Public Company ORLEN Lietuva

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017
PREPARED IN ACCORDANCE WITH INTERNATIONAL
FINANCIAL REPORTING STANDARDS
AS ADOPTED BY EUROPEAN UNION

2017

(all tabular amounts are in USD'000 and EUR'000 unless otherwise stated)

Table of contents:

UAB „Deloitte Lietuva"
Jogailos g. 4
LT-01116 Vilnius
Lietuva

Įmonės k.: 111525235
PVM mok. k.: LT115252314
Duomenys kaupiami ir saugomi
Juridinių asmenų registre

Tel.: +370 5 255 3000
Faks.: +370 5 212 6844
www.deloitte.lt

INDEPENDENT AUDITOR'S REPORT

To the Shareholder of ORLEN Lietuva AB

Opinion

We have audited the consolidated financial statements of ORLEN Lietuva AB and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects of the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the requirements of the Law on Audit of Financial Statements of the Republic of Lithuania that are relevant to audit in the Republic of Lithuania, and we have fulfilled our other ethical responsibilities in accordance with the Law on Audit of Financial Statements of the Republic of Lithuania and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The other information comprises the information included in the Group's annual report, but does not include the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, except as specified below.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

In addition, our responsibility is to consider whether information included in the Group's annual report for the financial year for which the consolidated financial statements are prepared is consistent with the consolidated financial statements and whether annual report has been prepared in compliance with applicable legal requirements. Based on the work carried out in the course of the audit of consolidated financial statements, in our opinion, in all material respects:

- The information given in the Group's annual report for the financial year for which the consolidates financial statements are prepared is consistent with the consolidated financial statements; and
- The Group's annual report has been prepared in accordance with the requirements of the Law on Consolidated Financial Reporting by Groups of Undertakings of the Republic of Lithuania.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's consolidated financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte Lietuva, UAB
Audit Company License No 001275

Saulius Bakas
Lithuanian Certified Auditor
License No. 000604

Vilnius, Republic of Lithuania
14 March 2018

(all tabular amounts are in USD'000 and EUR'000 unless otherwise stated)

Consolidated statement of financial position

	Note	31/12/2017		31/12/2016	
		USD	EUR	USD	EUR
ASSETS					
Non-current assets					
Property, plant and equipment	4	224,157	186,906	168,921	161,600
Intangible assets	5	2,427	2,023	1,600	1,530
Investments in equity-accounted investees	6	1,616	1,347	1,637	1,566
Deferred tax assets	21.2	4,307	3,593	25,958	24,833
Other non-current assets	7	2,940	2,451	2,380	2,279
Total non-current assets		**235,447**	**196,320**	**200,496**	**191,808**
Current assets					
Inventory	9	304,097	253,561	242,621	232,108
Trade and other receivables	10	284,996	237,636	170,863	163,458
Other financial assets	11	306,112	255,244	215,449	206,112
Current tax assets		7	6	4	3
Cash and cash equivalents	12	15,283	12,743	4,584	4,386
Non-current assets classified as held for sale		410	342	1,225	1,172
Total current assets		**910,905**	**759,532**	**634,746**	**607,239**
Total assets		**1,146,352**	**955,852**	**835,242**	**799,047**
LIABILITIES AND SHAREHOLDERS EQUITY					
EQUITY					
Share capital	13	6,547	5,794	6,547	5,794
Share premium		50,172	132,152	50,172	132,152
Other reserves		1,013	864	996	849
Hedging reserve		(2,184)	(1,830)	(670)	(641)
Foreign exchange differences		(1,329)	(114,046)	(3,186)	(71,536)
Retained earnings		430,647	381,358	339,631	309,822
Total equity		**484,866**	**404,292**	**393,490**	**376,440**
LIABILITIES					
Non-current liabilities					
Provisions	14	7,325	6,108	4,191	4,009
Deferred income		1	1	-	-
Total non-current liabilities		**7,326**	**6,109**	**4,191**	**4,009**
Current liabilities					
Trade and other liabilities	15	513,990	428,576	394,188	377,105
Current tax liability		1,689	1,408	3,665	3,506
Provisions	14	35,615	29,696	30,354	29,039
Other financial liabilities	16	102,866	85,771	9,354	8,948
Total current liabilities		**654,160**	**545,451**	**437,561**	**418,598**
Total liabilities		**661,486**	**551,560**	**441,752**	**422,607**
Total equity and liabilities		**1,146,352**	**955,852**	**835,242**	**799,047**

The notes on pages 12 to 67 are an integral part of these consolidated financial statements.
Consolidated financial statements were approved on 14 March 2018.

Michal Rudnicki
General Director

Marek Gołębiewski
Chief Financial Officer

Genutė Barkuvienė
Chief Accountant

(all tabular amounts are in USD'000 and EUR'000 unless otherwise stated)

Consolidated statement of profit or loss and other comprehensive income

	Note	for the year ended 31/12/2017 USD	for the year ended 31/12/2017 EUR	for the year ended 31/12/2016 USD	for the year ended 31/12/2016 EUR
Statement of profit or loss					
Sales revenues	17	4,540,698	4,005,655	3,545,667	3,212,105
Cost of sales	18	(4,076,279)	(3,598,592)	(3,117,762)	(2,824,999)
Gross profit on sales		**464,419**	**407,063**	**427,905**	**387,106**
Distribution expenses	18	(130,386)	(114,777)	(143,365)	(129,654)
Administrative expenses	18	(49,246)	(43,395)	(42,727)	(38,640)
Other operating income	19.1	4,388	3,966	11,835	10,748
Other operating expenses	19.2	(3,412)	(2,980)	(9,093)	(8,550)
Share in profit from investments in equity-accounted investees	6	(155)	(140)	85	77
Profit/(loss) from operations		**285,608**	**249,737**	**244,640**	**221,087**
Finance income	20.1	93,458	79,478	822	750
Finance expenses	20.2	(109,717)	(93,484)	(4,544)	(3,992)
Net finance income/(expenses)		**(16,259)**	**(14,006)**	**(3,722)**	**(3,242)**
Profit/(loss) before tax		**269,349**	**235,731**	**240,918**	**217,845**
Income tax expenses	21	(27,929)	(24,274)	25	1,178
Net profit/(loss) from continuing operations		**241,420**	**211,457**	**240,943**	**219,023**
Net profit/(loss)		**241,420**	**211,457**	**240,943**	**219,023**
Items of other comprehensive income/(expenses):					
which will not be reclassified into profit or loss					
Actuarial (gains) and losses		(452)	(387)	(963)	(921)
Deferred tax		58	45	16	15
that are or may be reclassfied to profit or loss					
Hedging instruments		(1,514)	(1,189)	(3,001)	(2,774)
Foreign exchange differences		1,857	(42,510)	(492)	12,198
Other comprehensive income		**(51)**	**(44,041)**	**(4,440)**	**8,518**
Total net comprehensive income/(expenses)		**241,369**	**167,416**	**236,503**	**227,541**
Net profit/(loss) attributable to:					
equity holders of the parent		241,420	211,457	240,943	219,023
Total comprehensive income/(expenses) attributable to:					
equity holders of the parent		241,369	167,416	236,503	227,541

The notes on pages 12 to 67 are an integral part of these consolidated financial statements.
Consolidated financial statements were approved on 14 March 2018.

Michal Rudnicki
General Director

Marek Golębiewski
Chief Financial Officer

Genutė Barkuvienė
Chief Accountant

(all tabular amounts are in USD'000 and EUR'000 unless otherwise stated)

Consolidated statement of cash flows

	Note	for the year ended 31/12/2017 USD	for the year ended 31/12/2017 EUR	for the year ended 31/12/2016 USD	for the year ended 31/12/2016 EUR
Cash flow - operating activities					
Net profit/(loss)		**241,420**	**211,457**	**240,943**	**219,023**
Adjustments for:					
Share in profit from investments in equity-accounted investees	6	155	140	(85)	(77)
Depreciation and amortization	4,5	19,238	16,963	14,440	13,056
Recognition/(Reversal) of impairment losses on property, plant and equipment, intangible assets and non-current assets classified as held for sale	19.1, 19.2	555	443	(597)	(552)
Foreign exchange (gain)/loss		1,714	(18,305)	(20)	4,883
Interest, net		193	160	137	124
(Profit)/loss on investing activities		8,429	7,228	269	260
Change in working capital:		**(83,191)**	**(67,431)**	**25,346**	**22,282**
receivables		*(113,981)*	*(73,826)*	*(70,335)*	(71,526)
inventories		*(62,457)*	*(22,373)*	*(60,983)*	(65,742)
liabilities		*93,247*	*28,768*	*156,664*	159,550
Change in provisions		19,278	12,947	10,184	10,402
Tax expenses	21	27,929	24,274	(25)	(1,178)
Income tax (paid)/received		(8,257)	(5,132)	(5,968)	(5,230)
Change in financial instruments		8,677	6,938	8,325	7,717
Other adjustments		(2)	194	(123)	(133)
Net cash generated in operating activities		**236,138**	**189,876**	**292,826**	**270,577**
Cash flows from investing activities					
Acquisition of property, plant and equipment and intangible assets		(59,931)	(54,542)	(26,750)	(23,656)
Disposal of property, plant and equipment and intangible assets		146	126	351	317
Proceeds/repayment of loans granted		36	34	29	26
Increase/(decrease) in derivatives		(8,143)	(6,956)	-	-
Increase/(decrease) in deposits		568	530	1,700	1,533
Interest received		666	595	545	521
(Outflows)/proceeds from cash pool		(21,802)	7,443	(100,272)	(100,412)
Net cash used in investing activities		**(88,460)**	**(52,770)**	**(124,397)**	**(121,671)**
Cash flows from financing activities					
Proceeds/repayment of loans and borrowings		-	-	(14,187)	(12,751)
Interest paid		(844)	(744)	(709)	(639)
(Outflow)/inflow from cash pool		13,865	11,556	-	-
Dividends paid		(150,000)	(139,561)	(150,000)	(132,066)
Net cash used in financing activities		**(136,979)**	**(128,749)**	**(164,896)**	**(145,456)**
Net (decrease)/increase in cash and cash equivalents		**10,699**	**8,357**	**3,533**	**3,450**
Cash and cash equivalents, beginning of the period	**12**	**4,584**	**4,386**	**1,051**	**962**
Cash and cash equivalents, end of the period	**12**	**15,283**	**12,743**	**4,584**	**4,386**

The notes on pages 12 to 67 are an integral part of these consolidated financial statements.
Consolidated financial statements were approved on 14 March 2018.

Michal Rudnicki
General Director

Marek Gołębiewski
Chief Financial Officer

Genutė Barkuvienė
Chief Accountant

(all tabular amounts are in USD'000 and EUR'000 unless otherwise stated)

Statement of changes in consolidated equity

USD	Equity attributable to equity holders of the parent						
	Share capital	**Share premium**	**Hedging reserve**	**Other reserves**	**Foreign exchange differences**	**Retained earnings**	**Total equity**
1 January 2017	**6,547**	**50,172**	**(670)**	**996**	**(3,186)**	**339,631**	**393,490**
Profit for the year	-	-	-	-	-	241,420	**241,420**
Other comprehensive income/(expenses)	-	-	(1,514)	-	-	(394)	**(1,908)**
Foreign currency translation differences of foreign operations	-	-	-	-	1,857	7	**1,864**
Total comprehensive income/(expenses)	**-**	**-**	**(1,514)**	**-**	**1,857**	**241,033**	**241,376**
Transfer to legal reserve		-	-	17	-	(17)	**-**
Dividends	-	-	-	-	-	(150,000)	**(150,000)**
Total transactions with owners of the Group	**-**	**-**	**-**	**17**	**-**	**(150,017)**	**(150,000)**
31 December 2017	**6,547**	**50,172**	**(2,184)**	**1,013**	**(1,329)**	**430,647**	**484,866**
1 January 2016	6,547	50,172	2,331	337	(2,694)	250,294	**306,987**
Profit for the year	-	-	-	-	-	240,943	**240,943**
Other comprehensive income/(expenses)	-	-	(3,001)	-	-	(947)	**(3,948)**
Foreign currency translation differences of foreign operations	-	-	-	-	(492)	-	**(492)**
Total comprehensive income/(expenses)	**-**	**-**	**(3,001)**	**-**	**(492)**	**239,996**	**236,503**
Transfer to legal reserve	-	-	-	659	-	(659)	**-**
Dividends	-	-	-	-	-	(150,000)	**(150,000)**
Total transactions with owners of the Group	**-**	**-**	**-**	**659**	**-**	**(150,659)**	**(150,000)**
31 December 2016	**6,547**	**50,172**	**(670)**	**996**	**(3,186)**	**339,631**	**393,490**

The notes on pages 12 to 67 are an integral part of these consolidated financial statements.
Consolidated financial statements were approved on 14 March 2018.

Michal Rudnicki General Director	Marek Gołębiewski Chief Financial Officer	Genutė Barkuvienė Chief Accountant

(all tabular amounts are in USD'000 and EUR'000 unless otherwise stated)

EUR	Equity attributable to equity holders of the parent						
	Share capital	Share premium	Hedging reserve	Other reserves	Foreign exchange differences	Retained earnings	Total equity
1 January 2017	5,794	132,152	(641)	849	(71,536)	309,822	**376,440**
Profit for the year	-	-	-	-	-	211,457	**211,457**
Other comprehensive income/(expenses)	-	-	(1,189)	-	-	(342)	**(1,531)**
Foreign currency translation differences of foreign operations	-	-	-	-	(42,510)	(3)	**(42,513)**
Total comprehensive income/(expenses)	**-**	**-**	**(1,189)**	**-**	**(42,510)**	**211,112**	**167,413**
Transfer to legal reserve	-	-	-	15	-	(15)	**-**
Dividends	-	-	-	-	-	(139,561)	
Total transactions with owners of the Group	**-**	**-**	**-**	**15**	**-**	**(139,576)**	**(139,561)**
31 December 2017	**5,794**	**132,152**	**(1,830)**	**864**	**(114,046)**	**381,358**	**404,292**
1 January 2016	5,794	132,152	2,133	268	(83,734)	224,352	**280,965**
Profit for the year	-	-	-	-	-	219,023	**219,023**
Other comprehensive income/(expenses)	-	-	(2,774)	-	-	(906)	**(3,680)**
Foreign currency translation differences of foreign operations	-	-	-	-	12,198	-	**12,198**
Total comprehensive income/(expenses)	**-**	**-**	**(2,774)**	**-**	**12,198**	**218,117**	**227,541**
Transfer to legal reserve	-	-	-	581	-	(581)	**-**
Dividends	-	-	-	-	-	(132,066)	**(132,066)**
Total transactions with owners of the Group	**-**	**-**	**-**	**581**	**-**	**(132,647)**	**(132,066)**
31 December 2016	**5,794**	**132,152**	**(641)**	**849**	**(71,536)**	**309,822**	**376,440**

The notes on pages 12 to 67 are an integral part of these consolidated financial statements.
Consolidated financial statements were approved on 14 March 2018.

Michal Rudnicki
General Director

Marek Golębiewski
Chief Financial Officer

Genutė Barkuvienė
Chief Accountant

(all tabular amounts are in USD'000 and EUR'000 unless otherwise stated)

Accounting principles and other explanatory information

1. Reporting entity

Public Company ORLEN Lietuva (hereinafter – the Parent company) is incorporated and domiciled in Lithuania. Its registered office is located at the address: Mažeikių St. 75, Juodeikiai village, Mazeikiai District, Republic of Lithuania. Its legal entity code is 166451720. The Parent company comprises an oil refinery enterprise in Mažeikiai, the Būtingė terminal and an oil products pumping station in Biržai. The sole shareholder of the Parent company is PKN ORLEN S.A.

The consolidated financial statements as at 31 December 2017 include the Parent company and subsidiary companies. The Parent company also prepares separate financial statements.

The Consolidated group (hereinafter "the Group") consists of the Parent company and its four subsidiaries. The Group has one associate which is accounted for using the equity method. The subsidiaries and the associate included into the Group's consolidated financial statements are listed below:

Subsidiary/ associated company	Established in	Year of establishment/ acquisition	Share of the Group 31/12/2017	Share of the Group 31/12/2016	Nature of activity
Subsidiaries					
UAB Mažeikių Naftos prekybos namai	Lithuania	2003	100	100	Intermediate holding entity has two subsidiaries SIA ORLEN Latvija and OU ORLEN Eesti. Their activity is wholesale trading in petroleum products in Latvia and Estonia.
SIA ORLEN Latvija	Latvia	2003	100	100	Wholesale trading in petroleum products in Latvia. This company is a subsidiary of UAB Mažeikių Naftos prekybos namai which holds 100 percent of shares of this company.
OU ORLEN Eesti	Estonia	2003	100	100	Wholesale trading in petroleum products in Estonia. This company is a subsidiary of UAB Mažeikių Naftos prekybos namai which holds 100 percent of shares of this company.
UAB EMAS	Lithuania	2009	100	100	Installation, supervision, repair of electrical equipment and related services, in-door and industrial cleaning services.
Associated company					
UAB Naftelf	Lithuania	1996	34	34	Trading in aviation fuel and construction of storage facilities thereof.

(all tabular amounts are in USD'000 and EUR'000 unless otherwise stated)

2. Accounting principles

2.1. Principles of preparation of financial statements

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union (EU) effective as at 31 December 2017. The consolidated financial statements cover the period from 1 January to 31 December 2017 and the corresponding period from 1 January to 31 December 2016.

The consolidated financial statements have been prepared assuming that the Group will continue to operate as a going concern in the foreseeable future. As at the date of approval of these consolidated financial statements, there is no evidence indicating that the Group will not be able to continue its operations as a going concern.

Duration of the Parent company and the entities comprising the Group is unlimited.

The financial statements, except for consolidated cash flow statement, have been prepared using the accrual basis of accounting.

The consolidated financial statements were authorized for issue by the General Director, Chief Financial Officer and Chief accountant on 14 March 2018. Owners of every entity have the power to amend, approve or reject financial statements after their issue.

2.2. Impact of IFRS amendments and interpretations on consolidated financial statements of the Group

adopted by the European Union, effective for the current reporting period	Possible impact on financial statements
Amendments to IAS 7 - Statement of Cash Flows: Disclosure Initiative	Amendments to the existing standards has not led to any material changes in the current financial statement
Amendments to IAS 12 - Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses	
Amendments to IFRS 2: Classification and measurement of share-based payment transactions	
Amendments to IFRS 12 due to "Improvements to IFRSs (cycle 2014-2016)": Amendments resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording	

IFRSs and their interpretations, announced and adopted by the European Union, not yet effective	Possible impact on financial statements
IFRS 9 - Financial Instruments	Impact*
IFRS 15 - Revenue from Contracts with Customers and amendments to	Impact**
IFRS 16 - Leases	Impact***
Amendments to IFRS 4 - Insurance Contracts: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	No impact expected
Amendments to IFRS 15 - Revenue from Contracts with Customers: Clarifications to IFRS 15 Revenue from Contracts with Customers	No impact expected
Amendments to IFRS 1 and IAS 28 due to "Improvements to IFRSs (cycle 2014-2016)": Amendments resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording	No impact expected

The Group intends to adopt new standards IFRSs listed above that are published by the International Accounting Standards Board, but not effective as at the date of publication of these financial statements, in accordance with their effective date.

***IFRS 9 - Financial instruments**
The new Standard will have no significant effect on the financial statements of the Group. The effect of the expected Loss Model to evaluate the credit risk of financial instruments showed similar value of impairment loss relative to the previously applied methodology. Due to the nature of the Group's activities and the nature of the financial assets held, classification and valuation of financial assets will not change under the influence of the application of IFRS 9.

****IFRS 15 - Revenue from contracts with customers**
Initial application of the Standard will not have a material impact on timing and amount of revenue recognized by the Group in its financial statements.

*****IFRS 16 – Lease**
Bringing operating leases in statement of financial position will result in recognizing a new asset – the right to use the underlying asset – and a new liability – the obligation to make lease payments. The right-of-use of asset will be depreciated and the liability accrues interest.

It is expected that the standard, when initially applied, may have a significant impact on the amounts of non-current assets and lease liabilities reported in the Group financial statement, mainly in respect of land, cars, rail cars and offices. As at 31 December 2017 the Group does not have a reliable estimates of the influence of IFRS16 on the financial statements, as its analysis are in progress.

(all tabular amounts are in USD'000 and EUR'000 unless otherwise stated)

IFRSs and their interpretations waiting for approval of EU	Possible impact on financial statements
IFRS 14 - Regulatory Deferral Accounts	No impact expected
IFRS 17 - Insurance Contracts	No impact expected
Amendments to IFRS 2 - Share-based Payment: Classification and Measurement of Share-based Payment Transactions	No impact expected
Amendments to IFRS 9 - Financial Instruments: Prepayment Features with Negative Compensation	No impact expected
Amendments to IFRS 10 - Consolidated Financial Statements and IAS 28 - Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments	No impact expected
Amendments to IAS 19 - Employee Benefits: Plan Amendment, Curtailment or Settlement	No impact expected
Amendments to IAS 28 - Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures	No impact expected
Amendments to IAS 40 - Investment Property: Transfers of Investment	No impact expected
Amendments to various standards "Improvements to IFRSs (cycle 2014-2016)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording	No impact expected
Amendments to various standards due to "Improvements to IFRSs (cycle 2015-2017)" resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording	No impact expected
IFRIC 22 - Foreign Currency Transactions and Advance Consideration	No impact expected
IFRIC 23 - Uncertainty over Income Tax Treatments	No impact expected

2.3. Presentation changes

In order more accurately present data in the consolidated statement of profit or loss and other comprehensive income, product exchange transactions were eliminated from sales revenues and cost of sales and operating lease costs were reclassified among the lines.

Similar eliminations and reclassifications were done for 2016 figures presented as comparatives. The summary of presentation adjustments:

(all tabular amounts are in USD'000 and EUR'000 unless otherwise stated)

	for the year ended 31/12/2016	reclassifi-cation	for the year ended 31/12/2016 (restated)	for the year ended 31/12/2016	reclassifi-cation	for the year ended 31/12/2016 (restated)
	USD	USD	USD	EUR	EUR	EUR
Extracts from profit and loss						
Sales revenues	3,607,087	(61,420)	3,545,667	3,267,195	(55,090)	3,212,105
Cost of sales	(3,179,182)	61,420	(3,117,762)	(2,880,089)	55,090	(2,824,999)
Gross profit on sales	**427,905**	**-**	**427,905**	**387,106**	**-**	**387,106**
Distribution expenses	(143,365)	-	(143,365)	(129,654)	-	(129,654)
Administrative expenses	(42,727)	-	(42,727)	(38,640)	-	(38,640)
Other operating income	11,835	-	11,835	10,748	-	10,748
Other operating expenses	(9,093)	-	(9,093)	(8,550)	-	(8,550)
Share in profit from investments in equity-accounted investees	85	-	85	77	-	77
Profit/(loss) from operations	**244,640**	**-**	**244,640**	**221,087**	**-**	**221,087**
Finance income	822	-	822	750	-	750
Finance expenses	(4,544)	-	(4,544)	(3,992)	-	(3,992)
Net finance income/(expenses)	**(3,722)**	**-**	**(3,722)**	**(3,242)**	**-**	**(3,242)**
Profit/(loss) before tax	**240,918**	**-**	**240,918**	**217,845**	**-**	**217,845**

2.4. Functional and presentation currency of financial statements and methods applied to translation of financial data for consolidation purposes

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The functional currency of the Parent company is the US dollar (USD) as it mainly influences sales prices for goods and services and material costs, the funds from financing activities are mainly generated in the USD and the Parent retains the major part of receipts from its operating activities in the USD. A significant portion of the Group's business is conducted in US dollars and management uses the USD to manage business risks and exposures and to measure performance of the business.

The consolidated financial statements are presented in US dollars, which is the Parent company's functional currency, and, due to the requirements of the laws of the Republic of Lithuania, also in Euro (EUR) being an additional presentation currency.

Exchange rates used for calculation of financial data

CURRENCIES	exchange rate at the end of the reporting period 31/12/2017	31/12/2016
EUR/USD	1.19930	1.04530

The consolidated financial statements of the Group, prepared in US dollars, the functional currency of the Parent company, are translated to the presentation currency Euro by using period end exchange rate for translation of assets and liabilities. The statement of profit or loss and other comprehensive income and particular items of statement of cash flow are recalculated into currency Euro using monthly average exchange rate of working days of Central bank of the Republic of Lithuania during reporting period. All resulting exchange differences are recognized as cumulative translation adjustments in other comprehensive income.

2.5. Description of significant accounting principles

2.5.1. Transactions in foreign currencies

Exchange rate differences arising on the settlement of monetary items or on translating monetary items at the currency exchange rates different from those at which they were translated on initial recognition during the reporting period or in previous financial statements is recognized by the Group in profit or loss in the period in which they arise.

2.5.2. Principles of consolidation

The consolidated financial statements of the Group include assets, liabilities, equity, income, expenses and cash flow of the Parent Company and its subsidiaries that are presented as those of a single economic entity and are prepared for the same reporting period as separate financial statements of the Parent Company and using uniform accounting principles in relation to similar transactions and other events in similar circumstances.

The subsidiaries are consolidated using full consolidation method. Investments in associates are accounted for under equity method.

The Group's share in profit or loss of the investee is recognized in the Group's profit or loss as other operating activity.

For investments in associates – the Group has a significant influence if it holds, directly or indirectly (i.e. through subsidiaries), from 20% to 49% of the voting rights of an entity, unless it can be clearly stated otherwise. Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies.

2.5.3. Property, plant and equipment

Property, plant and equipment include both property, plant and equipment (assets that are in the condition necessary for them to be capable of operating in the manner intended by management) as well as construction in progress (assets that are in the course of construction or development necessary for them to be capable of operating in the manner intended by management).

Property, plant and equipment are initially stated at cost. The cost of an item of property, plant and equipment comprises its purchase price, including any costs directly attributable to bringing the asset into use. The cost of an item of property, plant and equipment includes also the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which is connected with acquisition or construction of an item of property, plant and equipment.

Property, plant and equipment are stated in the statement of financial position prepared at the end of the reporting period at the carrying amount i.e. the amount at which an asset is initially recognized (cost) less accumulated depreciation and any accumulated impairment losses.

Property, plant and equipment are depreciated with straight-line method and in justified cases units of production method of depreciation (catalysts).

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately over the period reflecting its economic useful life.

The following standard economic useful lives are used for property, plant and equipment:

– buildings and constructions	10-40 years
– machinery and equipment	4-35 years
– Vehicles and other	2-20 years

The method of depreciation, residual value and useful life of an asset are reviewed at least once a year. When it is necessary adjustments of depreciation are carried out in subsequent periods (prospectively).

The cost of significant repairs and regular maintenance programs are recognized as property, plant and equipment and depreciated in accordance with their useful lives. The cost of current maintenance of property, plant and equipment is recognized as an expense in the period in which they are incurred.

Property, plant and equipment are tested for impairment, when there are indications or events that may imply that the carrying amount of those assets may not be recoverable.

Recognition and reversal of impairment allowances of property, plant and equipment is recognised in other operating activities.

2.5.4. Intangible assets

An intangible asset is measured initially at acquisition or production costs, including grants related to assets. Subsequent to initial recognition, the intangible asset is measured at cost, less accumulated amortisation and accumulated impairment losses.

Intangible assets with definite useful life are amortized using straight-line method. Amortisation begins when the asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. The asset is amortized over the period reflecting its estimated useful life.

The following standard economic useful lives are used for intangible assets:

Licenses, patents and similar assets	2–15 years
Software	2–10 years

The method of amortization and useful life of an asset are reviewed at least once a year. When it is necessary adjustments of amortization are carried out in subsequent periods (prospectively).

Intangible assets with an indefinite useful life are not amortized. Their value is decreased by the eventual impairment allowances. At each period the useful life is reviewed to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset.

Recognition and reversal of impairment allowances of intangible assets is recognised in other operating activities.

2.5.4.1. Rights

Carbon dioxide emission rights (CO_2)

CO_2 emission rights are initially recognized as intangible assets, which are not amortized (assuming the high residual value), but tested for impairment.

Granted emission allowances are presented as separate items as intangible assets in correspondence with deferred income at fair value as at the date of registration. Purchased allowances are presented as intangible assets at purchase price and are not amortised (assuming the high residual value) but tested for impairment.

For the estimated CO_2 emissions during the reporting period, a provision is created in operating activity costs (taxes and charges).

Grants of CO_2 emission rights are recognized on a systematic basis to ensure matching with the related costs for which the grants were intended to compensate.

Outgoing of allowances is recognized using FIFO method (first in, first out) based on particular type of allowances (EUA, ERU, CER).

2.5.5. Impairment of property, plant and equipment and intangible assets

At the end of each reporting period Group assess whether there is any indication that an asset or cash generating unit (CGU) may be impaired or any indicators that the previously recognized impairment should be reversed. If any such indication exists, the Group estimates the recoverable amount of the asset (CGU) by determining the greater of its fair value less costs of disposal or value in use by applying the proper discount rate.

Assets that do not generate the independent cash flows are grouped on the lowest level on which cash flows, independent from cash flows from other assets, are generated (CGU). If such case occurs, the recoverable amount is determined on the GCU level, to which the asset belongs.

2.5.6. Inventories

Inventories, including mandatory reserves, comprise products, work in progress, merchandise and materials.

Finished goods and work in progress are measured initially at production cost. Production costs include costs of materials and costs of conversion for the production period. Costs of production include also a systematic allocation of fixed and variable production overheads estimated for normal production level.

Finished goods and work in progress are measured at the end of the reporting period at the lower of cost or net realisable value. Finished goods and work in progress are evaluated based on the weighted average cost of production.

Raw materials held for use in the production are not written down below acquisition or production cost if the products in which they will be incorporated are expected to be sold at or above cost. However, when a decline in the price of materials indicates that the cost of the products exceeds net realizable value, the materials are written down to net realizable value.

Merchandise and raw materials are measured initially at acquisition cost. Merchandise are measured at the lower of cost or net realizable value, considering any write-downs for obsolescence. Outgoings of merchandise are determined based on the weighted average acquisition cost.

Write-down tests for specific items of inventories are carried out on a current basis during a reporting period. Write-down to net realizable value concerns inventories that are damaged or obsolete and the selling price have fallen.

Recognition and reversal of write-down of inventories is recognized in cost of sales.

The initial value of inventories is adjusted for profits or losses from settlement of cash flow hedging instruments related to the above mentioned.

2.5.7. Receivables

Receivables, including trade receivables, are recognized initially at fair value and are subsequently measured at amortized cost using the effective interest rate method less impairment allowances.

Impairment allowances of receivables are based on an individual analysis of the value of held collaterals, and possible compensation of debts, allowances.

Recognition and reversal of impairment allowances of receivables are recognized in other operating activity in relation to principal amount and in financial activities in relation to interest for delayed payments.

2.5.8. Other financial assets / (Other financial liabilities) - cash pool transactions

For the purposes of liquidity management in the ORLEN Group there is a cash pool system. Due to the application of this system, financial costs within the Group are optimized.

The Group is a Participant in the "cash pool" structure and there may be positive or negative balances in particular days of the reporting period. For the purposes of presentation in the separate financial statements as at the end of the reporting period, combining settlements related to transactions within the "cash pool" structure are presented as financial assets or liabilities to related entities, as well as financial costs and incomes from interest. For the purposes of the statement of cash flows, interests are presented in investing and financing activities, respectively, flows from cash surpluses/shortages to "cash pool" are presented in investing/financing activities respectively. Due to short payment terms, these flows are presented in net value separately in investing/financing activities.

Cash withdrawals from Participants' accounts with surplus at the end of the day are not identified as cash equivalents in accordance with IAS 7, "Statement of Cash Flows". Despite the fact that both the Participant's and Agent's accounts are blocked after the transaction in the structure, and the reversal of these transactions from the Participant's/ Agent's point of view, is unconditional and automatic operation that the Bank will perform at the beginning of the next business day, there are not enough indications that Participants' cash assets are classified as cash assets at the Bank. The main indication for such recognition is the fact that the Company is not independent of entities participating in the structure, which may lead to the situation that the Company will not be able to collect funds from the cash pool account, regardless of whether such an event is probable or not. Also due to the fact that funds on the cash pool account become the property of the Agent before they return to the Company and become the property of the Company.

2.5.9. Cash and cash equivalents

Cash comprises cash on hand and in a bank account. Cash equivalents are short-term highly liquid investments (of initial maturity up to three months), that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. The Group uses cash concentrated system (cash pool), which is not considered as cash and cash equivalents. The cash pool is presented as receivable or payable amounts.

2.5.10. Equity

Equity and equity related reserves are presented in accounting books by type, in accordance with legal regulations and the Parent company's articles of association.

(all tabular amounts are in USD'000 and EUR'000 unless otherwise stated)

2.5.10.1. Share capital

The share capital is equity paid in by shareholders and is stated at nominal value in accordance with the Parent company's articles of association and the entry in the Centre of Registers.

2.5.10.2. Share premium

Share premium is created by the surplus of the issuance value in excess of the nominal value of shares decreased by issuance costs.

2.5.10.3. Foreign exchange differences

Foreign exchange differences arise from the translation of the financial statements of foreign operations and from translation of the consolidated financial statements amounts to the additional presentation currency Euro (EUR).

2.5.10.4. Other reserves

Additional payments to equity are initially recognized at fair value.

According legislations in Lithuania and Estonia an annual transfer of net profit to the legal reserve is compulsory until the reserve reaches 10% of the share capital. The legal reserve cannot be distributed as dividends and is formed to cover future losses.

2.5.10.5. Hedging reserve

The hedging reserve relates to valuation and settlement of hedging instruments that meet the criteria of cash flow hedge accounting.

The Group applies cash flow hedge accounting to hedge commodity risk. Changes in fair value, which are an ineffective part of the hedge relationship, are recognized in profit or loss.

2.5.10.6. Retained earnings

Movements in retained earnings include:
- the amounts arising from profit distribution/loss cover,
- the undistributed result for prior periods,
- the current period profit/(loss),
- the effects (profit/loss) of prior period errors,
- changes in accounting principles,
- actuarial gains or losses from post-employment benefits, recognized directly to other comprehensive income.

2.5.11. Liabilities

Liabilities, including trade liabilities, are initially stated at fair value increased by transaction cost and subsequently amortized cost using the effective interest rate method.

2.5.12. Provisions

The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

(all tabular amounts are in USD'000 and EUR'000 unless otherwise stated)

The provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

2.5.12.1. Environmental provision

The Group creates provisions for future liabilities due to reclamation of contaminated land or water or elimination of harmful substances if there is such a legal or constructive obligation. Environmental provision for reclamation is periodically reviewed based on reports prepared by management. Recognition and reversal of environmental provision are recognized in profit or loss.

2.5.12.2. Jubilee bonuses and post-employment benefits

Under the Group's remuneration plans employees are entitled to jubilee bonuses, paid to employees after an elapse of a defined number of years in service as well as retirement and pension benefits, paid once at retirement or pension. The amount of retirement and pension benefits as well as jubilee bonuses depends on the number of years in service and an employee's average salary.

Provisions are determined by an independent actuary and revalued if there are any indications impacting their value, taking into account the staff turnover and planned growth of wages.

Actuarial gains or losses:
- from post-employment benefits are recognized in other comprehensive income,
- from other employment benefits, including jubilee bonuses, are recognized in profit and loss.

2.5.12.3. CO2 emissions

The Group creates provision for the estimated CO_2 emission costs during the reporting period for which the Group recognizes provision in operating activity costs (taxes and charges). Provision is recognized based on the value of allowances recognized in the statement of financial position, taking into account the principle of FIFO. In case of a shortage of allowances, the provision is created based on the purchase price of allowance concluded in forward contracts or market quotations at the reporting date.

2.5.12.4. Other provisions

Other provisions include mainly provisions for legal proceedings and are recognized after consideration of all available information, including the opinion of independent experts.

The Group recognizes provision at the end of the reporting period the Group has an obligation arising from past events that can be reliably estimated and it is probable that fulfilment of this obligation will cause an outflow of resources embodying economic benefits. If it is more likely that no present obligation exists at the end of the reporting period, the Group discloses a contingent liability, unless the possibility of an outflow of resources embodying economic benefits is remote.

2.5.13. Sales revenues

Revenues from sales of finished goods, merchandise, materials and services are recognized when the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the sale transaction will flow to the Group and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Revenues from sale of finished goods, merchandise, and raw materials are recognized when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods and the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold. Revenues include received or due payments for delivered goods and services, decreased by the amount of any trade discounts, value added tax (VAT), excise tax and fuel charges.

Revenues from the sale are adjusted for profits or losses from settlement of cash flows hedging instruments related to the above mentioned revenues.

2.5.14. Costs

Cost of sales comprises costs of finished goods, merchandise and raw materials sold and adjustments related to inventories written down to net realizable value.

Costs are adjusted for profits or losses from settlement of cash flow hedging instruments related to the above mentioned costs.

Distribution expenses include selling brokerage expenses, trading expenses, advertising and promotion expenses as well as distribution expenses.

Administrative expenses include expenses relating to management and administration of the Group as a whole.

2.5.15. Income tax expenses

Income tax expense comprises current tax and deferred tax.

Current tax expense is determined in accordance with the relevant tax law based on the taxable profit for a given period and is recognized as a liability, in the amount which has not been paid or received, if the amount of the current and prior periods income tax paid exceeds the amount due to the excess is recognized.

Deferred tax assets and liabilities are offset on the level of separate statements of the Group entities.

2.5.16. Consolidated statement of cash flows

The Group has chosen the presentation within the statement of cash flows and applied the following rules:

- Cash flows from operating activities using the indirect method,
- The components of cash and cash equivalents in the consolidated statement of cash flows and consolidated statement of financial position are the same,
- Dividends received are presented in cash flows from investing activities,
- Dividends paid to shareholders of the Parent company are presented in cash flows from financing activities,
- Interest received due to financial finance leases, loans and cash pooling system (cash pool) are presented in cash flows from investing activities, other interest received are presented in cash flows from operating activities,
- Interest and commissions paid on bank loans received, debt securities issued, finance leases are presented in cash flows from financing activities, other interest paid is presented in cash flows from operating activities,
- Inflows and outflows from the settlement of derivative financial instruments, which are not recognized as a hedging positions are presented in investing activities.

(all tabular amounts are in USD'000 and EUR'000 unless otherwise stated)

2.5.17. Financial instruments

2.5.17.1. Measurement of financial assets and liabilities

When a financial asset or liability is recognized initially, the Group measures it at its fair value plus, in the case of a financial asset or a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

At the end of the reporting period, the Group measures item of financial assets and liabilities at amortised cost using effective interest rate method, except for derivatives, which are measured at fair value.

Gains and losses resulting from changes in fair value of derivative instruments, for which hedge accounting is not applicable, are recognized in the current year profit or loss.

2.5.17.2. Hedge accounting

Derivatives designated as hedging instruments whose cash flows are expected to offset changes in the cash flows of a hedged item are accounted for in accordance with the cash flow hedge accounting.

The Group assesses effectiveness of cash flow hedge at the inception of the hedge and later, at minimum, at each reporting date.

In case of cash flow hedge accounting, the Group recognizes in other comprehensive income part of profits and losses connected with the effective part of the hedge, whereas profits and losses connected with the ineffective part – under profit or loss.

The Group uses statistical methods, in particular regression analysis, to assess effectiveness of the hedge.

If a hedge of a forecast transaction results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognised in other comprehensive income are reclassified to profit or loss in the same period or periods during which the asset acquired or liability assumed affect profit or loss. However, if the Group expects that all or a portion of a loss recognised in other comprehensive income will not be recovered in one or more future periods, it reclassifies the amount that is not expected to be recovered to profit or loss.

If a hedge of a forecast transaction results in the recognition of a non-financial asset or a non-financial liability, or a forecast transaction for a non-financial asset or non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, the Group removes the associated gains and losses that were recognised in the other comprehensive income and includes them in the initial cost or other carrying amount of the asset or liability.

If a hedge of a forecast transaction results in the recognition of revenue from sales of products, merchandise, materials or services, the Group removes the associated gains or losses that were recognised in the other comprehensive income and adjusts these revenues.

2.5.18. Fair value measurement

The Group maximizes the use of relevant observable inputs and minimize the use of unobservable inputs to meet the objective of a fair value measurement, which is to estimate the price at which an orderly transaction to transfer the liability or equity instrument would take place between market participants as at the measurement date under current market conditions.

The Group measures derivative instruments at fair value using valuation models for financial instruments based on generally available exchange rates, interest rates, forward and volatility curves, for currencies and commodities quoted on active markets.

The fair value of derivatives is based on discounted future flows related to contracted transactions as the difference between term prices and transaction price.

Derivative instruments are presented as assets, when their valuation is positive and as liabilities, when their valuation is negative.

2.5.19. Contingent assets and contingent liabilities

The Group discloses at the end of reporting period information on contingent assets if the inflow of economic benefits is practically certain. If it is practicable the Group estimates the financial impact of contingent assets valuing them according to the principles of valuation provisions.

The Group discloses at the end of reporting period information on contingent liabilities if the outflow of economic benefits is possible, unless the possibility of outflows of economic benefits is remote.

3. The Management estimates and assumptions

The preparation of consolidated financial statements in accordance with IFRSs as adopted by the EU requires the Management to make judgments, estimates and assumptions that affect the adopted methods and reported amounts of assets, liabilities and equity, revenue and expenses. The estimates and related assumptions are based on historical expertise and other factors regarded as reliable in given circumstances and their effects provide grounds for expert assessment of the carrying amount of assets and liabilities which is not based directly on any other factors.

In the matters of considerable weight, the Management might base its estimates on opinions of independent experts.

The estimates and related assumptions are reviewed on regular basis. Changes in accounting estimates are recognized in the period when they are made only if they refer to that period or in the present and future periods if they concern both the present and future periods.

Actual results may differ from the estimated values.

Judgments, which have a significant impact on carrying amounts recognized in the consolidated financial statements, were disclosed in the following notes:

- Financial instruments classification, methods of fair value measurement concerning financial instruments, nature and extent of risks related to financial instruments (Note 22). The Management classifies the financial instruments depending on the purpose of the purchase and nature of the instrument. The fair value of financial instruments is measured using common practiced valuation models. Details of the applied estimates and sensitivity analysis have been presented in the above note.

Estimates and assumptions, which have a significant impact on carrying amounts recognized in the consolidated financial statements, were disclosed in the following notes:

- Impairment of property, plant and equipment and intangible assets (Note 4 and Note 5). The Management assesses, if there is an objective indicator for impairment of assets or CGU. If there is an indicator for impairment the Group assesses the recoverable amount of an asset or cash generating units by determining higher of fair value less cost to sell or value in use by applying the proper discount rate.

(all tabular amounts are in USD'000 and EUR'000 unless otherwise stated)

- Estimated economic useful lives of property, plant and equipment and intangible assets (Note 4 and Note 5). As described in Note 2.5.3 and 2.5.4 the Group verifies economic useful lives of property, plant and equipment and intangible assets at least once a year.
- Provisions. As described in Note 2.5.12, recognition of provisions requires estimate of the probable outflow of economic benefits and defining the best estimate of the expenditure required to settle the present obligation at the end of reporting period. Details of applied estimates and their influence on the foregoing consolidated financial statements are disclosed in Note 14.
- Contingent liabilities (Note 23.3). As described in Note 2.5.19, disclosing of contingent liabilities requires estimate of the probable outflow of economic benefits and defining the best estimate of the expenditure required to settle the present and possible obligation at the end of reporting period.
- Utilization of deductible temporary differences and recognition of deferred tax assets (Note 21). As described in Note 2.5.15, deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences could be utilized.

4. Property, plant and equipment

	31/12/2017	31/12/2017	31/12/2016	31/12/2016
	USD	EUR	USD	EUR
Buildings and constructions	4,912	4,095	4,830	4,620
Machinery and equipment	147,982	123,390	124,701	119,297
Vehicles and other	31,735	26,462	28,625	27,384
Construction in progress	39,528	32,959	10,765	10,299
Total	**224,157**	**186,906**	**168,921**	**161,600**

(all tabular amounts are in USD'000 and EUR'000 unless otherwise stated)

USD	Land	Buildings and constructions	Machinery and equipment	Vehicles and other	Construction in progress	Total
Acquisition costs						
1 January 2017	1	74,374	1,590,452	77,988	29,139	1,771,954
Investment expenditures	-	224	30,669	7,289	35,292	73,474
Reclassifications	-	24	5,940	1,801	(7,247)	518
Sales	-	-	(26)	-	-	(26)
Liquidation	-	-	(31,122)	(7,691)	(536)	(39,349)
Foreign exchange differences	-	-	63	187	-	250
31 December 2017	**1**	**74,622**	**1,595,976**	**79,574**	**56,648**	**1,806,821**
Accumulated depreciation and impairment allowances						
1 January 2017	1	69,544	1,465,751	49,363	18,374	1,603,033
Depreciation	-	166	13,283	5,356	-	18,805
Impairment allowances, net	-	-	(14,511)	(2,044)	(1,254)	(17,809)
Reclassifications	-	-	(16)	(19)	-	(35)
Sales	-	-	(26)	-	-	(26)
Liquidation	-	-	(16,547)	(4,994)	-	(21,541)
Foreign exchange differences	-	-	60	177	-	237
31 December 2017	**1**	**69,710**	**1,447,994**	**47,839**	**17,120**	**1,582,664**
Acquisition costs						
1 January 2016	1	73,976	1,576,620	77,251	28,843	1,756,691
Investment expenditures	-	4	10,284	6,005	7,224	23,517
Reclassifications	-	394	4,118	(1,727)	(5,645)	(2,860)
Sales	-	-	(23)	(3)	(369)	(395)
Liquidation	-	-	(527)	(3,486)	(914)	(4,927)
Foreign exchange differences	-	-	(20)	(52)	-	(72)
31 December 2016	**1**	**74,374**	**1,590,452**	**77,988**	**29,139**	**1,771,954**
Accumulated depreciation and impairment allowances						
1 January 2016	1	69,334	1,455,533	50,719	20,559	1,596,146
Depreciation	-	164	11,021	2,826	-	14,011
Impairment allowances, net	-	46	211	(791)	(2,185)	(2,719)
Reclassifications	-	-	(456)	(592)	-	(1,048)
Sales	-	-	(23)	(3)	-	(26)
Liquidation	-	-	(517)	(2,744)	-	(3,261)
Foreign exchange differences	-	-	(18)	(52)	-	(70)
31 December 2016	**1**	**69,544**	**1,465,751**	**49,363**	**18,374**	**1,603,033**
Carrying amounts						
1 January 2017	**-**	**4,830**	**124,701**	**28,625**	**10,765**	**168,921**
31 December 2017	**-**	**4,912**	**147,982**	**31,735**	**39,528**	**224,157**
1 January 2016	**-**	**4,642**	**121,087**	**26,532**	**8,284**	**160,545**
31 December 2016	**-**	**4,830**	**124,701**	**28,625**	**10,765**	**168,921**

(all tabular amounts are in USD'000 and EUR'000 unless otherwise stated)

EUR	Land	Buildings and constructions	Machinery and equipment	Vehicles and other	Construction in progress	Total
Acquisition costs						
1 January 2017	1	71,150	1,521,527	74,609	27,876	1,695,163
Investment expenditures	-	189	26,760	6,589	31,775	65,313
Reclassifications	-	22	5,377	1,651	(6,578)	472
Sales	-	-	(25)	-	-	(25)
Liquidation	-	-	(29,063)	(7,156)	(504)	(36,723)
Foreign exchange differences	-	(9,140)	(193,820)	(9,342)	(5,335)	(217,637)
31 December 2017	**1**	**62,221**	**1,330,756**	**66,351**	**47,234**	**1,506,563**
Accumulated depreciation and impairment allowances						
1 January 2017	1	66,530	1,402,230	47,225	17,577	1,533,563
Depreciation	-	148	11,722	4,708	-	16,578
Impairment allowances, net	-	-	(13,586)	(1,929)	(1,095)	(16,610)
Reclassifications	-	-	(13)	(17)	-	(30)
Sales	-	-	(25)	-	-	(25)
Liquidation	-	-	(15,421)	(4,643)	-	(20,064)
Foreign exchange differences	-	(8,552)	(177,541)	(5,455)	(2,207)	(193,755)
31 December 2017	**1**	**58,126**	**1,207,366**	**39,889**	**14,275**	**1,319,657**
Acquisition costs						
1 January 2016	1	67,706	1,442,998	70,704	26,398	1,607,807
Investment expenditures	-	4	9,344	5,476	6,043	20,867
Reclassifications	-	369	3,713	(1,617)	(5,100)	(2,635)
Sales	-	-	(21)	(1)	(340)	(362)
Liquidation	-	-	(479)	(3,094)	(815)	(4,388)
Foreign exchange differences	-	3,071	65,972	3,141	1,690	73,874
31 December 2016	**1**	**71,150**	**1,521,527**	**74,609**	**27,876**	**1,695,163**
Accumulated depreciation and impairment allowances						
1 January 2016	1	63,457	1,332,174	46,421	18,816	1,460,869
Depreciation	-	149	9,961	2,557	-	12,667
Impairment allowances, net	-	43	196	(708)	(1,979)	(2,448)
Reclassifications	-	-	(406)	(546)	-	(952)
Sales	-	-	(21)	(2)	-	(23)
Liquidation	-	-	(469)	(2,424)	-	(2,893)
Foreign exchange differences	-	2,881	60,795	1,927	740	66,343
31 December 2016	**1**	**66,530**	**1,402,230**	**47,225**	**17,577**	**1,533,563**
Carrying amounts						
1 January 2017	**-**	**4,620**	**119,297**	**27,384**	**10,299**	**161,600**
31 December 2017	**-**	**4,095**	**123,390**	**26,462**	**32,959**	**186,906**
1 January 2016	**-**	**4,249**	**110,824**	**24,283**	**7,582**	**146,938**
31 December 2016	**-**	**4,620**	**119,297**	**27,384**	**10,299**	**161,600**

In 2017, reclassifications of property, plant and equipment with the carrying amount of USD 553 thousand or EUR 502 thousand were made: reclassified from non-current assets held for sale of USD 317 thousand or EUR 295 thousand and reclassified from intangible assets of USD 236 thousand or EUR 207 thousand.

In 2016, reclassifications of property, plant and equipment with the carrying amount of USD 1,812 thousand or EUR 1,683 thousand were made: reclassified to non-current assets held for sale of USD 1,188 thousand or EUR 1,120 thousand, reclassified to inventories of USD 35 thousand or EUR 31 thousand and reclassified to intangible assets of USD 589 thousand or EUR 532 thousand.

(all tabular amounts are in USD'000 and EUR'000 unless otherwise stated)

Change in property, plant and equipment impairment:

USD	Land	Buildings and constructions	Machinery and equipment	Vehicles and other	Construction in progress	Total
1 January 2017	1	30,923	721,939	13,164	18,374	784,401
Recognition	-	-	-	732	219	951
Reversal	-	-	-	(45)	(1,409)	(1,454)
Reclassifications	-	-	64	(4)	(64)	(4)
Sale and liquidation	-	-	(14,575)	(2,727)	-	(17,302)
31 December 2017	**1**	**30,923**	**707,428**	**11,120**	**17,120**	**766,592**
increase/(decrease) net	-	-	(14,511)	(2,044)	(1,254)	(17,809)
1 January 2016	1	30,877	721,728	13,955	20,559	787,120
Recognition	-	46	143	11	-	200
Reversal	-	-	-	(153)	(619)	(772)
Reclassifications	-	-	78	(173)	(578)	(673)
Sale ans liquidation	-	-	(10)	(476)	(988)	(1,474)
31 December 2016	**1**	**30,923**	**721,939**	**13,164**	**18,374**	**784,401**
increase/(decrease) net	-	46	211	(791)	(2,185)	(2,719)

EUR	Land	Buildings and constructions	Machinery and equipment	Vehicles and other	Construction in progress	Total
1 January 2017	1	29,583	690,652	12,593	17,577	750,406
Recognition	-	-	-	620	185	805
Reversal	-	-	-	(41)	(1,226)	(1,267)
Reclassifications	-	-	54	(4)	(54)	(4)
Sale and liquidation	-	-	(13,640)	(2,504)	-	(16,144)
Foreign exchange differences	-	(3,799)	(87,199)	(1,392)	(2,207)	(94,597)
31 December 2017	**1**	**25,784**	**589,867**	**9,272**	**14,275**	**639,199**
increase/(decrease) net	-	-	(13,586)	(1,929)	(1,095)	(16,610)
1 January 2016	1	28,260	660,560	12,773	18,816	720,410
Recognition	-	43	136	10	-	189
Reversal	-	-	-	(137)	(580)	(717)
Reclassifications	-	-	69	(159)	(520)	(610)
Sale and liquidation	-	-	(9)	(423)	(878)	(1,310)
Foreign exchange differences	-	1,280	29,896	529	739	32,444
31 December 2016	**1**	**29,583**	**690,652**	**12,593**	**17,577**	**750,406**
increase/(decrease) net	-	43	196	(709)	(1,978)	(2,448)

Other information connected with property, plant and equipment

	31/12/2017 USD	31/12/2017 EUR	31/12/2016 USD	31/12/2016 EUR
The acquisition costs of all fully depreciated property, plant and equipment still in use	97,983	81,699	120,381	115,165
The carrying amounts of idle property, plant and equipment and not clasified as held for sale	27	23	18	17

(all tabular amounts are in USD'000 and EUR'000 unless otherwise stated)

5. Intangible assets

	31/12/2017	31/12/2017	31/12/2016	31/12/2016
	USD	EUR	USD	EUR
Software	2,418	2,016	1,590	1,521
Licenses, patents and similar assets	9	7	10	9
Total	**2,427**	**2,023**	**1,600**	**1,530**

USD	Software	Licenses, patents and similar assets	Emission rights	Research and development	Total
Acquisition costs					
1 January 2017	18,295	8,062	-	201	26,558
Investment expenditures	1,497	-	-	-	1,497
Acquisitions	-	-	2,941	-	2,941
Granted CO2 free of charge	-	-	8,335	-	8,335
Reclassifications	(236)	-	-	-	(236)
Liquidation	(23)	-	-	-	(23)
Utilisation	-	-	(11,276)	-	(11,276)
Foreign exchange differences	18	1	-	-	19
31 December 2017	**19,551**	**8,063**	**-**	**201**	**27,815**
Accumulated amortization and impairment allowances					
1 January 2017	16,705	8,052	-	201	24,958
Amortization	432	1	-	-	433
Liquidation	(23)	-	-	-	(23)
Foreign exchange differences	19	1	-	-	20
31 December 2017	**17,133**	**8,054**	**-**	**201**	**25,388**
Acquisition costs					
1 January 2016	17,455	7,577	-	201	25,233
Investment expenditures	744	9	-	-	753
Acquisitions	-	-	2,191	-	2,191
Granted CO2 free of charge	-	-	7,157	-	7,157
Reclassifications	113	476	-	-	589
Other decreases	(12)	-	-	-	(12)
Utilisation	-	-	(9,348)	-	(9,348)
Foreign exchange differences	(5)	-	-	-	(5)
31 December 2016	**18,295**	**8,062**	**-**	**201**	**26,558**
Accumulated amortization and impairment allowances					
1 January 2016	16,259	7,575	-	201	24,035
Amortization	428	1	-	-	429
Impairment allowances, net	4	496	-	-	500
Reclassifications	20	(20)	-	-	-
Foreign exchange differences	(6)	-	-	-	(6)
31 December 2016	**16,705**	**8,052**	**-**	**201**	**24,958**
Carrying amounts					
1 January 2017	**1,590**	**10**	**-**	**-**	**1,600**
31 December 2017	**2,418**	**9**	**-**	**-**	**2,427**
1 January 2016	**1,196**	**2**	**-**	**-**	**1,198**
31 December 2016	**1,590**	**10**	**-**	**-**	**1,600**

(all tabular amounts are in USD'000 and EUR'000 unless otherwise stated)

EUR	Software	Licenses, patents and similar assets	Emission rights	Research and development	Total
Acquisition costs					
1 January 2017	17,501	7,713	-	192	25,406
Investment expenditures	1,291	-	-	-	1,291
Acquisitions	-	-	2,747	-	2,747
Granted CO2 free of charge	-	-	7,804	-	7,804
Reclassifications	(207)	-	-	-	(207)
Liquidation	(22)	-	-	-	(22)
Utilisation	-	-	(10,533)	-	(10,533)
Foreign exchange differences	(2,261)	(990)	(18)	(24)	(3,293)
31 December 2017	**16,302**	**6,723**	**-**	**168**	**23,193**
Accumulated amortization and impairment allowances					
1 January 2017	15,980	7,704	-	192	23,876
Amortization	383	1	-	-	384
Liquidation	(22)	-	-	-	(22)
Foreign exchange differences	(2,055)	(989)	-	(24)	(3,068)
31 December 2017	**14,286**	**6,716**	**-**	**168**	**21,170**
Acquisition costs					
1 January 2016	15,976	6,935	-	184	23,095
Investment expenditures	699	8	-	-	707
Acquisitions	-	-	1,932	-	1,932
Granted CO2 free of charge	-	-	6,454	-	6,454
Reclassifications	102	430	-	-	532
Other decreases	(11)	-	-	-	(11)
Utilisation	-	-	(8,245)	-	(8,245)
Foreign exchange differences	735	340	(141)	8	942
31 December 2016	**17,501**	**7,713**	**-**	**192**	**25,406**
Accumulated amortization and impairment allowances					
1 January 2016	14,881	6,933	-	184	21,998
Amortization	387	1	-	-	388
Impairment allowances, net	3	448	-	-	451
Reclassifications	18	(18)	-	-	-
Foreign exchange differences	691	340	-	8	1,039
31 December 2016	**15,980**	**7,704**	**-**	**192**	**23,876**
Carrying amounts					
1 January 2017	**1,521**	**9**	**-**	**-**	**1,530**
31 December 2017	**2,016**	**7**	**-**	**-**	**2,023**
1 January 2016	**1,095**	**2**	**-**	**-**	**1,097**
31 December 2016	**1,521**	**9**	**-**	**-**	**1,530**

(all tabular amounts are in USD'000 and EUR'000 unless otherwise stated)

Change in impairment of intangible assets:

USD	Software	Licenses, patents and similar assets	Research and development	Total
1 January 2017	3,465	2,192	201	5,858
31 December 2017	**3,465**	**2,192**	**201**	**5,858**
increase/(decrease) net	-	-	-	-
1 January 2016	3,461	1,696	201	5,358
Reclassifications	4	496	-	500
31 December 2016	**3,465**	**2,192**	**201**	**5,858**
increase/(decrease) net	4	496	-	500

EUR	Software	Licenses, patents and similar assets	Research and development	Total
1 January 2017	3,315	2,097	192	5,604
Foreign exchange differences	(426)	(269)	(24)	(719)
31 December 2017	**2,889**	**1,828**	**168**	**4,885**
increase/(decrease) net	-	-	-	-
1 January 2016	3,168	1,552	184	4,904
Reclassifications	3	448	-	451
Foreign exchange differences	144	97	8	249
31 December 2016	**3,315**	**2,097**	**192**	**5,604**
increase/(decrease) net	3	448	-	451

Other information regarding intangible assets

	31/12/2017 USD	31/12/2017 EUR	31/12/2016 USD	31/12/2016 EUR
The acquisition costs of all fully amortized intangible assets still in use	13,580	11,323	13,262	12,687

Rights

Change in CO_2 emission rights (EUA) in 2017:

	Quantity (in tonnes)	USD	EUR
As at 1 January 2017	-	-	-
Granted free of charge	1,333,141	8,335	7,804
Settled emission for 2016 (audited)	(1,830,717)	(11,276)	(10,533)
Purchase	497,576	2,941	2,747
Foreign exchange differences	-	-	(18)
As at 31 December 2017	-	-	-
Emission in 2017 (not audited)	1,707,999	15,673	13,069
Shortage	**(1,707,999)**	**(15,673)**	**(13,069)**

The quantity of CO2 emission rights as at 31 December 2017 is not audited. The Parent company will receive emission allowances for 2018 in quantity of 1.3 MM tonnes. The missing part will be purchased.

(all tabular amounts are in USD'000 and EUR'000 unless otherwise stated)

Change in CO_2 emission rights (EUA) in 2016:

	Quantity (in tonnes)	USD	EUR
As at 1 January 2016	**-**	**-**	**-**
Granted free of charge	1,359,259	7,157	6,454
Settled emission for 2015 (audited)	(1,755,789)	(9,348)	(8,244)
Purchase	396,530	2,191	1,932
Foreign exchange differences	-	-	(142)
As at 31 December 2016	**-**	**-**	**-**

As at 31 December 2017 and 31 December 2016 the market value of one EUA amounted to 9.76 USD or 8.14 EUR and amounted 6.84 USD or 6.54 EUR, respectively.

6. Investments in equity-accounted investees

	31/12/2017	31/12/2017	31/12/2016	31/12/2016
	USD	EUR	USD	EUR
1 January	**1,637**	**1,566**	**1,771**	**1,621**
Share of net profit /(loss)	(155)	(140)	85	77
Dividends	(86)	(79)	(150)	(132)
Foreign exchange differences	220	-	(69)	-
As at 31 December	**1,616**	**1,347**	**1,637**	**1,566**

Investments in associates represent an investment of a 34% interest in Naftelf UAB, incorporated in Lithuania. In 2017 and in 2016 the Parent Company received dividends by amount USD 86 thousand or EUR 79 thousand (as at 31 December 2016: USD 150 thousand or EUR 132 thousand) under Resolution of shareholders of Naftelf UAB.

Condensed financial data comprising total assets and liabilities as at 31 December 2017 and 31 December 2016, revenues, financial expenses and profit for 2017 and 2016 in Naftelf UAB are disclosed below.

	31/12/2017	31/12/2017	31/12/2016	31/12/2016
	USD	EUR	USD	EUR
Non-current assets	669	558	641	613
Current assets	4,680	3,902	4,338	4,150
Equity	4,753	3,963	4,814	4,605
Current liabilities	596	497	165	158

	for the year ended		for the year ended	
	31/12/2017	31/12/2017	31/12/2016	31/12/2016
	USD	EUR	USD	EUR
Sales revenues	18,114	16,046	13,195	11,923
Profit/(loss) from operations	(198)	(175)	164	148
Profit/(loss) before tax	(486)	(430)	298	269
Tax expense	(1)	(1)	(50)	(45)
Net profit/(loss)	(487)	(431)	248	224

7. Other non-current assets

(all tabular amounts are in USD'000 and EUR'000 unless otherwise stated)

	Note	31/12/2017	31/12/2017	31/12/2016	31/12/2016
		USD	EUR	USD	EUR
Loans granted	22	26	22	52	50
Other non-current receivables	22	1,606	1,339	1,673	1,601
Financial assets		**1,632**	**1,361**	**1,725**	**1,651**
Non-current prepayment		1,308	1,090	655	628
Total non-financial assets		**1,308**	**1,090**	**655**	**628**
As at 31 December		**2,940**	**2,451**	**2,380**	**2,279**

8. Impairment of non-current assets

At the end of each reporting period the Group is performing testing of assets value in use. As at 31 December 2017 the impairment test of intangible assets and property, plant and equipment for the Group was performed.

The impairment test was conducted based on the Group's Budget for 2018, Strategy and Mid-term Plan for 2017-2021 approved by the Board and after the period of financial projections a constant growth rate of cash flows was adopted estimated at the level of long-term inflation.

For the purpose of impairment testing of property, plant and equipment and intangible assets, the periods of analysis for each cash-generating unit were based on the expected useful life.

The calculated value in use is not suggesting any significant reversal or additional impairment of recognized impairment.

The discount rate structure used in the impairment testing of assets by cash-generating unit of the Group as at 31 December 2017

	Refining
Cost of equity	14,32%
Cost of debt after tax	2,77%
Capital structure	67,36%
Debt structure	32,64%
Nominal discount rate	**10,55%**
Long term rate of inflation*	2,10%
Tax rate	15,00%

*Group assume that long-term growth to be in line with long term rate of inflation.

Cost of equity is determined by the profitability of the government bonds that are considered to be risk-free, with the level of market and operating segment risk premium (beta). Cost of debt includes the average level of credit margins and expected market value of money for each country. For the purpose of impairment testing of property, plant and equipment and intangible assets, the periods of analysis performed on the basis of the expected useful life of Refining segment. The useful life adopted for the analysis of the Refining segment as of 31 December 2017 was 23 years.

As at 31 December 2017 the Group did not identify any impairment indications and any indications of reversal of impairment in relation to intangible assets and property, plant and equipment of the Group.

9. Inventories

(all tabular amounts are in USD'000 and EUR'000 unless otherwise stated)

	31/12/2017	31/12/2017	31/12/2016	31/12/2016
	USD	EUR	USD	EUR
Raw materials	118,418	98,739	97,637	93,406
Work in progress	24,370	20,320	20,869	19,964
Finished goods	135,034	112,594	102,934	98,474
Goods for resale	6,121	5,104	1,347	1,289
Spare parts	20,154	16,804	19,834	18,975
Inventories, net	**304,097**	**253,561**	**242,621**	**232,108**
Write-down of inventories to the net realizable value	14,985	12,497	15,617	14,940
Inventories, gross	**319,082**	**266,058**	**258,238**	**247,048**

Change in write-down of inventories to realizable net value

	Note	for the year ended		for the year ended	
		31/12/2017	31/12/2017	31/12/2016	31/12/2016
		USD	EUR	USD	EUR
January 1		**15,617**	**14,940**	**23,797**	**21,780**
Recognition	18	3,206	2,880	1,505	1,412
Utilization		(3,313)	(2,880)	(8,935)	(8,196)
Foreign exchange differences		107	(62)	63	42
Write-down of inventories excluding spare parts		**-**	**(62)**	**(7,367)**	**(6,742)**
Recognition	18	64	54	534	501
Reversal	18	(696)	(550)	(1,307)	(1,171)
Utilization		-	-	(40)	(36)
Foreign exchange differences		-	(1,885)	-	608
Write-down of spare parts for obsolescence		**(632)**	**(2,381)**	**(813)**	**(98)**
As at 31 December		**14,985**	**12,497**	**15,617**	**14,940**

As at 31 December 2017 the Group inventory includes state fuel reserve of USD 113,674 thousand or EUR 94,783 thousand (as at 31 December 2016: USD 88,372 thousand or EUR 84,542 thousand).

10. Trade and other receivables

	Note	31/12/2017	31/12/2017	31/12/2016	31/12/2016
		USD	EUR	USD	EUR
Trade receivables		269,581	224,782	159,491	152,579
Other		2,884	2,405	-	-
Financial assets	**22**	**272,465**	**227,187**	**159,491**	**152,579**
Other taxation, duty, social security receivables and other benefits		26	22	426	407
Deferred insurance costs		8,949	7,461	9,987	9,555
Accrued income and deferred charges		468	391	575	550
Other		3,088	2,575	384	367
Non-financial assets		**12,531**	**10,449**	**11,372**	**10,879**
Receivables, net		**284,996**	**237,636**	**170,863**	**163,458**
Receivables impairment allowance		8,377	6,986	7,572	7,245
Receivables, gross		**293,373**	**244,622**	**178,435**	**170,703**

(all tabular amounts are in USD'000 and EUR'000 unless otherwise stated)

As at 31 December 2017 and 31 December 2016 trade and other receivables denominated in functional currencies amounted to USD 135,489 thousand or EUR 112,973 thousand and USD 59,062 thousand or EUR 56,502 thousand, respectively.

Detailed information about receivables from related parties is disclosed in Note 23.5.

Detailed information of financial assets denominated in foreign currencies is presented in Note 22.5.3.2.

Change in impairment allowances of trade and other receivables

	Note	31/12/2017	31/12/2017	31/12/2016	31/12/2016
		USD	EUR	USD	EUR
1 January		7,572	7,245	6,408	5,865
Recognition	19.2	58	51	341	310
Reversal	19.1	(55)	(47)	(472)	(430)
Reclassification		-	-	1,936	1,775
Other increases/decreases		(64)	(56)	(257)	(238)
Foreign exchange differences		866	(207)	(384)	(37)
As at 31 December		**8,377**	**6,986**	**7,572**	**7,245**

11. Other financial assets

	Note	31/12/2017	31/12/2017	31/12/2016	31/12/2016
		USD	EUR	USD	EUR
Cash flow hedge instruments - commodity swaps		12,875	10,736	2,537	2,427
Derivatives not designated for hedge accounting - commodity swaps		9,310	7,763	-	-
Deposits	22	4	3	563	539
Loans granted	22	7	6	26	25
Receivables from cash pool	22	230,372	192,089	208,571	199,532
Receivables on settled cash flow hedge instruments	22	1,280	1,068	3,752	3,589
Receivables on settled derivatives not designated for hedge accounting	22	52,264	43,579	-	-
As at 31 December		**306,112**	**255,244**	**215,449**	**206,112**

As at 31 December 2016 the Group had short term deposits of USD 563 thousand or EUR 539 thousand. The use of these funds was restricted by banks as collateral for the proper performance of contract or legal obligations.

12. Cash and cash equivalents

	Note	31/12/2017	31/12/2017	31/12/2016	31/12/2016
		USD	EUR	USD	EUR
Cash on hand and in bank	22	15,283	12,743	4,584	4386
31 December		**15,283**	**12,743**	**4,584**	**4,386**

The Group did not have restricted cash as at 31 December 2017 or as at 31 December 2016.

(all tabular amounts are in USD'000 and EUR'000 unless otherwise stated)

13. Share capital

Share capital of the Parent Company is EUR 5,793,562. Nominal value of one share is 1 EUR.

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Parent company.

The sole shareholder of the Parent company is PKN ORLEN S.A., controlling 100 % shares. In 2017 Parent company paid dividends amounting USD 150,000 thousand or EUR 139,561 thousand (in 2016: USD 150,000 thousand or EUR 132,066 thousand) to the shareholders.

14. Provisions

USD	Non-current		Current		Total	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Environmental provision	2,930	2,560	1,254	632	4,184	3,192
Post employment benefits provision	4,395	1,631	164	76	4,559	1,707
Business risk provision	-	-	18,524	17,362	18,524	17,362
Provision for CO2 emission	-	-	15,673	12,284	15,673	12,284
As at 31 December	**7,325**	**4,191**	**35,615**	**30,354**	**42,940**	**34,545**

EUR	Non-current		Current		Total	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Environmental provision	2,443	2,449	1,045	605	3,488	3,054
Post employment benefits provision	3,665	1,560	137	73	3,802	1,633
Business risk provision	-	-	15,445	16,609	15,445	16,609
Provision for CO2 emission	-	-	13,069	11,752	13,069	11,752
As at 31 December	**6,108**	**4,009**	**29,696**	**29,039**	**35,804**	**33,048**

31 December 2016 the business risk provision amounting to USD 561 thousand or EUR 536 thousand is secured by the Group's deposit.

Change in provisions in 2017

USD	Environ-mental	Post employment benefits	Business risk	Restruc-turing	Provision for CO2	Total
1 January 2017	**3,192**	**1,707**	**17,362**	**-**	**12,284**	**34,545**
Recognition	1,792	2,177	-	-	15,838	**19,807**
Usage	(1,232)	(30)	(386)	-	(11,276)	**(12,924)**
Reversal	(28)	-	(978)	-	(1,173)	**(2,179)**
Accounted from equity	-	452	-	-	-	**452**
Other	-	-	-	-	-	**-**
Foreign exchange differences	460	253	2,526	-	-	**3,239**
As at 31 December 2017	**4,184**	**4,559**	**18,524**	**-**	**15,673**	**42,940**

(all tabular amounts are in USD'000 and EUR'000 unless otherwise stated)

EUR	Environ-mental	Post employment benefits	Business risk	Restruc-turing	Provision for CO2	Total
1 January 2017	**3,054**	**1,633**	**16,609**	**-**	**11,752**	**33,048**
Recognition	1,546	1,835	-	-	13,787	**17,168**
Usage	(1,066)	(25)	(364)	-	(10,533)	**(11,988)**
Reversal	(25)	-	(918)	-	(1,099)	**(2,042)**
Accounted from equity	-	387	-	-	-	**387**
Other	-	-	-	-	-	**-**
Foreign exchange differences	(21)	(28)	118	-	(838)	**(769)**
As at 31 December 2017	**3,488**	**3,802**	**15,445**	**-**	**13,069**	**35,804**

Change in provisions in 2016

USD	Environ-mental	Post employment benefits	Business risk	Restruc-turing	Provision for CO2	Total
1 January 2016	**3,391**	**2,163**	**11,745**	**43**	**15,420**	**32,762**
Recognition	1,006	-	7,717	13	12,284	**21,020**
Usage	(1,051)	(10)	(29)	(55)	(9,348)	**(10,493)**
Reversal	(26)	(1,316)	(1,978)	(1)	(6,072)	**(9,393)**
Accounted from equity	-	964	-	-	-	**964**
Foreign exchange differences	(128)	(94)	(93)	-	-	**(315)**
As at 31 December 2016	**3,192**	**1,707**	**17,362**	**-**	**12,284**	**34,545**

EUR	Environ-mental	Post employment benefits	Business risk	Restruc-turing	Provision for CO2	Total
1 January 2016	**3,103**	**1,980**	**10,749**	**39**	**14,113**	**29,984**
Recognition	926	-	7,301	11	11,068	**19,306**
Usage	(962)	(9)	(27)	(49)	(8,244)	**(9,291)**
Reversal	(25)	(1,248)	(1,782)	(1)	(5,356)	**(8,412)**
Accounted from equity	-	914	-	-	-	**914**
Foreign exchange differences	12	(4)	368	-	171	**547**
As at 31 December 2016	**3,054**	**1,633**	**16,609**	**-**	**11,752**	**33,048**

14.1. Environmental provision

The Parent company has legal obligation to clean contaminated land-water environment in the area of production plant in Mažeikiai.

The operation of the refinery causes pollution. A provision was recognized for the costs to be incurred for handling of waste and contaminated land which was accumulated before the end of 2007. According to the waste treatment plan agreed with the Ministry of Environment of the Republic of Lithuania, the Parent company is required to clean up all contamination that it causes. The amount of the provisions is the best estimate of the Management based on evaluation of the remaining quantities and average level of costs necessary to remove contamination. The potential future changes in regulation and common practice regarding environmental protection may influence the value of this provision in the future periods.

14.2. Provision for jubilee bonuses and post-employment benefits

The Group realizes the program of paying out the post-employment benefits, which includes retirement and pension benefits in line with remuneration systems in force as well as other post-employment benefits. Provisions for post-employment benefits are calculated individually for each entitled individual. The base for the calculation of provision for an employee is expected benefit which the Group is obliged to pay in accordance with Labour Code of the country. The retirement (pension) benefits are paid once at retirement (pension). The amount of retirement and pension benefits depends on the number of years of service and an employee's remuneration. The present value of these obligations is estimated at the end of each reporting year by an independent actuary. The provision amount equals discounted future payments, considering employee rotation and relate to the period ended at the last day of the reporting year.

(all tabular amounts are in USD'000 and EUR'000 unless otherwise stated)

The Group implements employee benefit payments from current resources. There are no financing programs, or contributions to fund obligations.

Change in post-employment benefits in 2017

	Note	Post-employment		Total	
		USD	EUR	USD	EUR
1 January 2017		**1,707**	**1,633**	**1,707**	**1,633**
Current service costs	19	200	169	**200**	**169**
Interest expense	19	34	28	**34**	**28**
Actuarial gains and losses recognized in Other Comprehensive Income net		**464**	**392**	**464**	**392**
demographic assumptions		125	105	**125**	**105**
financial assumptions		158	134	**158**	**134**
experience adjustment		181	153	**181**	**153**
Payments under program	19	(30)	(25)	**(30)**	**(25)**
Recognized past service cost	19	1,931	1,633	**1,931**	**1,633**
Exchange differences		253	(28)	**253**	**(28)**
As at 31 December 2017		**4,559**	**3,802**	**4,559**	**3,802**

Change in jubilee bonuses and post-employment benefits in 2016

	Note	Jubilee bonuses		Post-employment		Total	
		USD	EUR	USD	EUR	USD	EUR
1 January 2016		**15**	**14**	**2,148**	**1,966**	**2,163**	**1,980**
Current service costs	19	-	-	135	129	135	129
Interest expense	19	-	-	43	41	43	41
Actuarial gains and losses recognized in Other Comprehensive Income net		**-**	**-**	**963**	**921**	**963**	**921**
demographic assumptions		-	-	67	64	67	64
financial assumptions		-	-	97	93	97	93
experience adjustment		-	-	799	764	799	764
Actuarial gains and losses recognized in Profit and loss net		**(14)**	**(14)**	**-**	**-**	**(14)**	**(14)**
other	19	(14)	(14)	-	-	(14)	(14)
Payments under program	19	-	-	(10)	(9)	(10)	(9)
Recognized past service cost	19	-	-	(1,480)	(1,403)	(1,480)	(1,403)
Exchange differences		(1)	-	(92)	(12)	(93)	(12)
As at 31 December 2016		**-**	**-**	**1,707**	**1,633**	**1,707**	**1,633**

The carrying amount of employment benefits liabilities is identical to their present value as at 31 December 2017 and 31 December 2016.

(all tabular amounts are in USD'000 and EUR'000 unless otherwise stated)

Division of liabilities for employee benefits for active employees

	Active employees		Active employees	
	31/12/2017	31/12/2017	31/12/2016	31/12/2016
	USD	EUR	USD	EUR
Lithuania	4,559	3,802	1,707	1,633
Total	**4,559**	**3,802**	**1,707**	**1,633**

Analysis of sensitivity to change in actuarial assumptions

For the Group entities, in order to update the provision for employee benefits as at 31 December 2017, the Group used the following actuarial assumptions: discount rate of 0.8 %; inflation rate 2.2% in 2018 and 2,0% in following years and the remuneration increase rate 3% in 2018 and 2.5 % in the following years.

	Assumed variations 31/12/2017	Influence on post-employment benefits 2017	
		USD	EUR
Demographic assumptions (+)		(291)	(243)
staff turnover rates, disability and early retirement	0.5 p.p.	(291)	(243)
Financial assumptions (+)		14	11
discount rate	0.5 p.p.	(291)	(243)
level of future remuneration	0.5 p.p.	305	254
Total		**(277)**	**(232)**
Demographic assumptions (-)		321	268
staff turnover rates, disability and early retirement	-0.5 p.p.	321	268
Financial assumptions (-)		45	37
discount rate	-0.5 p.p.	323	269
level of future remuneration	-0.5 p.p.	(278)	(232)
Total		**366**	**305**

(all tabular amounts are in USD'000 and EUR'000 unless otherwise stated)

	Assumed variations 31/12/2016	Influence on post-employment benefits 2016	
		USD	EUR
Demographic assumptions (+)		(93)	(89)
staff turnover rates, disability and early retirement	0.5 p.p.	(93)	(89)
Financial assumptions (+)		(29)	(28)
discount rate	0.5 p.p.	(111)	(106)
level of future remuneration	0.5 p.p.	82	78
Total		**(122)**	**(117)**
Demographic assumptions (-)		104	99
staff turnover rates, disability and early retirement	-0.5 p.p.	104	99
Financial assumptions (-)		50	48
discount rate	-0.5 p.p.	122	117
level of future remuneration	-0.5 p.p.	(72)	(69)
Total		**154**	**147**

The Group implements employee benefit payments from current resources. There are no financing programs, or contributions to fund obligations.

Analysis of liabilities and payment terms for employee benefits as at 31 December 2017

	Post-employment benefits		Total	
	USD	EUR	USD	EUR
up to 1 year	164	137	164	137
from 1 to 3 years	380	317	380	317
from 3 to 5 years	357	298	357	298
above 5 years	3,658	3,050	3,658	3,050
			4,559	**3,802**

Analysis of liabilities and payment terms for employee benefits as at 31 December 2016

	Post-employment benefits		Total	
	USD	EUR	USD	EUR
up to 1 year	76	73	76	73
from 1 to 3 years	99	95	99	95
from 3 to 5 years	148	141	148	141
above 5 years	1,384	1,324	1,384	1,324
			1,707	**1,633**

The weighted average duration of liabilities for post-employment benefits (in years)

	31/12/2017	31/12/2016
Lithuania	13	14

(all tabular amounts are in USD'000 and EUR'000 unless otherwise stated)

Not discounted future cash flow of employee benefits payments as at 31 December 2017

	Post-employment benefits		Total	
	USD	EUR	USD	EUR
up to 1 year	167	139	167	139
from 1 to 3 years	419	349	419	349
from 3 to 5 years	427	356	427	356
above 5 years	8,983	7,490	8,983	7,490
			9,996	**8,334**

Not discounted future cash flow of employee benefits payments as at 31 December 2016

	Post-employment benefits		Total	
	USD	EUR	USD	EUR
up to 1 year	76	73	76	73
from 1 to 3 years	108	103	108	103
from 3 to 5 years	175	167	175	167
above 5 years	3,092	2,958	3,092	2,958
			3,451	**3,301**

Total costs recognized in profit or loss and other comprehensive income

	for the year ended		for the year ended	
	31/12/2017	31/12/2017	31/12/2016	31/12/2016
	USD	EUR	USD	EUR
In profit and loss				
Current service costs	200	169	135	129
Interest expense	34	28	43	41
Resulting from other issues	-	-	(14)	(14)
Payments under program	(30)	(25)	(10)	(9)
Recognized past service cost	1,931	1,633	(1,480)	(1,403)
Total	**2,135**	**1,805**	**(1,326)**	**(1,256)**
In components of other comprehensive income	464	392	963	921
demographic assumptions	125	105	67	64
financial assumptions	158	134	97	93
experience adjustment	181	153	799	764

In 2017, the amount of provision for employee benefits changed as the result of the update of assumptions, mainly because Labour Code changed, also changes in in discount rate, as well as projected inflation. Should the prior year assumptions be used, the provision for the employee benefits would be lower by USD 282 thousand or EUR 236 thousand (2016: lower by USD 151 thousand or EUR 144 thousand).

On the basis of existing legislation, the Group is obliged to pay contributions to the national pension insurance. These expenses are recognized as employee benefit costs. The Group has no other obligations in this respect.

14.3. Business risk provision

Business risk is described in more detail in Note 24 concerning significant legal proceedings.

(all tabular amounts are in USD'000 and EUR'000 unless otherwise stated)

14.4. Provision for CO_2 emission

The Parent company recognizes provision for estimated CO_2 emissions in the reporting period. The cost of recognized provision in the consolidated statement of profit or loss is compensated with settlement of deferred income on CO_2 emission allowance granted free of charge.

15. Trade and other liabilities

	Note	31/12/2017	31/12/2017	31/12/2016	31/12/2016
		USD	EUR	USD	EUR
Trade liabilities		388,080	323,592	327,390	313,202
Liabilities for investments		21,160	17,643	2,952	2,824
Uninvoiced services		14,118	11,772	3,779	3,615
Financial liabilities	**22**	**423,358**	**353,007**	**334,121**	**319,641**
Prepayments		3,164	2,638	5,159	4,936
Payroll liabilities		2,330	1,942	1,682	1,609
Excise tax and fuel charge		21,470	17,902	15,283	14,621
Value added tax		49,686	41,429	27,527	26,334
Other taxation, duties, social security and other benefits		5,831	4,861	5,013	4,795
Acruals		6,978	5,819	4,627	4,428
Holiday pay accrual		4,199	3,501	3,264	3,123
Other accruals		2,779	2,318	1,363	1,305
Other liabilities		1,173	978	776	741
Non-financial liabilities		**90,632**	**75,569**	**60,067**	**57,464**
Total		**513,990**	**428,576**	**394,188**	**377,105**

Trade and other liabilities denominated in functional currency amounted to USD 336,099 thousand or EUR 280,246 thousand as at 31 December 2017 and USD 240,961 thousand or EUR 230,519 thousand as at 31 December 2016.

Detailed information of financial liabilities denominated in foreign currencies is presented in Note 22.5.3.2.

16. Other financial liabilities

	Note	31/12/2017	31/12/2017	31/12/2016	31/12/2016
		USD	EUR	USD	EUR
Cash flow hedge instruments - commodity swaps	22	13,703	11,426	3,207	3,068
Derivatives not designated for hedge accounting - commodity swaps	*22*	16,791	14,001	-	-
Liabilities from cash pool	22	13,924	11,610	45	43
Liabilities on settled derivatives not designated for hedge accounting	22	57,897	48,275	-	-
Liabilities on settled cash flow hedge instruments	22	551	459	6,102	5,837
		102,866	**85,771**	**9,354**	**8,948**

The Parent Company, ORLEN Eesti and ORLEN Latvia are the members of the international cash pool managed by POLSKI KONCERN NAFTOWY ORLEN S.A. The internal cross-currency credit limit granted to ORLEN Latvia is 41 million EUR, to ORLEN Eesti - 10 million EUR and to the

(all tabular amounts are in USD'000 and EUR'000 unless otherwise stated)

Parent Company - 149 million EUR. The date of full repayment of the internal cross-currency credit limit is 30 June 2018.

The Parent Company, ORLEN Eesti and ORLEN Latvia are the members of the international cash pool managed by ORLEN Finance AB. The internal cross-currency credit limit granted to ORLEN Latvia and ORLEN Eesti is 10 million EUR and to the Parent Company - 100 million EUR. The date of full repayment of the internal cross-currency credit limit is December 2017.

17. Sales revenues

	for the year ended		for the year ended	
	31/12/2017	31/12/2017	31/12/2016	31/12/2016
	USD	EUR	USD	EUR
Sales of finished goods	4,478,204	3,948,585	3,486,268	3,158,037
Sales of services	24,076	21,484	23,732	21,466
Revenues from sales of finished goods and services, net	**4,502,280**	**3,970,069**	**3,510,000**	**3,179,503**
Sales of goods for resale	37,548	34,824	35,010	32,013
Sales of spare parts and other materials	870	762	657	589
Revenues from sales of goods for resale and spare parts, net	**38,418**	**35,586**	**35,667**	**32,602**
Total	**4,540,698**	**4,005,655**	**3,545,667**	**3,212,105**

Sales revenues by assortments

	for the year ended		for the year ended	
	31/12/2017	31/12/2017	31/12/2016	31/12/2016
	USD	EUR	USD	EUR
	4,540,698	**4,005,655**	**3,545,667**	**3,212,105**
Gasoline	1,493,940	1,317,057	1,210,484	1,094,864
Diesel fuel	2,162,995	1,908,882	1,739,077	1,576,540
Jet A-1 fuel	150,901	132,657	105,207	95,027
Heavy heating oil	467,443	413,063	320,615	291,287
LPG	124,015	109,434	87,929	79,636
Bitumens	63,409	54,876	37,601	33,802
Light heating oil	6,683	5,783	3,510	3,107
Sulphur	6,297	5,496	4,367	3,962
Other	40,069	36,161	12,488	11,825
Sales of spare parts and other materials	870	762	657	589
Services	24,076	21,484	23,732	21,466
Total	**4,540,698**	**4,005,655**	**3,545,667**	**3,212,105**

In 2017 there was one major customer in the Group, whose revenues from sales amounted to USD 913,962 thousand or EUR 814,639 thousand and individually exceeded 10% of total revenues from sale to external customers.

In 2016 there was one major customer in the Group, whose revenues from sales amounted to USD 1,024,492 thousand or EUR 927,762 thousand and individually exceeded 10% of total revenues from sale to external customers.

(all tabular amounts are in USD'000 and EUR'000 unless otherwise stated)

Sales revenues geographical division – disclosed by customer's premises countries

	for the year ended		for the year ended	
	31/12/2017	**31/12/2017**	**31/12/2016**	**31/12/2016**
	USD	**EUR**	**USD**	**EUR**
Lithuania	865,817	765,589	736,263	665,837
Other Baltic countries	953,699	840,748	711,343	643,453
Poland	575,740	508,977	264,461	240,528
Other EU countries	261,525	228,289	208,907	189,010
Other countries, including:	**1,883,917**	**1,662,052**	**1,624,693**	**1,473,277**
Switzerland	619,458	540,566	357,676	325,338
Ukraine	325,594	284,521	206,839	187,756
Singapore	913,800	814,857	1,024,492	927,762
Other countries	25,065	22,108	35,686	32,421
Total	**4,540,698**	**4,005,655**	**3,545,667**	**3,212,105**

„Other countries" comprises sales to customers from Moldova, Norway, Panama, Russia, Virgin Islands and other countries.

18. Operating expenses

Cost of sales

	for the year ended		for the year ended	
	31/12/2017	**31/12/2017**	**31/12/2016**	**31/12/2016**
	USD	**EUR**	**USD**	**EUR**
Cost of finished goods and services sold	4,037,004	3,561,881	3,082,312	2,792,569
Cost of goods for resale and spare parts sold	39,275	36,711	35,450	32,430
Total	**4,076,279**	**3,598,592**	**3,117,762**	**2,824,999**

(all tabular amounts are in USD'000 and EUR'000 unless otherwise stated)

Cost by kind

	Note	for the year ended 31/12/2017 USD	for the year ended 31/12/2017 EUR	for the year ended 31/12/2016 USD	for the year ended 31/12/2016 EUR
Usage of materials and energy, including:		**4,039,037**	**3,567,813**	**3,090,231**	**2,799,570**
usage of materials		3,997,997	3,531,510	3,052,901	2,765,817
usage of energy		41,040	36,303	37,330	33,753
External services, including:		**151,080**	**133,165**	**162,571**	**146,994**
railway services		89,886	79,054	105,238	95,098
repairs and maintenance services		14,735	13,115	12,280	11,085
terminal services,transit and freight		31,418	27,616	29,234	26,489
advisory services		3,079	2,716	2,731	2,469
lease		3,919	3,572	3,833	3,476
security of property		5,014	4,474	4,531	4,091
others services		3,029	2,618	4,724	4,286
Payroll, social security and other employee benefits		**55,760**	**49,119**	**45,055**	**40,819**
Depreciation and amortization	4,5	**19,238**	**16,963**	**14,440**	**13,055**
Taxes and charges		**11,798**	**10,190**	**10,248**	**9,223**
Write-down of spare parts for obsolescence, net	9	**(632)**	**(496)**	**(773)**	**(670)**
Other costs, including:		**11,276**	**9,954**	**11,676**	**10,559**
insurance		10,056	8,887	10,842	9,802
other costs		1,220	1,067	834	757
		4,287,557	**3,786,708**	**3,333,448**	**3,019,550**
Change in finished goods and work in progress		(36,377)	(34,138)	(28,881)	(25,612)
Cost of products and services for own use		1,525	1,314	(2,218)	(2,057)
Write-down of inventories	9	3,206	2,880	1,505	1,412
Total operating expenses		**4,255,911**	**3,756,764**	**3,303,854**	**2,993,293**
Distribution expenses		130,386	114,777	143,365	129,654
Administrative expenses		49,246	43,395	42,727	38,640
Cost of sales		4,076,279	3,598,592	3,117,762	2,824,999
Total operating expenses		**4,255,911**	**3,756,764**	**3,303,854**	**2,993,293**

Railway services account has mostly decreased due to the settlement agreement signed on 28th of June 2017 between the Parent Company and AB Lietuvos gelezinkeliai. Based on the settlement agreement railway costs (Distribution expenses) decreased by USD 29,326 thousand or EUR 26,325 thousand for 2014-2017 years.

Employee benefits costs

	Note	for the year ended 31/12/2017 USD	for the year ended 31/12/2017 EUR	for the year ended 31/12/2016 USD	for the year ended 31/12/2016 EUR
Payroll expenses		39,266	34,661	34,025	30,853
Social security expenses		12,260	10,817	10,521	9,546
Future benefits expenses	14.2	2,135	1,805	(1,326)	(1,256)
Other employee benefits expenses		2,099	1,836	1,835	1,676
Total		**55,760**	**49,119**	**45,055**	**40,819**

(all tabular amounts are in USD'000 and EUR'000 unless otherwise stated)

19. Other operating income and expenses

19.1. Other operating income

	Note	for the year ended		for the year ended	
		31/12/2017	31/12/2017	31/12/2016	31/12/2016
		USD	EUR	USD	EUR
Profit from disposal of non-financial fixed assets		81	70	322	290
Reversal of provisions		1,006	943	8,053	7,262
Reversal of receivables impairment allowances	10,22.2	55	47	472	430
Decreases of impairment allowances of property, plant and equipment and intangible assets		1,501	1,309	804	747
Revaluation of CO2 granted		1,173	1,097		
Penalties and compensations earned		323	290	2,153	1,990
Other		249	210	31	29
Total		**4,388**	**3,966**	**11,835**	**10,748**

19.2. Other operating expenses

	Note	for the year ended		for the year ended	
		31/12/2017	31/12/2017	31/12/2016	31/12/2016
		USD	EUR	USD	EUR
Loss from disposal of non-financial fixed assets		530	498	341	313
Recognition of provisions		-	-	7,730	7,312
Recognition of impairment receivables	10,22.2	58	51	341	310
Recognition of impairment allowances of property, plant and equipment, intangible assets and non-current assets classified as held for sale		2,056	1,752	207	195
Penalties and compensations		253	228	303	264
Other		515	451	171	156
Total		**3,412**	**2,980**	**9,093**	**8,550**

20. Financial income and expenses

20.1.Financial income

	Note	for the year ended		for the year ended	
		31/12/2017	31/12/2017	31/12/2016	31/12/2016
		USD	EUR	USD	EUR
Interest	22.2	3,023	2,696	822	750
Settlement and valuation of financial instruments	22.2	90,382	76,736	-	-
Other	22.2	53	46	-	-
Total		**93,458**	**79,478**	**822**	**750**

Due to the settlement agreement signed on 28th of June 2017 between the Parent Company and AB Lietuvos gelezinkeliai interest income increased by USD 1,875 thousand or EUR 1,671 thousand.

(all tabular amounts are in USD'000 and EUR'000 unless otherwise stated)

20.2.Financial expenses

	Note	for the year ended 31/12/2017	for the year ended 31/12/2017	for the year ended 31/12/2016	for the year ended 31/12/2016
		USD	EUR	USD	EUR
Interest	22.2	2,187	1,949	1,837	1,677
Foreign exchange loss	22.2	1,827	1,780	2,003	1,689
Costs of factoring	22.2	648	573	456	399
Settlement and valuation of financial instruments	22.2	104,839	88,991	-	-
Other	22.2	216	191	248	227
Total		**109,717**	**93,484**	**4,544**	**3,992**

Due to the settlement agreement signed on 28th of June 2017 between the Parent Company and AB Lietuvos gelezinkeliai interest expenses increased by USD 1,066 thousand or EUR 950 thousand.

21. Tax expenses

	for the year ended 31/12/2017	for the year ended 31/12/2017	for the year ended 31/12/2016	for the year ended 31/12/2016
	USD	EUR	USD	EUR
Tax expense in the statement of profit or loss	**27,929**	**24,274**	**(25)**	**(1,178)**
Current tax expense	6,203	5,420	5,561	5,067
Deferred tax expense	21,726	18,854	(5,586)	(6,245)
Deferred tax recognized in other comprehensive income	**(58)**	**(45)**	**(16)**	**(15)**
Actuarial gains and losses from post-employment benefits	(58)	(45)	(16)	(15)
Total	**27,871**	**24,229**	**(41)**	**(1,193)**

21.1.The differences between income tax expense recognized in profit or loss and the amount calculated based on profit before tax

	for the year ended 31/12/2017	for the year ended 31/12/2017	for the year ended 31/12/2016	for the year ended 31/12/2016
	USD	EUR	USD	EUR
Profit (loss) for the period before tax	269,349	235,731	240,918	217,845
Profit tax applying 15 % tax rate	40,402	35,360	36,138	32,677
Effect of different tax rates in other countries	-	-	135	122
Non-taxable income	(16,299)	(14,438)	(9,590)	(8,666)
Expenses not deductible for tax purposes	10,644	9,429	1,650	1,491
Fixed asset investment relief utilization	-	-	82	74
Tax loss utilization	(3,482)	(3,085)	(2,538)	(2,293)
Change in estimates related to prior years	(5,489)	(4,862)	(25,874)	(23,380)
Other	2,153	1,907	(28)	(25)
Forex impact, because of different currency exchange rate	-	(37)	-	(1,178)
Income tax	**27,929**	**24,274**	**(25)**	**(1,178)**

(all tabular amounts are in USD'000 and EUR'000 unless otherwise stated)

21.2. Deferred tax

	31/12/2016		Deferred tax recognized in statement of profit or		Deferred tax recognized in other comprehensive		31/12/2017	
Deferred tax assets / (liabilities)	**USD**	**EUR**	**USD**	**EUR**	**USD**	**EUR**	**USD**	**EUR**
Impairment allowances	119,390	114,216	(2,751)	(16,960)	-	-	116,639	97,256
Provisions and accruals (included actuarial loss)	1,901	1,819	1,459	986	58	45	3,418	2,850
Unrealized foreign exchange differences	(15,607)	(14,931)	16,707	15,848	-	-	1,100	917
Difference between carrying amount and tax base of property, plant and equipment	(29,756)	(28,466)	(4,919)	(447)	-	-	(34,675)	(28,913)
Tax loss	25,988	24,862	(21,749)	(21,327)	-	-	4,239	3,535
Financial instruments valuation	(82)	(78)	2,142	1,796	-	-	2,060	1,718
Investment relief	-	-	4,625	3,856	-	-	4,625	3,856
Other	553	529	206	104	-	-	759	633
Total deferred tax assets / (liabilities)	**102,387**	**97,951**	**(4,280)**	**(16,144)**	**58**	**45**	**98,165**	**81,852**
Deferred tax asset / (liabilities) not recognised	**(76,429)**	**(73,118)**	**(17,429)**	**(5,141)**	**-**	**-**	**(93,858)**	**(78,259)**
Deferred tax, net	**25,958**	**24,833**	**(21,709)**	**(21,285)**	**58**	**45**	**4,307**	**3,593**

The Parent Company has not recognised deferred income tax by amount USD 93,858 thousand or EUR 78,259 thousand, because it is not probable that future taxable profits will be available against which the Parent company can utilize the benefits.

	31/12/2015		Deferred tax recognized in statement of profit or		Deferred tax recognized in other comprehensive		31/12/2016	
Deferred tax assets / (liabilities)	**USD**	**EUR**	**USD**	**EUR**	**USD**	**EUR**	**USD**	**EUR**
Impairment allowances	120,903	110,656	(1,513)	3,560	-	-	119,390	114,216
Provisions and accruals (included actuarial loss)	2,230	2,041	(345)	(237)	16	15	1,901	1,819
Unrealized foreign exchange differences	(12,043)	(11,022)	(3,564)	(3,909)	-	-	(15,607)	(14,931)
Difference between carrying amount and tax base of property, plant and equipment	(21,817)	(19,968)	(7,939)	(8,498)	-	-	(29,756)	(28,466)
Tax loss	45,562	41,701	(19,574)	(16,839)	-	-	25,988	24,862
Financial instruments valuation	(966)	(884)	884	806	-	-	(82)	(78)
Investment relief	4,480	4,100	(4,480)	(4,100)	-	-	-	-
Other	1,285	1,175	(732)	(646)	-	-	553	529
Total deferred tax assets / (liabilities)	**139,634**	**127,799**	**(37,263)**	**(29,863)**	**16**	**15**	**102,387**	**97,951**
Deferred tax asset / (liabilities) not recognised	**(119,276)**	**(109,167)**	**42,847**	**36,049**	**-**	**-**	**(76,429)**	**(73,118)**
Deferred tax, net	**20,358**	**18,632**	**5,584**	**6,186**	**16**	**15**	**25,958**	**24,833**

(all tabular amounts are in USD'000 and EUR'000 unless otherwise stated)

The Parent Company has not recognised deferred income tax by amount USD 76,429 thousand or EUR 73,118 thousand, because it is not probable that future taxable profits will be available against which the Parent company can utilize the benefits.

	for the year ended		for the year ended	
	31/12/2017	31/12/2017	31/12/2016	31/12/2016
	USD	EUR	USD	EUR
Beginning of the period	25,958	24,833	20,358	18,632
Deferred tax recognised in profit or loss	(21,726)	(18,854)	5,586	-
Deferred tax recognised in other comprefensive income	58	45	16	15
Foreign exchange differences	17	(2,431)	(2)	6,186
Total	**4,307**	**3,593**	**25,958**	**24,833**
Deferred tax, net	**4,307**	**3,593**	**25,958**	**24,833**

22. Financial instruments and financial risks

22.1.Financial instruments by category and class

Financial assets

as at 31 December 2017

USD		Financial instruments by category				
		Loans and receivables	Financial assets held to maturity	Hedging financial instruments	At fair value through prifit or loss	Total
Financial instruments by class	**Note**					
Other non-current receivables	7	1,606	-	-	-	1,606
Deposits	11	-	4	-	-	4
Trade and other receivables	10	272,465	-	-	-	272,465
Receivables from cash pool	11	230,372	-	-	-	230,372
Loans granted	7,11	33	-	-	-	33
Cash flow hedge instruments	11	-	-	12,875	-	12,875
Derivatives not designated as hedge accounting	11	-	-	-	9,310	9,310
Receivables on settled cash flow hedge instruments	11	1,280	-	-	-	1,280
Receivables on settled derivatives not designated as hedge accounting	11	52,264	-	-	-	52,264
Cash and cash equivalents	12	15,283	-	-	-	15,283
Total		**573,303**	**4**	**12,875**	**9,310**	**595,492**

(all tabular amounts are in USD'000 and EUR'000 unless otherwise stated)

EUR		Financial instruments by category				
		Loans and receivables	Financial assets held to maturity	Hedging financial instruments	At fair value through prifit or loss	Total
Financial instruments by class	**Note**					
Other non-current receivables	7	1,339	-	-	-	1,339
Deposits	11	-	3	-	-	3
Trade and other receivables	10	227,187	-	-	-	227,187
Receivables from cash pool	11	192,089	-	-	-	192,089
Loans granted	7,11	28	-	-	-	28
Cash flow hedge instruments	11	-	-	10,736	-	10,736
Derivatives not designated as hedge accounting	11	-	-	-	7,763	7,763
Receivables on settled cash flow hedge instruments	11	1,068	-	-	-	1,068
Receivables on settled derivatives not designated as hedge accounting	11	43,579	-	-	-	43,579
Cash and cash equivalents	12	12,743	-	-	-	12,743
Total		**478,033**	**3**	**10,736**	**7,763**	**496,535**

as at 31 December 2016

USD		Financial instruments by category				
		Loans and receivables	Financial assets held to maturity	Hedging financial instruments	At fair value through prifit or loss	Total
Financial instruments by class	**Note**					
Other non-current receivables	7	1,673	-	-	-	1,673
Deposits	11	-	563	-	-	563
Trade and other receivables	10	159,491	-	-	-	159,491
Receivables from cash pool	11	208,571	-	-	-	208,571
Loans granted	7,11	78	-	-	-	78
Cash flow hedge instruments	11	-	-	2,537	-	2,537
Receivables on settled cash flow hedge instruments	11	3,752	-	-	-	3,752
Cash and cash equivalents	12	4,584	-	-	-	4,584
Total		**378,149**	**563**	**2,537**	**-**	**381,249**

EUR		Financial instruments by category				
		Loans and receivables	Financial assets held to maturity	Hedging financial instruments	At fair value through prifit or loss	Total
Financial instruments by class	**Note**					
Other non-current receivables	7	1,601	-	-	-	1,601
Deposits	11	-	539	-	-	539
Trade and other receivables	10	152,579	-	-	-	152,579
Receivables from cash pool	11	199,532	-	-	-	199,532
Loans granted	7,11	75	-	-	-	75
Cash flow hedge instruments	11	-	-	2,427	-	2,427
Receivables on settled cash flow hedge instruments	11	3,589	-	-	-	3,589
Cash and cash equivalents	12	4,386	-	-	-	4,386
Total		**361,762**	**539**	**2,427**	**-**	**364,728**

(all tabular amounts are in USD'000 and EUR'000 unless otherwise stated)

Financial liabilities

as at 31 December 2017

USD		Financial instruments by category			
		Financial liabilities measured at amortized cost	Hedging financial instruments	At fair value through prifit or loss	Total
Financial instruments by class	**Note**				
Trade and other liabilities	15	423,358	-	-	423,358
Liabilities from cash pool	16	13,924	-	-	13,924
Cash flow hedge instruments	16	-	13,703	-	13,703
Derivatives not designated as hedge accounting	16	-	-	16,791	16,791
Liabilities on settled cash flow hedge instruments	16	551	-	-	551
Liabilities on settled derivatives not designated as hedge accounting	16	57,897	-	-	57,897
Total		**495,730**	**13,703**	**16,791**	**526,224**

EUR		Financial instruments by category			
		Financial liabilities measured at amortized cost	Hedging financial instruments	At fair value through prifit or loss	Total
Financial instruments by class	**Note**				
Trade and other liabilities	15	353,007	-	-	353,007
Liabilities from cash pool	16	11,610	-	-	11,610
Cash flow hedge instruments	16	-	11,426	-	11,426
Derivatives not designated as hedge accounting	16	-	-	14,001	14,001
Liabilities on settled cash flow hedge instruments	16	459	-	-	459
Liabilities on settled derivatives not designated as hedge accounting	16	48,275	-	-	48,275
Total		**413,351**	**11,426**	**14,001**	**438,778**

as at 31 December 2016

USD		Financial instruments by category			
		Financial liabilities measured at amortized cost	Hedging financial instruments	At fair value through prifit or loss	Total
Financial instruments by class	**Note**				
Trade and other liabilities	15	334,121	-	-	334,121
Liabilities from cash pool	16	45	-	-	45
Cash flow hedge instruments	16	-	3,207	-	3,207
Liabilities on settled cash flow hedge instruments	16	6,102	-	-	6,102
Total		**340,268**	**3,207**	**-**	**343,475**

(all tabular amounts are in USD'000 and EUR'000 unless otherwise stated)

EUR		Financial instruments by category			
		Financial liabilities measured at amortized cost	Hedging financial instruments	At fair value through prifit or loss	Total
Financial instruments by class	**Note**				
Trade and other liabilities	15	319,641	-	-	319,641
Liabilities from cash pool	16	43	-	-	43
Cash flow hedge instruments	16	-	3,068	-	3,068
Liabilities on settled cash flow hedge instruments	16	5,837	-	-	5,837
Total		**325,521**	**3,068**	**-**	**328,589**

22.2.Income and expense, profit and loss in the consolidated statement of profit or loss and other comprehensive income

As at 31 December 2017

USD		Financial instruments by category				
		Loans and receivables	Financial liabilities measured at amortised cost	At fair value through prifit or loss	Hedging financial instruments (ineffective part)	Total
Financial instruments by class	**Note**					
Interest income	20.1	3,023	-	-	-	3,023
Interest costs	20.2	-	(2,187)	-	-	(2,187)
Foreign exchange gain/(loss)	20.2	(4,704)	2,877	-	-	(1,827)
Recognition/reversal of receivables impairment allowances recognized in other operating income/expenses, net	19.1, 19.2	(3)	-	-	-	(3)
Settlement and valuation of financial instruments	20	-	-	(15,624)	1,167	(14,457)
Costs of factoring	20.2	-	(648)	-	-	(648)
Other	20.2	53	(216)	-	-	(163)
Total		**(1,631)**	**(174)**	**(15,624)**	**1,167**	**(16,262)**

EUR		Financial instruments by category				
		Loans and receivables	Financial liabilities measured at amortised cost	At fair value through prifit or loss	Hedging financial instruments (ineffective part)	Total
Financial instruments by class	**Note**					
Interest income	20.1	2,696	-	-	-	2,696
Interest costs	20.2	-	(1,949)	-	-	(1,949)
Foreign exchange gain/(loss)	20.2	(4,207)	2,427	-	-	(1,780)
Recognition/reversal of receivables impairment allowances recognized in other operating income/expenses, net	19.1, 19.2	(4)	-	-	-	(4)
Settlement and valuation of financial instruments	20	-	-	(13,242)	987	(12,255)
Costs of factoring	20.2	-	(573)	-	-	(573)
Other	20.2	46	(191)	-	-	(145)
Total		**(1,469)**	**(286)**	**(13,242)**	**987**	**(14,010)**

(all tabular amounts are in USD'000 and EUR'000 unless otherwise stated)

As at 31 December 2016

USD		Financial instruments by category		
		Loans and receivables	Financial liabilities measured at amortised cost	Total
Financial instruments by class	**Note**			
Interest income	20.1	822	-	822
Interest costs	20.2	-	(1,837)	(1,837)
Foreign exchange gain/(loss)	20.2	(538)	(1,465)	(2,003)
Recognition/reversal of receivables impairment allowances recognized in other operating income/expenses, net	19.1, 19.2	131	-	131
Costs of factoring	20.2	-	(456)	(456)
Other	20.2	-	(248)	(248)
Total		**415**	**(4,006)**	**(3,591)**

EUR		Financial instruments by category		
		Loans and receivables	Financial liabilities measured at amortised cost	Total
Financial instruments by class	**Note**			
Interest income	20.1	750	-	750
Interest costs	20.2	-	(1,677)	(1,677)
Foreign exchange gain/(loss)	20.2	(480)	(1,209)	(1,689)
Recognition/reversal of receivables impairment allowances recognized in other operating income/expenses, net	19.1, 19.2	120	-	120
Costs of factoring	20.2	-	(399)	(399)
Other	20.2	-	(227)	(227)
Total		**390**	**(3,512)**	**(3,122)**

22.3. Fair value measurement

As at 31 December 2017 and as at 31 December 2016 fair value of financial assets and financial liabilities are equal or similar to carrying amount due to short term nature.

22.4.Hedge accounting

As a part of hedging strategy the Parent Company hedges its cash flows from sales of products and purchase of crude oil using commodity swaps.

Net result of cash flows hedge instruments accounted in financial assets and financial liabilities:

	Note	31/12/2017	31/12/2017	31/12/2016	31/12/2016
		USD	EUR	USD	EUR
Cash flows hedge instruments					
Commodity swap	11,16	(828)	(690)	(670)	(641)
Total		**(828)**	**(690)**	**(670)**	**(641)**

(all tabular amounts are in USD'000 and EUR'000 unless otherwise stated)

Cash flows hedge recognised in financial statements

	31/12/2017 USD	31/12/2017 EUR	31/12/2016 USD	31/12/2016 EUR
Inventories	(693)	(578)	63	61
Sales revenues	-16,948	-14,613	12,125	10,458
Cost of sales	4,350	3,843	1,023	989

Planned realization date of hedged cash flows which will be recognized in the profit or loss

	31/12/2017	31/12/2016
Commodity risk exposure	2018	January-April 2017

22.5. Financial risk management

The Group is exposed particularly to the following financial risks:
- credit risk;
- liquidity risk;
- market risk, including
  currency risk,
  interest rate risk,
  commodity price risk,
  price risk of allowances CO_2

22.5.1. Credit risk

Within its trading activity the Group sells products and services with deferred payment term, which may result in the risk that customers will not pay for the Group's receivables from sales of products and services. In order to minimize credit risk and working capital the Group manages the risk by credit limit policies governing granting of credit limits to customers and establishment of pledges collaterals of appropriate different types. The established average payment term of receivables connected with the ordinary course of sales is 12 to 15 days. Each non-cash customer with deferred payment is individually assessed with regard to credit risk. A portion of trade receivables is insured within an organized trade credit insurance program. Trade receivables are monitored by Treasury, Financial Planning and Controlling Department on regular basis. In the event of occurrence of overdue receivables, sale is withheld and debt recovery procedures are implemented as described in the binding procedures. In order to reduce the risk of recoverability of trade receivables the Group receives securities from its customers' such as: bank guarantees, documentary letters of credit, stand-by letters of credit, mortgages and third-party guarantees.

The ageing analysis of current receivables past due, but not impaired as at the end of the reporting period:

	Current receivables			
	31/12/2017		31/12/2016	
	USD	EUR	USD	EUR
Overdue:				
Up to 1 month	32,562	27,151	2,147	2,054
1-3 months	228	190	86	83
3-6 months	39	33	3	2
6-12 months	1	1	118	113
Above 1 year	4,796	3,999	6,218	5,949
	37,626	**31,374**	**8,572**	**8,201**

(all tabular amounts are in USD'000 and EUR'000 unless otherwise stated)

22.5.2. Liquidity risk

The goal of the Group is to maintain the balance between continuity and flexibility of financing. To achieve this goal, the Group uses, first of all, financing on the PKN Group level (cash pool).

The Group maintains the ratio of current assets to current liabilities (current ratio) on a safe level. As at 31 December 2017 and 31 December 2016, the ratio amounted to 1.39 and 1.45, respectively.

In 2015 Parent Company signed a non-recourse factoring agreement with AB SEB Bank on the factoring limit – up to EUR 37 million. In 2016 Parent Company prolonged this agreement for the factoring limit – up to EUR 17 million. In 2017 Parent Company did not used this factoring limit, so did not extend this agreement.

The Group had no loans in 2017 or 2016.

Financing available for the year 2017 under the credit/cash pool agreements to cover net current liabilities with the maturity of 30 June 2018 (EUR 200 million) is covering the expected liquidity needs for 2017 with reserve.

Maturity analysis for financial liabilities:

USD	Note	31/12/2017 up to 1 year	Carrying amount
Trade and other liabilities	15	423,358	423,358
Liabilities on settled cash flow hedge instruments	16	58,448	58,448
Cash flow hedge instruments	16	30,494	30,494
Liabilities from cash pool	16	13,924	13,924
Total		**526,224**	**526,224**

EUR	Note	31/12/2017 up to 1 year	Carrying amount
Trade and other liabilities	15	353,007	353,007
Liabilities on settled cash flow hedge instruments	16	48,734	48,734
Cash flow hedge instruments	16	25,427	25,427
Liabilities from cash pool	16	11,610	11,610
Total		**438,778**	**438,778**

USD	Note	31/12/2016 up to 1 year	Carrying amount
Trade and other liabilities	15	334,121	334,121
Liabilities on settled cash flow hedge instruments	16	6,102	6,102
Cash flow hedge instruments	16	3,207	3,207
Liabilities from cash pool	16	45	45
Total		**343,475**	**343,475**

(all tabular amounts are in USD'000 and EUR'000 unless otherwise stated)

EUR	Note	31/12/2016 up to 1 year	Carrying amount
Trade and other liabilities	15	319,641	319,641
Liabilities on settled cash flow hedge instruments	16	5,837	5,837
Cash flow hedge instruments	16	3,068	3,068
Liabilities from cash pool	16	43	43
Total		**328,589**	**328,589**

22.5.3. Market risks

The Group is exposed to currency risks, interest rate risks and risks of changes in commodity prices and CO_2 emission allowance prices.

The objective of market risk management process is to reduce the unfavourable effects of changes in market risk factors on the cash flow and financial results in the short and medium term.

Market risk management is conducted using hedging strategies based on derivatives. Derivatives are used solely to reduce the risk of changes in fair value and risk of changes in cash flows. The Group applies only those instruments which can be measured independently, using standard valuation models for each instrument. As far as market valuation of the instruments is concerned, the Group relies on information obtained from market leading banks, brokers and information services. Transactions are concluded only with reliable partners, authorized to participate in transactions through the application of appropriate procedures and signing the relevant documentation.

22.5.3.1. Commodity risks

As part of its operating activity the Parent Company is exposed mainly to the following commodity risks:

- risk of changes in refining margins on the sale of products and Ural/Brent differential fluctuations- hedges on an irregular basis as a part of hedging strategies;
- risk of changes in crude oil and products prices related to the time mismatch between the date of the crude oil purchase and the date of its processing and sale of products, oversize periodic stock of operational crude oil and/or products, as well as future sales transactions - identified and hedged in a systematic and regular manner;
- risk of changes in CO2 emission rights prices;
- risk of changes in crude oil and refinery product prices related to the obligation to maintain mandatory reserves of crude oil and fuels - is not hedged on purpose due to the permanent exposure and non-cash impact on the Parent Company results.

The impact of commodity hedging instruments on the Group's financial statements

Type of hedged raw material/product	Unit of measure	31/12/2017	31/12/2016
Crude oil	bbl	5,495,800	737,250
Diesel oil	Mt	422,300	11,000
Gasoline	Mt	2,000	-
Heating oil	Mt	528,000	85,000
JET fuel	Mt	5,500	-

(all tabular amounts are in USD'000 and EUR'000 unless otherwise stated)

Sensitivity analysis for changes in prices of products and raw materials

As at 31 December 2017

Analysis of the influence of changes in the carrying amount of financial instruments on result before tax and hedging reserve to a hypothetical change in prices of products and raw materials:

Type of hedged raw material/product	Increase of prices	Total influence		Decrease of prices	Total influence	
		USD	EUR		USD	EUR
Crude oil USD/bbl	+25%	47,227	39,379	-25%	(47,227)	(39,379)
Diesel oil USD/Mt	+22%	(23,631)	(19,704)	-22%	23,631	19,704
Gasoline USD/Mt	+25%	(305)	(254)	-25%	305	254
Heating oil USD/Mt	+25%	(46,401)	(38,690)	-25%	46,401	38,690
JET fuel	+21%	(738)	(615)	-21%	738	615
		(23,848)	**(19,884)**		**23,848**	**19,884**

As at 31 December 2016

Type of hedged raw material/product	Increase of prices	Total influence		Decrease of prices	Total influence	
		USD	EUR		USD	EUR
Crude oil USD/bbl	+45%	8,719	8,342	-45%	(8,719)	(8,342)
Diesel oil USD/Mt	+42%	(2,342)	(2,240)	-42%	2,342	2,240
Heating oil USD/Mt	+53%	(13,670)	(13,077)	-53%	13,670	13,077
		(7,292)	**(6,975)**		**7,292**	**6,975**

Applied for the sensitivity analysis of commodity risk hedging instruments variations of crude oil and products prices were calculated based on volatility for 2017 and 2016 and available analysts' forecasts.

22.5.3.2. Currency risk

Currency risk - The Group's functional currency is US dollar. The Group is exposed to currency risk resulting from current receivables and short-term liabilities, cash and cash equivalents, investment expenditures as well as from future planned cash flows from sales and purchases of refinery products.

(all tabular amounts are in USD'000 and EUR'000 unless otherwise stated)

Currency structure of financial instruments as at 31 December 2017:

Financial instruments by class	Note	EUR	USD	PLN	Other	Total after conversion to USD	Total after conversion to EUR
Financial assets							
Other non-current receivables	7	1,339	-	-	-	1,606	1,339
Deposits	11	3	-	-	-	4	3
Trade and other receivables	10	113,622	136,199	-	-	272,465	227,187
Receivables from cash pool	11	22,762	203,074	-	-	230,372	192,089
Loans granted	7,11	28	-	-	-	33	28
Cash flow hedge instruments	11	-	12,875	-	-	12,875	10,736
Derivatives not designated as hedge accounting	11	-	9,310	-	-	9,310	7,763
Receivables on settled cash flow hedge instruments	11	-	53,544	-	-	53,544	44,647
Cash and cash equivalents	12	6,564	7,409	-	-	15,283	12,743
Total		**144,318**	**422,411**	**-**	**-**	**595,492**	**496,535**
Financial liabilities							
Trade and other liabilities	15	72,456	336,099	1,064	413	423,358	353,007
Cash flow hedge instruments	16	-	13,703	-	-	13,703	11,426
Derivatives not designated as hedge accounting	16	-	16,791	-	-	16,791	14,001
Liabilities on settled cash flow hedge instruments	16	-	58,447	-	-	58,448	48,734
Liabilities from cash pool	16	11,610	-	-	-	13,924	11,610
Total		**84,066**	**425,040**	**1,064**	**413**	**526,224**	**438,778**
Total, net		**60,252**	**(2,629)**	**(1,064)**	**(413)**	**69,268**	**57,757**

Sensitivity analysis for currency risk

Increase/decrease in exchange rate means appreciation/depreciation of the relevant currencies against the functional currency of the Group (USD). The influence of potential changes in carrying amounts of financial instruments (as at 31 December 2017) arising from hypothetical changes in exchange rates of relevant currencies in relation to functional currency (USD) on profit before tax would be:

Financial instruments by class	Influence of financial instruments on profit before tax			
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
EUR/USD	+15%	10,839	-15%	(10,839)
		10,839		**(10,839)**

(all tabular amounts are in USD'000 and EUR'000 unless otherwise stated)

Currency structure of financial instruments as at 31 December 2016:

Financial instruments by class	Note	EUR	USD	PLN	Other	Total after conversion to USD	Total after conversion to EUR
Financial assets							
Other non-current receivables	7	1,601	-	-	-	1,673	1,601
Deposits	11	539	-	-	-	563	539
Trade and other receivables	10	96,077	59,062	-	-	159,491	152,579
Receivables from cash pool	11	3,732	204,669	-	-	208,571	199,532
Loans granted	7,11	75	-	-	-	78	75
Cash flow hedge instruments	11	-	2,537	-	-	2,537	2,427
Receivables on settled cash flow hedge instruments	11	-	3,752	-	-	3,752	3,589
Cash and cash equivalents	12	4,238	154	-	-	4,584	4,386
Total		**106,262**	**270,174**	**-**	**-**	**381,249**	**364,728**
Financial liabilities							
Trade liabilities	15	88,656	240,961	1,444	304	334,121	319,641
Cash flow hedge instruments	16	-	3,207	-	-	3,207	3,068
Liabilities on settled cash flow hedge instruments	16	-	6,102	-	-	6,102	5,837
Liabilities from cash pool	16	43	-	-	-	45	43
Total		**88,699**	**250,270**	**1,444**	**304**	**343,475**	**328,589**
Total, net		**17,563**	**19,904**	**(1,444)**	**(304)**	**37,774**	**36,139**

Sensitivity analysis for currency risk

Increase/decrease in exchange rate means appreciation/depreciation of the relevant currencies against the functional currency of the Group (USD). The influence of potential changes in carrying amounts of financial instruments (as at 31 December 2016) arising from hypothetical changes in exchange rates of relevant currencies in relation to functional currency (USD) on profit before tax would be:

Financial instruments by class	Influence of financial instruments on profit before tax			
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
EUR/USD	+15%	2,754	-15%	(2,754)
		2,754		**(2,754)**

Variations of currency rates described above were calculated based on historical volatility of particular currency rates and analysts' forecasts.

Sensitivity of financial instruments for currency risk was calculated as a difference between the initial carrying amount of financial instruments (excluding derivative instruments) and their potential carrying amount calculated using assumed increases/(decreases) in currency rates. In case of derivative instruments, the influence of currency rate variations on fair value was examined at constant level of interest rates. The fair value of foreign currency forward contracts is determined based on discounted future cash flows of the transactions, calculated based on the difference between the forward rate and the transaction price.

(all tabular amounts are in USD'000 and EUR'000 unless otherwise stated)

22.5.3.3. The risk of interest rates changes

The Group is exposed to the risk of volatility of cash flows arising from interest rates resulting from cash pool facility on floating interest rates.

Interest rate structure of financial instruments:

USD	Note	31/12/2017			Total
		LIBOR*	EONIA**	EURIBOR***	
Financial instruments by class					
Financial assets					
Receivables from cash pool	11	203,074	27,298	-	230,372
Total		**203,074**	**27,298**	**-**	**230,372**
Financial liabilities					
Liabilities from cash pool	16	54	5	13,865	13,924
Total		**54**	**5**	**13,865**	**13,924**

EUR	Note	31/12/2017			Total
		LIBOR*	EONIA**	EURIBOR***	
Financial instruments by class					
Financial assets					
Receivables from cash pool	11	169,327	22,762	-	192,089
Total		**169,327**	**22,762**	**-**	**192,089**
Financial liabilities					
Liabilities from cash pool	16	45	4	11,561	11,610
Total		**45**	**4**	**11,561**	**11,610**

USD	Note	31/12/2016		Total
		EONIA**	LIBID****	
Financial instruments by class				
Financial assets				
Receivables from cash pool	11	3,902	204,669	208,571
Total		**3,902**	**204,669**	**208,571**
Financial liabilities				
Liabilities from cash pool	16	45	-	45
Total		**45**	**-**	**45**

EUR	Note	31/12/2016		Total
		EONIA**	LIBID****	
Financial instruments by class				
Financial assets				
Receivables from cash pool	11	3,732	195,800	199,532
Total		**3,732**	**195,800**	**199,532**
Financial liabilities				
Liabilities from cash pool	16	43	-	43
Total		**43**	**-**	**43**

***LIBOR** – London InterBank Offered Rate
****EONIA** – Euro OverNight Index Average
*****EURIBOR –** Euro InterBank Offered Rate
******LIBID** – London InterBank Bid Rate

(all tabular amounts are in USD'000 and EUR'000 unless otherwise stated)

Sensitivity analysis for interest rate risk

The influence of financial instruments on profit before tax due to changes in significant interest rates:

Interest rate	Assumed variation		Influence on profit before tax			
	31/12/2017	31/12/2016	31/12/2017 USD	31/12/2017 EUR	31/12/2016 USD	31/12/2016 EUR
LIBOR	+50	+50	1,015	846	-	-
EONIA	+50	+50	136	114	19	18
EURIBOR	+50	+50	(69)	(58)	-	-
LIBID	+50	+50	-	-	1,023	979
Total			**1,082**	**902**	**1,042**	**997**
LIBOR	-50	-50	(1,015)	(846)	-	-
EONIA	-50	-50	(136)	(114)	(19)	(18)
EURIBOR	-50	-50	69	58	-	-
LIBID	-50	-50	-	-	(1,023)	(979)
Total			**(1,082)**	**(902)**	**(1,042)**	**(997)**
Total			**-**	**-**	**-**	**-**

The above interest rates variations were calculated based on observations of interest rates fluctuations.

The sensitivity analysis was performed on the basis of instruments held as at 31 December 2017 and 31 December 2016. The influence of interest rates changes was presented on annual basis. The sensitivity of financial instruments for interest rate risk was calculated as arithmetic product of the balance of the statement of financial position items, sensitive to interest rates (excluding derivatives) multiplied by adequate variation of interest rate.

23. Other explanatory notes

23.1. Leases

Operating lease

As at 31 December 2017 and as at 31 Dacember 2016 the Group was lessee unded non-cancellabble operating lease agreements (tenancy/rent), which regard mainly the lease of land.

The total lease payments, resulting from non-cancellable operating lease agreements recognized as expenses in 2017 and in 2016 amounted to USD 94 thousand or EUR 83 thousand and USD 102 thousand or EUR 92 thousand, respectively.

Future minimum lease payments under non-cancellable operating lease agreements

	31/12/2017		31/12/2016	
	USD	EUR	USD	EUR
up to 1 year	70	59	39	37
above 1 to 5 years	128	106	92	88
above 5 years	1,158	966	1173	1122
	1,356	**1,131**	**1,304**	**1,247**

23.2. Capital commitments

Capital expenditure contracted for at the reporting date but not yet incurred is as follows:

(all tabular amounts are in USD'000 and EUR'000 unless otherwise stated)

	31/12/2017		31/12/2016	
	USD	EUR	USD	EUR
Property, plant and equipment	56,597	47,192	14,211	13,595

23.3. Contingencies

Information on significant court proceedings is presented in Note 24.

23.4. Guarantees

Excise tax guarantees of the Group as at 31 December 2017 and as at 31 December 2016 amounted to USD 3,303 thousand or EUR 2,754 thousand and USD 3,439 thousand or EUR 3,290 thousand, respectively.

As at 31 December 2017 and as at 31 December 2016 the Group received guarantees of USD 474,922 thousand or EUR 395,999 thousand and USD 309,981 thousand or EUR 296,548 thousand, respectively.

23.5. Related party transactions

As at 31 December 2017 and as at 31 December 2016 and in 2017 and in 2016 there were no material transactions of related parties with:

- Members of the Management Board and the Supervisory Board of the Parent Company and their relatives,
- Key executive personnel of the Parent Company and the Group companies (Note 23.6).

Transactions and balance of settlement of the Group with related parties

for the year ended 31 December 2017

USD	Shareholder of the Group	Related parties	Associates	Total
Sales	524,440	81,506	17,010	**622,956**
Purchases	3,814,893	14,603	-	**3,829,496**
Finance income	89,867	527	-	**90,394**
Finance expenses	105,106	667	-	**105,773**
Trade and other receivables	32,225	6,994	500	**39,719**
Other financial assets	300,288	-	-	**300,288**
Trade and other liabilities	319,911	380	-	**320,291**
Other financial liabilities	98,699	-	-	**98,699**

EUR	Shareholder of the Group	Related parties	Associates	Total
Sales	463,856	71,948	15,026	**550,830**
Purchases	3,366,063	12,503	-	**3,378,566**
Finance income	76,359	478	-	**76,837**
Finance expenses	89,324	599	-	**89,923**
Trade and other receivables	26,870	5,832	417	**33,119**
Other financial assets	250,387	-	-	**250,387**
Trade and other liabilities	266,748	317	-	**267,065**
Other financial liabilities	82,297	-	-	**82,297**

(all tabular amounts are in USD'000 and EUR'000 unless otherwise stated)

for the year ended 31 December 2016

USD	Shareholder of the Group	Related parties	Associates	Total
Sales	232,655	49,361	11,475	**293,491**
Purchases	2,768,043	17,000	-	**2,785,043**
Finance income	-	538	-	**538**
Finance expenses	-	575	-	**575**
Trade and other receivables	1,687	4,853	59	**6,599**
Other financial assets	-	208,571	-	**208,571**
Trade and other liabilities	225,143	326	-	**225,469**
Other financial liabilities	-	45	-	**45**

EUR	Shareholder of the Group	Related parties	Associates	Total
Sales	211,877	44,650	10,354	**266,881**
Purchases	2,503,945	15,785	-	**2,519,730**
Finance income	-	488	-	**488**
Finance expenses	-	520	-	**520**
Trade and other receivables	1,614	4,643	56	**6,313**
Other financial assets	-	199,532	-	**199,532**
Trade and other liabilities	215,386	312	-	**215,698**
Other financial liabilities	-	43	-	**43**

The above transactions with related parties include mainly sales and purchases of refinery products and sales and purchases of services.

Sale and purchase transactions with related parties were made at market conditions.

23.6. Remuneration together with profit-sharing paid and due or potentially due to the members of Management Board, Supervisory Board and other members of key executive personnel of Parent company and the Group companies

The Management Board's, the Supervisory Board's and other key executive personnel's remuneration includes short-term employee benefits, other long-term employee benefits and termination benefits paid, due and potentially due during the period.

	for the year ended 31/12/2017		for the year ended 31/12/2016	
	USD	EUR	USD	EUR
Remuneration of the Management Board Members performing duties in the current year	**238**	**211**	-	-
- remuneration and other benefits	238	211	-	-
- bonuses paid for the previous year	-	-	-	-
Bonuses potentially due to the Management Board Members performing duties in the current year, to be paid in the next year	**81**	**71**	**-**	**-**
Remuneration and other benefits of the key executive personnel	**2,620**	**2,321**	**2,618**	**2,377**
- key executive personnel of the Parent company	2,496	2,211	2,073	1,861
- key executive personnel of the subsidiaries belonging to the Group	124	110	545	516

There are no other liabilities or accounts receivables from key executive personnel.

(all tabular amounts are in USD'000 and EUR'000 unless otherwise stated)

Bonus systems for key executive personnel of the Group

Since 2007 the Group's key executive personnel is participating in the annual Management by objectives (MBO) bonus system. The persons subject to the MBO system are remunerated for the accomplishment of specific goals set at the beginning of the bonus period, by the Board for the General Director and his deputies and by the General Director of the Parent Company for the key personnel members. MBO system in subsidiaries is applied only for the manager of the entity, the goals and bonus amount are set and approved by the Board.

The bonus systems are structured in such way, so as to promote the cooperation between individual employees in view to achieve the best possible results for the Group. The goals are qualitative, dedicated to increase Group's management quality and process efficiency, and quantitative, which are related with operational and financial indicators in managed area. Goals are accounted for following the end of the year for which they were set, on the appropriate rules.

23.7. Remuneration arising from the agreement with the entity authorized the conduct audit of the financial statements

	for the year ended 31/12/2017		for the year ended 31/12/2016	
	USD	EUR	USD	EUR
Fees payable to auditors* in respect of the Parent Company	**154**	**129**	**125**	**114**
audit and reviews of the financial statements	139	116	118	107
additional services	15	13	7	7
Fees payable to auditors* in respect of subsidiaries belonging to the Group	**42**	**35**	**35**	**33**
audit and reviews of the financial statements	42	35	34	32
additional services	-	-	1	1
	196	**164**	**160**	**147**

*In 2017 Group auditors were Deloitte Lietuva, UAB and in 2016 – KPMG Baltics, UAB.

In the period covered by this consolidated financial statement the entity authorized to conduct audit of the Group's financial statements is Deloitte Lietuva, UAB. According to the agreement concluded on 5 July 2017 with the Parent Company for the years 2017 and 2018, Deloitte Lietuva, UAB, performs the interim reviews agreed upon procedures and audits of separate and consolidated financial statements in years 2017-2018.

Following the concluded agreements for the year 2017, Deloitte Lietuva, UAB performs the agreed upon procedures of interim and audit of financial statements of the subsidiaries (except for UAB Mažeikių Naftos prekybos namai).

24. Information concerning significant proceedings in front of court, body appropriate for arbitration proceedings or in front of public administration bodies

24.1. Court proceedings in which the Parent company act as a claimant

Compensation due to property damages

The Parent Company is a party in the compensation proceeding against RESORT MARITIME SA, The London Steamship Owners' Mutual Insurance Association Limited, Sigma Tankers Inc., Cardiff Maritime Inc., Heidenreich Marine, Heidenreich Maritime Inc. and Heidmar Inc. due to losses incurred during the accident in Būtingė Terminal (the tanker ship hit a terminal buoy) on 29 December 2005. The total compensation claim amounts to approximately EUR 23,300 thousand

(USD 27,944 thousand at exchange rate as at 31 December 2017). The parties have agreed that prior to court hearings they would make an effort to settle the dispute through mediation. The case is under preparation for mediation process.

24.2. Court proceedings in which Parent company act as a defendant

Payment request from a group of inventors

In 2010, a group of individuals claimed royalties and interest related to production improvement process which has been allegedly invented and patented by the group and supposedly improved the performance of the Parent Company's refinery. The claim covered the years 1996-2010 and amounted to EUR 11.1 million (USD 13.3 million at exchange rate as at 31 December 2017), not including the procedural interest, litigation and other costs. On 6 August 2015, the court partially satisfied the claim and awarded to the claimants from the Parent Company EUR 6.8 million (USD 8.1 million at exchange rate as at 31 December 2017) principal amount and interest, respective procedural interest and litigation costs. On 20 May 2016, the appellate instance court reduced the amount adjudged to the claimants from the Parent Company up to EUR 0.6 million (USD 0.7 million at exchange rate as at 31 December 2017) of principal amount and interest. After examination of cassation appeals of both the Parent Company and the claimants, by the judgement of 2 December 2016 Supreme Court of Lithuania revoked the ruling of the Court of Appeals of Lithuania of 20 May 2016, maintained the part of the decision of Šiauliai District Court of 6 August 2015 awarding royalty (income tax included) in favor of the claimants for the period from 1996 to 22 June 2000 in total amount of EUR 5.9 million (USD 7.1 million at exchange rate as at 31 December 2017) unchanged and ruled that the examination of the remaining part of this case on the royalty for the period from 2000 to 2004 is to be passed to the Court of Appeals of Lithuania anew. By its decision of 4 July 2017, the Court of Appeals of Lithuania satisfied the claim of the claimants in part for the period of 2000–2004 and awarded EUR 1.2 million (USD 1.4 million at exchange rate as at 31 December 2017) of royalty, EUR 1.8 million (USD 2.2 million at exchange rate as at 31 December 2017) of interest and pre-judgement interest at the rate of 5 percent charged until full implementation of the decision of the court in favor of the claimants.

The Parent Company lodged a cassation appeal against the decision of the Court of Appeals of 4 July 2017. The Parent Company contests amount awarded against it on the grounds of inter alia the expiry of limitation period. The appeal has been accepted by the Supreme Court of Lithuania. The date of hearing is not yet scheduled.

The Parent Company was ordered to pay the amount of EUR 5.9 million (USD 7.1 million at exchange rate as at 31 December 2017) onto the account of a bailiff, who was executing the 2 December 2016 decision of the Supreme Court of Lithuania. The Parent Company has fulfilled this order by paying the aforementioned amount to the bailiff's account.

Claim regarding compensation of damages caused by allegedly unlawful actions of the Parent Company in respect of Druzhba pipeline

In September 2017, the Company received a notice from Šiauliai District Court about claim for damages filed by Belorussian enterprise Polocktransfet Druzhba against the Parent Company. The claimant claims for damages caused by allegedly unlawful actions of the Parent Company when it appropriated from the Druzhba pipeline the crude that allegedly belonged to the claimant (crude transportation by the pipeline was stopped in July 2006). The amount of claims is USD 72 million (EUR 60 million at exchange rate as at 31 December 2017) in damages and USD 12 million (EUR 10 million at exchange rate as at 31 December 2017) in interest accrued over 3 years until the date of claim, total USD 84 million (EUR 70 million at exchange rate as at 31 December 2017).

Currently, the case is in a preparatory stage before a hearing on the merits. The date of the hearing has not been set yet.

Other litigations and claims

Proceedings with AB Lietuvos geležinkeliai as a party (including arbitration proceedings against AB Lietuvos geležinkeliai regarding calculation of rail carriage tariffs and overpaid difference, court proceedings against AB Lietuvos geležinkeliai regarding repayment of the debt and penalty interest under fuel sale-purchase contract as well as Lietuvos geležinkeliai claims to Parent Company regarding rail carriage contract) were solved by concluding settlement agreement regarding Contract modification and disputes solution, in June, 2017.

The Parent Company is involved in other litigation, not described above, where claims have been lodged against it in relation the matters arising in the ordinary course of business. In the opinion of the management, the outcome of these claims will not have a material adverse effect on the Parent Company's operations.

25. Significant events after the end of the reporting period

On 2nd January 2018 The Parent Company paid to the bailiff by USD 6,543 thousand or EUR 5,989 thousand based on the decision of the Supreme Court of Lithuania for the payment request from a group of inventors. Business risk provision (Note 14) was decreased for the same amount. Detailed information about this case is disclosed in Note 24.2.

After the end of the reporting period there were no other significant events that may have influence on future Group results.

26. Factors and events that may influence future results

In the reporting period, there were not factors and events that could affect the future results of the Group.

Michal Rudnicki	Marek Golębiewski	Genutė Barkuvienė
General Director	Chief Financial Officer	Chief Accountant

(all tabular amounts are in USD'000 and EUR'000 unless otherwise stated)

CONSOLIDATED ANNUAL REPORT OF PUBLIC COMPANY ORLEN LIETUVA FOR THE YEAR 2017

Public Company ORLEN Lietuva and its subsidiaries (hereinafter – the Group) posts the jump in profits for the third year in a row with its outstanding performance indicators directly impacted both by the Company's production and sales achievements as well as favorable macroeconomic conditions.

As in previous years, the flexibility and operational efficiency remained among the key targets for the Group in 2017. The Group has fully benefited from the favorable market conditions and business opportunities to establish a sustainable position in a highly competitive environment.

In 2017, the Group succeeded not only to maintain but also to improve the results of the recent years. Better Done Program of Public Company ORLEN Lietuva (hereinafter – the Parent Company) aimed at improvement of the main business areas has significantly contributed to the financial success of the Group. Various measures have been introduced by the Parent Company to improve the operational efficiency, promote sales, optimize performance, undertake the value creating investments as well as increase the labor efficiency in order to maintain the competitive presence on the market in case of its downturn.

Operating Results

In 2017, the feedstock processing volume climbed to 10.1 million tons, and was by 0.2 million tons (2.1%) higher than in the previous year, when the processing volume amounted to 9.9 million tons of feedstock. Despite the turnaround of the Refinery installations in spring of 2017, the capacity utilization of the last year was by 1.1% higher in comparison to the year 2016. The increased volume of processing and better capacity utilization were caused by the favorable microeconomic environment. The year 2017 was also marked by improvement of other operational efficiency reflecting indicators such as internal fuel and losses reduction, increase of the light product yield, and improvement of energy intensity index.

Increased volume of processing correspondingly improved the volume of product sales. Sales of petroleum products by the Group in 2017 were by 0.2 million tons or 2.1% higher than in 2016 and resulted in the total volume of 9.5 million tons. Increase in the sales volumes and the global oil and petroleum product prices had, as a consequence, the growth of sales revenue reaching USD 4.5 billion (EUR 4 billion) in 2017, whereas the revenue of the Group in 2016 amounted to USD 3.5 billion (EUR 3.2 billion).

Sales in the Baltic countries and Ukraine during the year 2017 have increased by 5.9%. The volume of products sold in Lithuania amounted to 1.79 million tons thus reflecting a slight increase in comparison with the year 2016, when the sales were at the level of 1.75 million tons. This achievement represents the effect of the stable market share combined with the fuel consumption increase: the majority of the national retailers were trading in the fuel produced by the Parent Company.

The year 2017 was also marked by the notable success of sales to Ukraine reaching almost 0.9 million tons of fuel sold by the Group (9.1% more in comparison with 2016). Such result was affected by the successfully established trade in alternative petroleum products (aviation fuel and liquefied petroleum gas), regardless of the extremely difficult conditions impacted by the complicated economic and political situation.

Despite the tough competition in the Baltic countries, the Group has successfully increased the sales of diesel fuel and gasoline in Lithuanian as well as Latvian and Estonian markets, with the volume of sales being by 5.4% higher in comparison with the year 2016.

Growth of the inland sales has led to the drop in seaborne sales with reduction of volume by 4.6%, reaching 4.7 million tons in 2017, compared to 4.9 million tons in 2016.

Financial Results

The net profit of the Group for 2017 under the International Financial Reporting Standards (IFRS) came to USD 241.4 million (EUR 211.5 million), in comparison to the net profit of USD 240.9 million (EUR 219.0 million) posted for the year 2016. Operating profit for the year 2017 amounted to USD 285.6 million (EUR 249.7 million), whereas the operating profit in 2016 comprised USD 244.6 million (EUR 221.1 million).

Positive results of the Group support to maintain the financial indicators at stable, sufficient level [1]. Net profit margin of the Group for the year 2017 was 5.3% (6.8% in 2016). Other indicators experienced the following changes: the net debt to equity ratio was -0.48 (-0.54 in 2016), the current ratio was 1.39 (1.45 in 2016), and the asset turnover ratio was 3.96 (4.25 in 2016).

Information on financial risk management of the Group is available in Note 22 of Consolidated Financial Statements. The information includes data on financial risk management trends, used insurance instruments to which the accounting of insurance transactions is applicable as well as pricing risk, credit risk, liquidity risk, and cash flow risk.

Modernization, Mandatory and Other Projects

The total amount of investments by the Group made in the property plant and equipment as well as intangible assets (excl. purchase of deficient CO_2 emission allowances) during the year 2017 reached USD 75.0 million, which is three times higher than in 2016 (USD 24.3 million).

In 2017, the new storage tank was built in Būtingė Terminal thus ensuring uninterrupted feedstock supply to the Refinery and allowing for reduction of demurrage costs as well as increasing abilities to process more profitable alternative feedstock.

Another project completed in 2017 was the project of bitumen production increase which will improve profitability of the Group by approx. USD 1 million in 2018.

In 2017, implementation of the project for Propane-Propylene Fraction Splitter addition to the Refinery's technological scheme was initiated. The project completion is intended in 2018, with the expected impact on the variable margin possibly reaching USD 11.9 million to USD 21.4 million, depending on the fuel market situation. Besides, the Parent Company continued implementation of mandatory projects required in the face of increasing environmental constraints.

The special focus of the Group, as in previous years, was given for implementation of the projects with the short pay-back period requiring relatively low investment. In 2017, the Group completed 15 projects of such type, with their total budget reaching USD 5.5 million and the positive impact on EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization) potentially amounting to USD 8.6 million, depending on the market situation.

Apart from the projects aimed at the profit margin increase, the Parent Company has accomplished the Refinery turnaround as well as effected refurbishment of the process units and catalyst replacement works.

[1] Equations used: Net Profit Margin = Net Profit (loss) / Revenue; Net Debt to Equity Ratio = Net Debt / Total Equity; Current Ratio = Total Current Assets / Total Current Liabilities; Asset Turnover Ratio = Sales / Total Assets.

Employees' Development and Work Compensation Policy

Development of employees remains the priority for the human resource management. In 2017, 2077 employees received certificates in fire safety and civil protection, first aid and hygiene as well as execution of specialized works as required by legislation and internal procedures of the Group.

For ensuring ability of its operational staff to service the process installations and modernized units, the Parent Company aims at continuously improving qualifications of its workers. 703 employees of the Parent Company completed the trainings in this relation during the year 2017. Furthermore, over 480 employees of the Group attended the trainings on mechanical engineering, process engineering, energy, law, data protection, management, team building, etc.

In 2017, the Group further proceeded with the project of internal trainings 'Expert Club. Refined Knowledge' intended for experience and knowledge exchange. Information prepared by specialists and managers of the Group acting as the experts was presented and activities of their departments introduced to more than 600 employees of the Group.

To further improve operational efficiency, LEAN management and skills development program was continued by the Parent Company in 2017 enrolling 490 employees of the Group.

In 2017, 'Social Awareness and Relationship Management' program based on the DiSC® methodology started back in 2015 was also continued, involving 207 of the Group employees enrolled in the sessions on cooperation and increasing awareness of others as well as relationship management.

In 2017, the Parent Company completed Employee Satisfaction and Engagement Survey attracting considerable attention with participation rate of 77%, followed by discussions on the survey results conducted in the organizational units internally.

The remuneration system of the Parent Company aimed at encouraging its employees to pursue achievement of the best possible results comprises of the following elements: base salary (monthly salary or hourly wage), monthly, quarterly or annual incentive bonus, reward for the initiatives submitted, implemented and recognized as rewardable, management discretion bonuses for exceptional performance, and annual bonus for the Company's performance results, as well as the packages of additional benefits under the Collective Agreements or other internal acts of the companies within the Group.

Organizational Changes and Restructuring

Performance optimization and labor efficiency increase in the Group continues to be one of the major factors for achieving the objectives set by the shareholders.

Seeking to improve efficiency of its internal processes, the Parent Company also continued implementation of organizational changes. The work organization associated changes and introduction of advanced technical and organizational solutions resulted in the performance indicators' improvement.

The number of active employees in the Group at the end of 2017 (including the Parent Company's Representative Office in Ukraine) was 1,597.

(all tabular amounts are in USD'000 and EUR'000 unless otherwise stated)

Environmental Protection

During 2017, the Parent Company was operating in line with the statutory environmental requirements, introducing the changes required for proper implementation of the provisions set forth by existing and evolving requirements.

To ensure readiness for application of the conclusions on the best available techniques (BAT) for the refining of mineral oil and gas established in the 9 October 2014 Decision of the European Commission, the Parent Company was further realizing the projects included in the relevant action plan for the period until October 2018, with the costs of implementation to reach EUR 12–15 million.

In 2017, the waste management system was upgraded by the Parent Company with the new IPPC permit compliant to BAT requirements issued for the Refinery. A new IPPC permit for Būtingė Terminal was also issued after building the new storage tank in 2017.

Certification and Maintaining of the Management Systems

In 2017, the review of the integrated management system (IMS) processes was completed, with the list of IMS processes updated as well as targets and indicators established for every process. IMS Policy, IMS Description, and IMS management associated procedures have been updated, the risk management process integrated in the system, and the LEAN tools incorporated for the purposes of IMS monitoring and management of the system results. Preparations have also been finalized for recertification according to new ISO 9001:2015 and ISO 14001:2015 standards

Occupational Health and Safety

Safety is one of the priority areas in the Group. 'Safety First' Program introduced in 2012 ensures the highest level of occupational health and safety (OHS) in the Parent Company.

In 2017, 'Safety First 2.0' Program was launched along with the introduction of new initiatives such as involvement of the top management and security staff in organizing of the safety related measures, and implementation of the health program. Furthermore, the Parent Company commenced introduction of the occupational health and safety standards compliant to the requirements of the entire ORLEN Group, with successful implementation in the year 2017 of ten standards out of the entire fifteen:
S1 Permits to perform hazardous (including fire hazardous) works;
S3 Work in confined spaces;
S4 Work at height;
S5 Safe execution of groundbreaking work;
S6 Accident investigation;
S8 Organization of emergency rescue exercises;
S9 Measurement of hazardous substances (toxicity, explosiveness, oxygen content);
M1 Leadership and management role in shaping the safety system;
M2 Contractor management;
P2 in-depth analysis of industrial accidents.

In 2017, the Parent Company also reorganized its Safety Department by establishing Process Safety Group, and prepared Process Safety System Description which establishes the general objectives of the process safety system, the scope of its application, structure, key functions and the process safety assurance principles

The number of accidents in the Group during the year 2017 was 4, while the total recordable rate per 1 million man hours was 1.07 (0.74 in 2016)

(all tabular amounts are in USD'000 and EUR'000 unless otherwise stated)

Ownership Structure

Shares of the Parent Company are owned by the sole shareholder Polski Koncern Naftowy Orlen S.A. entitled to 100% of the shares.

In 2017, the Group did not acquire or transfer any of its own shares.

Branches

The parent Company has no branches established; it has Public Company ORLEN Lietuva Representative Office in Ukraine.

Managerial Positions of the Head and Members of the Board of the Parent Company

Position in Public Company ORLEN Lietuva as of 31 December 2017	Other managerial positions as of 31 December 2017
Ireneusz Fąfara Chairman of the Board of Directors, General Director of Public Company ORLEN Lietuva	
Marek Pawel Golębiewski Member of the Board of Directors, Chief Financial Officer of Public Company ORLEN Lietuva	- Chairman of the Board of Directors, UAB „Mažeikių naftos" prekybos namai (UAB Mažeikių Nafta Trading House), code 126237146, address: Mažeikių str. 75, Juodeikiai village, Mažeikiai Distr. Municipality - Chairman of the Supervisory Council, ORLEN Latvija, SIA, code 40003637994, adddress: Bauskas iela 58A, Zemgales priekšpilsēta, 1004 Riga, Latvia - Chairman of the Supervisory Council, ORLEN Eesti, OÜ code 10960209, address: Ahtri 6A, 10151 Tallinn, Estonia
Krystian Pater Member of the Board of Directors of Public Company ORLEN Lietuva	- Member of the Management Board, PKN ORLEN S.A., code 0000028860, address: ul. Chemikow 7, 09411 Plock, the Republic of Poland - Chairman of the Supervisory Board, Basell Orlen Polyolefins Sp. z o.o., code 0000143578, address: ul. Lukasiewicza 39, 09400 Plock, the Republic of Poland - Vice-chairman of the Supervisory Board, Unipetrol a.s., code 61672190, address: Na Pankráci 127, 140 00 Praha 4, the Czech Republic
Robert Jasinski Member of the Board of Directors of Public Company ORLEN Lietuva	- Executive Director for Business Controlling, PKN ORLEN S.A., code 0000028860, address: ul. Chemikow 7, 09411 Plock, the Republic of Poland - Member of the Supervisory Board, ORLEN Deutschland GmbH, code 8093 PI, address: Kurt-Wagener-Str. 7, 25337 Elmshorn, Germany - Member of the Supervisory Board, ORLEN Upstream Sp. z o.o., code 0000256011, address: ul. Prosta 70, 00838 Warsaw, the Republic of Poland - Member of the Supervisory Board, ANWIL S.A., code 0000015684, address: ul. Torunska 222, 87805 Wloclawek, the Republic of Poland - Member of the Management Board, ORLEN Finance AB, code 556693-891, address: Drottninggatan 25, PO Box 16285, 103 25 Stockholm, Sweden - Member of the Management Board, ORLEN ORLEN Capital AB, code 556974-3114, address: Sergels Torg 12, PO Box 16286, 103 25 Stockholm, Sweden

Jaroslaw Roman Szalinski Member of the Board of Directors of Public Company ORLEN Lietuva	- Executive Director for Wholesale of Refined Products, PKN ORLEN S.A., code 0000028860, address: ul. Chemikow 7, 09411 Plock, the Republic of Poland

2018 as the Year of Continued Focus on the Strategy Implementation

In 2018, the Group will continue consistent implementation of the objectives defined in ORLEN Group Strategy for 2017–2021 by further developing its activities with the special focus on the value creation, people and financial strength.

The forecasted throughput of the Refinery in 2018 is about 9.5 million tons of feedstock. The Group will concentrate its efforts on the Refinery turnaround, realization of the key investment projects, capacity utilization increase, and reduction of energy consumption by securing the stability of its performance, reducing costs and increasing sales to inland markets.

To give a long term perspective of sustainable growth to Public Company ORLEN Lietuva and its subsidiaries as well as the entire ORLEN Group in the context of the increasingly competitive and the continuously changing macroeconomic environment, the management of the Group in the year 2018 will continue its intensive efforts for implementation of advanced management solutions aimed at the operational efficiency increase and process optimization.

General Director Michal Rudnicki