 the tables below.

The amounts in these tables are not discounted values and they include, where appropriate, interest payments, which means that these amounts are not possible to reconcile against the amounts reported in the balance sheets. 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 in the tables.

	Within 1 yr.	From 1 to 5 yrs.	Over 5 yrs.	Sum
Liability to bondholder	31 453 124	644 698 061	768 742 770	1 444 893 955
Accounts payable	29 147			29 147
Sum	31 482 271	644 698 061	768 742 770	1 444 923 102

Credit & Counterparty 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.

	2016-12-31	2015-12-31
Receivables from Group companies	1 251 423 291	501 113 113
Other current investment	3 993 910	1 626 537
Cash and bank balances	<u>8 361</u>	<u>37 833</u>
	1 255 425 562	502 777 483

Capital risk management

The company's objectives for managing capital is 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:

	2016-12-31	2015-12-31
Borrowing	1 251 423 291	505 081 707
Less cash	<u>- 4 002 271</u>	<u>- 1 664 370</u>
Net debt	1 247 421 020	503 417 337
Total equity	<u>2 872 999</u>	<u>1 187 068</u>
Total capital	1 250 294 019	504 604 405
Debt/equity ratio	99,8%	99,8%

Definitions of key performance indicator

Equity ratio

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

Return on total assets

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 Remuneration to auditors

	<u>2016</u>	<u>2015</u>
KPMG AB		
Audit	22,563	6,638
Audit activities outside the audit assignment	-	-
Tax audit	-	-
Other assignments	-	-
	<u>22,563</u>	<u>6,638</u>

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.

Remuneration to KPMG abroad for other services rendered amounts to 14,167.

Note 3 Remuneration by country

	<u>2016</u>	<u>2015</u>
Remuneration by country amount to		
<u>Sweden</u>		
The board	5,844	6,007
<u>Poland</u>		
The board and managing director	<u>12,858</u>	<u>14,745</u>
Total	<u>18,702</u>	<u>20,752</u>

Note 4 Employees

	<u>2016</u>	<u>2015</u>
Board members and leading executives		
Women	1	1
Men	<u>3</u>	<u>3</u>
Total	<u>4</u>	<u>4</u>
Remuneration, social costs and pension		
Remuneration to the board and managing director	18,702	18,897
Salaries and remunerations to other employees	<u>858</u>	-
	19,560	18,897
Social costs according to law and contract	<u>2,089</u>	<u>1,855</u>
Total	<u>21,649</u>	<u>20,752</u>

Note 5 Other interest income and similar profit/loss items

	<u>2016</u>	<u>2015</u>
Interest revenue from Group company	23,463,957	13,794,509
Interests from bank	-	14
Exchange rate differences	-	<u>5,133</u>
Sum	<u>23,463,957</u>	<u>13,799,656</u>

Note 6 Interest expenses and similar profit/loss items

	<u>2016</u>	<u>2015</u>
Interest expenses bond loans	23,214,403	12,711,602
Exchange rate differences	1,012	5,733
Accrual of transaction costs	129,572	250,611
Accrual of bond discount	1,413,483	617,856
Other interest	<u>28</u>	<u>78</u>
Sum	<u>24,758,498</u>	<u>13,585,880</u>

Note 7 Tax on profit for the year

	<u>2016</u>	<u>2015</u>
Current tax	107,937	66,704
Current tax for the year	107,937	66,704
Profit before tax	493,868	315,026
Tax according to current tax rate 22%	108,651	69,305
Tax effect of non-deductible expenses	825	1,570
Tax effect of non-taxable incomes	-1,539	-1,538
Increase in loss carry forwards without corresponding capitalization of deferred tax	-	-2,633
Current tax	<u>107,937</u>	<u>66,704</u>

Note 8 Reported value

	Reported value		
	Receivables	Liabilities	Fair Value
Loan receivables	1 236 127 500		1 236 127 500*
Accrued interest revenues	15 295 791		15 295 791
Other short term investments	3 993 910		3 993 910
Cash and bank balances	8 361		8 361
Sum	1 255 425 562		1 255 425 562
Bond loans		1 238 467 767	1 307 147 500**
Accrued interest costs		15 796 110	15 796 110
Accounts payable - trade		29 147	29 147
Sum		1 254 293 024	1 322 972 757

* Level 2 of the fair value hierarchy.

** The noted price as of December (Level 1 of the fair value hierarchy).

Note 9 Transactions with related parties

	<u>2016-12-31</u>	<u>2015-12-31</u>
<u>Receivables on related parties</u>		
Loan granted	1,236,127,500	495,675,000
Transaction costs	3,598,000	1,583,000
Accrual of transaction costs	<u>-1,750,922</u>	<u>-339,210</u>
Sum	<u>1,237,974,578</u>	<u>496,918,790</u>
<u>Non-current liabilities</u>		
Bond loans	1,250,000,000	500,000,000
Transaction costs	3,598,000	1,583,000
Accrual of transaction costs	-1,750,922	-339,210
Discount loan	-13,872,500	-4,325,000
Accrued discount	<u>2,340,267</u>	<u>926,784</u>
Sum	<u>1,240,314,845</u>	<u>497,845,574</u>

The company is a fully owned subsidiary to Polski Koncern Naftowy Orlen SA (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.

Note 10 Prepaid expenses and accrued income

	<u>2016-12-31</u>	<u>2015-12-31</u>
Accrued income on loans to parent company	15,295,791	5,438,113
Other prepaid costs	<u>1,996,837</u>	<u>188,235</u>
	<u>17,292,628</u>	<u>5,626,348</u>

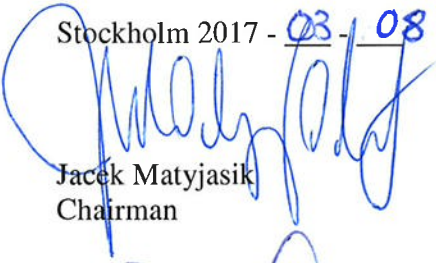
Note 11 Change of accounting principle between the financial years

The company's balance on its cash-pool account has previous years been presented as "cash and bank". In the annual report 2016 the company is presenting the item under "other current investments" and the comparative figures are therefore also changed for comparability.


Note 12 Accrued expenses and deferred income

	<u>2016-12-31</u>	<u>2015-12-31</u>
Accrued audit fee	15,000	7,750
Accrued interest on Bond loans	15,796,110	5,081,707
Other posts	<u>197,962</u>	<u>157</u>
Sum	16,009,072	5,089,614

Stockholm 2017 - 03 - 08


Jacek Matyjasik
Chairman


Robert Jasinski


Anna Litewka
Managing director


Witold Literacki

Our auditors report has been given 2017 - 03 - 10.

KPMG AB

Per Gustafsson
Authorized public accountant